Company No: 811810-U

BANK PERTANIAN MALAYSIA BERHAD
(Company No: 811810-U)
(Incorporated in Malaysia)

AUDITED FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2018
(In Ringgit Malaysia)

Company No: 811810-U

BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

FINANCIAL STATEMENTS

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BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Bank for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are banking, financing, investment and related services as provided under the Bank Pertanian Malaysia Berhad Act, 2008.

On 1 July 2015, the Bank became a full fledged Islamic bank whereby all its activities are now conducted in compliance with Shariah principles.

RESULTS

	RM'000
Profit before tax and zakat	190,251
Tax	(51,513)
Zakat	(4,756)
Net profit for the year	**133,982**

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

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

BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

DIVIDENDS

Since the end of the previous financial year, the amount of dividends paid or proposed by the Bank are as follows:

	RM'000
In respect of the financial year ended 31 December 2017, a final dividend of 2.55 sen on 1,000,000,000 ordinary shares declared on 4 May 2018 and paid on 25 May 2018	25,500

At the forthcoming Annual General Meeting, a final single tier dividend in respect of the current financial year ended 31 December 2018 of 2.00 sen on 1,000,000,000 ordinary shares amounting to dividend payable of RM20,000,000 will be proposed for 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 earnings in the financial year ending 31 December 2018.

ISSUE OF SHARES AND DEBENTURES

The Bank has not issued any new shares or debentures during the financial year.

SHARE OPTIONS

No options have been granted by the Bank to any party during the financial year to take up unissued shares of the Bank.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Bank. As at the end of the financial year, there were no unissued shares of the Bank under options.

BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS

The following directors served on the Board of the Bank since the beginning of the financial year to the date of this report:

Y. Bhg Tan Sri Mohamad Zabidi Bin Zainal (Chairman)

Y. Bhg Dato' Dr Mohamad Hashim bin Ahmad Tajudin

Y. Bhg Datin Setia Shahariah binti Hashim

Y. Bhg Dato' Dr. Yusof bin Ismail

Puan Azizah binti Abdul Rahman

Tuan Haji Ibrahim Bin Hassan

Puan Faizah binti Abdullah

Encik Abdul Rahim bin Abd Hadi
(appointed on 9 January 2018)

Encik Jit Singh A/L Santok Singh
(appointed on 12 October 2018)

Y. Bhg Datuk Seri Dr. Ismail bin Haji Bakar
(resigned on 31 July 2018)

Tuan Syed Alwi Bin Mohamed Sultan
(appointed on 2 April 2018; resigned and redesignated from Managing Director/Chief Executive ("CEO") to President/CEO on 6 September 2018)

BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' INTERESTS

None of the directors in office at the end of the financial year held shares or had beneficial interest in the shares of the Bank during and at the end of the financial year.

There were no arrangements during and at the end of the financial year which had the objective of enabling directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of the Bank or any other corporate body.

Since the end of the previous financial year, no director has received or to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors from the Bank and related corporations, or the fixed salary of a full time employee of the Bank as disclosed in Note 33 to the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

COMPLIANCE WITH BANK NEGARA MALAYSIA'S EXPECTATIONS ON FINANCIAL REPORTING

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

OTHER STATUTORY INFORMATION

(a) Before the financial statements 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 debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowances had been made for doubtful debts; 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 to so realise.

(b) 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:

    (i) the amount written off for bad debts or the amount of the allowance for doubtful debts 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.

BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

OTHER STATUTORY INFORMATION (cont'd)

(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.

(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) As 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 from 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 their obligations as and when they fall due other than the claims made by customers as disclosed in Notes 24(a)(iii) and 32 to the financial statements. The risk in respect of contingent liabilities disclosed in Note 32 is not to be borne by the Bank; 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.

INDEMNIFICATION OF DIRECTORS

The Bank maintained a Directors' and Officers' Liability Takaful up to an aggregate limit of RM50,000,000 against any legal liability incurred by the directors and officers in the discharge of their duties while holding office for the Bank. The amount of takaful contribution paid for the directors and officers for the current financial year was RM85,000.

BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

SIGNIFICANT EVENTS

There were no significant events during the financial year.

SUBSEQUENT EVENT

There were no material events subsequent to the reporting date that require disclosure or adjustments to the financial statements other than as disclosed in Note 32 to the financial statements.

HOLDING COMPANY

The Bank is wholly-owned by the Ministry of Finance (Incorporated), held on behalf of the Government of Malaysia.

AUDITORS

The auditors, Messrs. Ernst and Young, have expressed their willingness to continue in office.

The auditors' remuneration is disclosed in Note 10 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 24 April 2019.

TAN SRI MOHAMAD ZABIDI BIN ZAINAL

AZIZAH BINTI ABDUL RAHMAN

Company No: 811810-U

BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
Pursuant to Section 251(2) of the Companies Act, 2016

We, **TAN SRI MOHAMAD ZABIDI BIN ZAINAL** and **AZIZAH BINTI ABDUL RAHMAN** being two of the directors of **BANK PERTANIAN MALAYSIA BERHAD**, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 14 to 170 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 2018 and of its financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 24 April 2019.

TAN SRI MOHAMAD ZABIDI BIN ZAINAL | **AZIZAH BINTI ABDUL RAHMAN**

STATUTORY DECLARATION
Pursuant to Section 251(1)(b) of the Companies Act, 2016 and
Section 73(1)(e) of the Development Financial Institution Act, 2002

We, **AZIZAH BINTI ABDUL RAHMAN** and **SYED ALWI BIN MOHAMED SULTAN**, being the Director and Chief Executive Officer, respectively, of the Bank who are primarily responsible for the financial management of **BANK PERTANIAN MALAYSIA BERHAD**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 14 to 170 are in our opinion, correct and we make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

AZIZAH BINTI ABDUL RAHMAN | **SYED ALWI BIN MOHAMED SULTAN**

Subscribed and solemnly declared by the above named
AZIZAH BINTI ABDUL RAHMAN and **SYED ALWI BIN MOHAMED SULTAN**
at KUALA LUMPUR in the Federal Territory on 24 April 2019.

Before me,

PESURUHJAYA SUMPAH
No W533
Nama: YM TENGKU FARIDDUDIN BIN TENGKU SULAIMAN
1 JAN 2019 - 31 DIS 2021
MALAYSIA

COMMISSIONER FOR OATHS

205, Bangunan Loke Yew
4, Jln Mahkamah Persekutuan
50050 Kuala Lumpur (W.P.)

Company No: 811810-U

BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

SHARIAH COMMITTEE'S REPORT

In the Name of Allah, The Compassionate, The Most Merciful

Assalamualaikum Warahmatullahi Wabarakatuh

To the shareholder, depositors and customers of Bank Pertanian Malaysia Berhad ("the Bank"):

In compliance with the letter of appointment, we are required to submit the following report in relation to the operations of the Bank.

We have reviewed the Shariah principles and the contracts relating to the transactions and applications introduced by the Bank during the financial year ended 31 December 2018. We have also conducted our review to form an opinion as to whether the operations of the Bank have complied with the Shariah principles and with Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia and the Shariah Committee of the Bank.

With regard to the above, the management of the Bank is responsible for ensuring that the Bank conducts its operations in accordance with Shariah principles and with Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia and the Shariah Committee of the Bank. It is our responsibility to form an independent opinion in respect of the operations of the Bank, based on our review of the operations of the Bank and to report to you.

We have assessed the work carried out by Shariah review and Shariah audit which included examining, on a test basis, each type of transaction, the relevant documentations and procedures adopted by the Bank.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated the Shariah principles.

BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

SHARIAH COMMITTEE'S REPORT (cont'd)

In our opinion:

(a) The contracts, transactions and dealings entered by the Bank during the financial year ended 31 December 2018 that we have reviewed are in compliance with Shariah. For cases which have been identified as not fulfilling certain requirement under Shariah principles and rulings, remedial measures have been identified and ongoing rectification efforts on the affected accounts are currently being implemented. In the event the affected accounts cannot be rectified, the income will not be recognised as the Bank's income.

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

(c) The allocation of profit and charging of losses relating to the Bank's assets and liabilities conform to the basis that had been approved by us in accordance with Shariah principles.

(d) All earnings that have been realised from sources or by means prohibited under Shariah will be channelled for charitable purposes.

(e) The calculation of zakat is in compliance with Shariah principles.

We, **ASSOC. PROF. DR. MOHAMED FAIROOZ BIN ABDUL KHIR** and **DR. MOHAMAD SABRI BIN ZAKARIA**, being two of the members of the Shariah Committee of the Bank, to the best of our knowledge, do hereby confirm on behalf of the members of the Shariah Committee, that the operations of the Bank for the financial year ended 31 December 2018 have been conducted in conformity with Shariah.

ASSOC. PROF. DR. MOHAMED FAIROOZ BIN ABDUL KHIR	**DR. MOHAMAD SABRI BIN ZAKARIA**
Chairman of the Committee	Member of the Committee

Kuala Lumpur, Malaysia
24 April 2019

EY
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Chartered Accountants
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811810-U

Independent auditors' report to the member of Bank Pertanian Malaysia Berhad (Incorporated in Malaysia)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Bank Pertanian Malaysia Berhad (the "Bank"), which comprise the statement of financial position as at 31 December 2018, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 14 to 170.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for opinion

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

Independence and other ethical responsibilities

We are independent of the 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 the IESBA Code.

Information other than the financial statements and auditors' report thereon

The directors of the Bank are responsible for the other information. The other information comprises the Directors' report and Shariah Committee's report, but does not include the financial statements of the Bank and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the annual report, which is expected to be made available to us after the date of this auditors' report.

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.

Independent auditors' report to the member of
Bank Pertanian Malaysia 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 on the other information that we obtained prior to the date of this auditors' report, 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Bank and take appropriate action.

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.

**Independent auditors' report to the member of
Bank Pertanian Malaysia 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 judgement 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 the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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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Independent auditors' report to the member of Bank Pertanian Malaysia Berhad (cont'd.)
(Incorporated in Malaysia)

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
AF: 0039
Chartered Accountants

Wan Daneena Liza Bt Wan Abdul Rahman
No. 02978/03/2020 J
Chartered Accountant

Kuala Lumpur, Malaysia
24 April 2019

BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

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

	Note	2018 RM'000	2017 RM'000 Restated
Income derived from investment of depositors' funds and others	**6(a)**	723,357	647,138
Income derived from investment of shareholder's funds	**6(b)**	216,262	233,447
(Allowance for)/ writeback of impairment	**7**	(16,789)	1,301
Total distributable income		**922,830**	**881,886**
Income attributable to depositors	**8**	(281,146)	(240,348)
Total net income		**641,684**	**641,538**
Personnel expenses	**9**	(282,524)	(281,954)
Other overheads and expenditures	**10**	(158,718)	(157,989)
Finance costs	**11**	(10,112)	(9,825)
Compensation claim	**12**	(79)	38,832
Profit before tax and zakat		**190,251**	**230,602**
Tax expense	**13**	(51,513)	(55,317)
Zakat	**14**	(4,756)	(2,631)
Net profit for the year		**133,982**	**172,654**
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Debt instruments at fair value through other comprehensive income ("FVOCI"):			
Net change in fair value during the year		27,633	-
Reclassification to the profit or loss		(4,742)	-
Income tax related to the above		(5,494)	-
Net gain on financial investments at FVOCI		17,397	-
Available-for-sale ("AFS") financial assets:			
Net change in fair value during the year		-	29,159
Income tax related to the above		-	(6,926)
Net gain on AFS financial assets		-	22,233
Total items that may be reclassified to profit or loss		**17,397**	**22,233**
Items that will not be reclassified to profit or loss			
Equity instruments at FVOCI			
Revaluation losses on equity instruments at FVOCI		(66)	-
Income tax related to the above		16	-
Total items that will not be reclassified to profit or loss		**(50)**	**-**
Other comprehensive income for the year, net of tax		**17,347**	**22,233**
Total comprehensive income for the year		**151,329**	**194,887**

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

Company No: 811810-U

BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
ASSETS			
Cash and short term funds	**15**	1,131,489	1,308,683
Financial assets at fair value through other comprehensive income ("FVOCI")	**16 (a)**	4,380,736	-
Investment securities	**16 (b)**	-	4,403,960
Financing and advances	**17**	10,431,162	9,173,891
Other advances	**18**	9,548	34,067
Other assets	**19**	115,347	115,296
Property, plant and equipment	**20**	143,510	139,152
Intangible assets	**21**	21,678	19,348
Deferred tax assets	**22**	11,391	13,994
TOTAL ASSETS		**16,244,861**	**15,208,391**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from customers	**23 (a)**	7,620,323	7,589,377
Deposit and placement of banks and other financial institutions	**23 (b)**	2,990,170	2,180,070
Other liabilities			
Other payables and accruals	**24 (a)**	131,178	142,673
Paddy credit gratuity scheme	**24 (b)**	2,275	2,265
Expected credit loss ("ECL") allowance for financial guarantees and financing commitments	**24 (c)**	4,531	-
Financing Scheme Funds	**25**	1,825,308	1,689,763
Government Grants			
Operating	**26**	23,310	24,505
Launching	**27**	2,920	4,144
Funds	**28**	722,461	778,676
Total Liabilities		**13,322,476**	**12,411,473**
Equity			
Share capital	**29**	1,000,000	1,000,000
Reserves	**30**	1,922,385	1,796,918
Total Equity		**2,922,385**	**2,796,918**
TOTAL LIABILITIES AND EQUITY		**16,244,861**	**15,208,391**
Commitments and Contingencies	**32**	**1,059,483**	**6,712,090**

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

Company No: 811810-U

BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

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

		Non-distributable reserves				Distributable reserves	
	Share capital RM'000	Statutory reserves RM'000	FVOCI deficit RM'000	Investment revaluation deficit RM'000	Regulatory reserve RM'000	Retained earnings RM'000	Total RM'000
As at 1 January 2018							
As previously stated	1,000,000	487,109	-	(27,303)	-	1,337,112	2,796,918
Effect on adoption of MFRS 9 (Note 5)	-	-	(21,403)	27,303	-	(6,262)	(362)
As restated	**1,000,000**	**487,109**	**(21,403)**	**-**	**-**	**1,330,850**	**2,796,556**
Net profit for the year	-	-	-	-	-	133,982	133,982
Other comprehensive income for the year	-	-	17,347	-	-	-	17,347
Total comprehensive income for the year	-	-	17,347	-	-	133,982	151,329
Transfer to regulatory reserve	-	-	-	-	34,951	(34,951)	-
Dividends paid (Note 31)	-	-	-	-	-	(25,500)	(25,500)
At 31 December 2018	**1,000,000**	**487,109**	**(4,056)**	**-**	**34,951**	**1,404,381**	**2,922,385**

Company No: 811810-U

BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (cont'd)

	Non-distributable reserves			Distributable reserves	
	Share capital RM'000	Statutory reserves RM'000	Investment revaluation deficit RM'000	Retained earnings RM'000	Total RM'000
As at 1 January 2017	1,000,000	487,109	(49,536)	1,184,458	2,622,031
Net profit for the year	-	-	-	172,654	172,654
Other comprehensive income for the year	-	-	22,233	-	22,233
Total comprehensive income for the year	-	-	22,233	172,654	194,887
Dividends paid (Note 31)	-	-	-	(20,000)	(20,000)
At 31 December 2017	**1,000,000**	**487,109**	**(27,303)**	**1,337,112**	**2,796,918**

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

BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

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

	2018 RM'000	2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax and zakat	190,251	230,602
Adjustments for:		
Allowance for impairment on financing and advances	65,895	32,552
Writeback of allowance for impairment on other advances	(12,776)	(2,259)
Writeback of allowance for financial guarantees and financing commitments	(1,519)	-
Writeback of allowance for impairment other assets	(93)	-
Depreciation of property, plant and equipment	21,405	24,942
Amortisation of computer software	12,934	13,516
Write off of property, plant and equipment	259	590
Write off of intangible assets	-	316
Gain on disposal of property, plant and equipment	-	(1,466)
Gain on disposal of financial assets at FVOCI	(4,742)	-
Gross dividend income from financial assets at FVOCI	(9)	-
Gross dividend income from investment securities	-	(4)
Amortisation and utilisation of Government Grants:		
Government Grant - Operating	(1,195)	(1,539)
Government Grant - Launching	(1,224)	(1,902)
Government Grant - Funds	1,602	2,440
Finance costs	10,112	9,825
Writeback of provision for retirement benefits scheme	(613)	(244)
Provision made/(written back) for compensation claim	79	(38,832)
Operating profit before working capital changes	**280,366**	**268,537**
Change in financing and advances	(1,301,600)	(935,580)
Change in other advances	28,845	20,246
Change in other assets	(15,864)	(16,299)
Change in deposits from customers	30,946	544,471
Change in deposit and placement of banks and other financial institutions	810,100	556,805
Change in other payables and accruals	(13,238)	(21,835)
Change in paddy credit gratuity scheme	10	(10)
Cash (used in)/generated from operating activities	**(180,435)**	**416,335**
Tax paid	(45,357)	(36,608)
Zakat paid	(2,479)	(2,456)
Net cash (used in)/generated from operating activities	**(228,271)**	**377,271**

BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (cont'd)

	2018 RM'000	2017 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at FVOCI	(260,915)	-
Purchase of investment securities	-	(259,610)
Proceeds from disposal of financial assets at FVOCI	311,153	-
Dividends received from financial assets at FVOCI	9	-
Dividends received from investment securities	-	4
Purchase of property, plant and equipment	(26,022)	(12,708)
Purchase of computer software	(15,264)	(12,563)
Proceeds from disposal of property, plant and equipment	-	2,086
Net cash generated from/(used in) investing activities	**8,961**	**(282,791)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Additional funds received for Financing Scheme Funds	137,730	86,019
Payments of Financing Scheme Funds	(61,142)	(68,591)
Profits paid on Financing Scheme Funds	(9,391)	(9,108)
Additional funds received for Government Grant - Funds	419	38,256
Dividends paid	(25,500)	(20,000)
Net cash generated from financing activities	**42,116**	**26,576**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(177,194)**	**121,056**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**1,308,683**	**1,187,627**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**1,131,489**	**1,308,683**
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash and short term funds (Note 15)	**1,131,489**	**1,308,683**

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

BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

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

1. CORPORATE INFORMATION

Bank Pertanian Malaysia Berhad ("the Bank") is a public limited liability company, incorporated and domiciled in Malaysia.

The principal activities of the Bank are banking, financing, investment and related services as provided under the Bank Pertanian Malaysia Berhad Act, 2008.

On 1 July 2015, the Bank became a full fledged Islamic bank whereby all its activities are now conducted in compliance with Shariah principles.

The registered office is at Level 3, Bangunan Agrobank, Leboh Pasar Besar, 50726 Kuala Lumpur, Malaysia.

The principal place of business of the Bank is at Bangunan Agrobank, Leboh Pasar Besar, 50726 Kuala Lumpur, Malaysia.

The immediate and ultimate holding company of the Bank is the Ministry of Finance (Incorporated), held on behalf of the Government of Malaysia.

The financial statements have been approved and authorised for issuance by the Board of Directors in accordance with a resolution dated [date].

2. BASIS OF PREPARATION

The financial statements of the Bank have been prepared under the historical cost convention, unless otherwise stated in the accounting policies. The Bank presents the statement of financial position in order of liquidity.

2.1 Statement of compliance

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

2. BASIS OF PREPARATION (cont'd)

2.2 Functional and presentation currency

The financial statements are presented in Ringgit Malaysia ("RM"), which is the Bank's functional currency, and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

2.3 Change in presentation

From 1 July 2015, the Bank became a full fledged Islamic bank. The presentation of the financial statements complies with the Guidelines on Financial Reporting for Development Financial Institutions issued by Bank Negara Malaysia ("BNM").

The remaining conventional loans and non-shariah compliant assets are now shown as a separate line item on the face of the statement of financial position and are referred to as 'Other advances'.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Changes in accounting policies

On 1 January 2018, the Bank adopted the following amended MFRS mandatory for annual financial periods beginning on or after 1 January 2018:

MFRS 9 Financial Instruments
MFRS 15 Revenue from Contracts with Customers
Annual Improvements to MFRS Standards 2014–2016 Cycle
Amendments to MFRS 2 Classification and Measurement of Share-based Payment Transactions
Amendments to MFRS 140 Transfers of Investment Property

New and amended standards and interpretations

MFRS 9 Financial Instruments

The Bank has adopted MFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amount previously recognised in the financial statements. The Bank did not early adopt any of the MFRS 9 requirements in the previous period.

As permitted by the transitional provisions of MFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities were recognised in the opening retained earnings and other reserves of the current period. Consequently, for notes disclosures, the consequential amendments to MFRS 7 disclosures have also only been applied to the current period.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Changes in accounting policies (cont'd)

New and amended standards and interpretations (cont'd)

MFRS 9 Financial Instruments (cont'd)

The adoption of MFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. MFRS 9 also significantly amends other standards dealing with financial instruments such as MFRS 7 "Financial Instruments: Disclosures".

Set out in Note 5 are disclosures relating to the impact of the adoption of MFRS 9 on the Bank. Further details of the specific MFRS 9 accounting policies applied in the current period (as well as the previous MFRS 139 accounting policies applied in the comparative period) as described in more details in Note 3.2(d).

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a five (5) steps model for revenue recognition from contracts from customers. The core principle of MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity is required to recognise revenue when (or as) a performance obligation is satisfied, i.e., when ‘control’ of the distinct promised goods or services underlying the particular performance obligation is transferred to the customers.

Fee and commission income and expense
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Fee and commission income are components of other operating income of the Bank. The Bank recognises service revenue which include card management fees, accounts servicing fees, financing arrangement fees, sales commission and other fees only to the extent when the services are performed. Generally, these fees are recognised on an accrual basis when the services have been provided to the customer. In this regard, the Bank concluded that the services are satisfied at a point of time that the customer receives and consumes benefits provided by the Bank.

Other fee and commission expenses incurred mainly relate to transaction and services fees at the point the services are received.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies

(a) Basis of accounting

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, except for the adoption of the MFRSs, amendments to MFRSs and Issues Committee ("IC") Interpretations as disclosed in Note 3.1.

(b) Revenue recognition

(i) Profit income

Profit income is recognised for all profit-bearing financial instruments classified as Debt Instruments at Fair Value through Other Comprehensive Income ("FVOCI") (2017: Held-to-Maturity ("HTM")), Equity Instruments at FVOCI (2017: Available-for-Sale ("AFS")) or Financing and Advances using the effective profit method.

The effective profit method is a method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the profit income or profit expense over the relevant periods. The effective profit rate is the rate that is used to discount the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. The application of the method has the effect of recognising income receivable or expense payable on the instrument evenly in proportion to the amount outstanding over the period to maturity or payment.

In calculating effective profit, the Bank estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. Fees, including those for early redemption, are included in the calculation to the extent that they can be measured and are considered to be an integral part of the effective profit rate. Cash flows arising from the direct and incremental costs of issuing financial instruments are also taken into account in the calculation. Where it is not possible to otherwise estimate reliably the cash flows or the expected life of a financial instrument, effective profit is calculated by reference to the payments or receipts specified in the contract, and the full contractual term.

(ii) Murabahah and Tawarruq

Murabahah and Tawarruq income is recognised on an effective profit rate basis over the period of the contract based on the financing amounts disbursed.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(b) Revenue recognition (cont'd)

(iii) Bai-Al Inah and Bai-Bithaman Ajil

Bai-Al Inah and Bai-Bithaman Ajil income is recognised on an effective profit rate basis over the contract term of the financing amount.

(iv) Ujrah

Ujrah income is recognised on an effective profit rate based on residual value and contract term.

(v) Fees and commissions

Unless included in the effective profit calculation, fees and commissions are recognised based on an accrual basis upon rendering of services.

(vi) Dividend income

Dividends are recognised when the right to receive payment is established.

(vii) Rental income

Income from rental is recognised on an accrual basis in accordance with the terms of the agreement.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(c) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all conditions attached will be met. Grants from the Government of Malaysia consist of the following:

(i) Government grants - Operating (Note 26)

Operating grants received for capital expenditure are recognised as deferred capital grants in the statement of financial position. The grants are amortised to profit or loss on a systematic basis over the useful life of the assets. Operating grants for development expenditure is deducted from the operating grants upon utilisation.

(ii) Government grants - Launching (Note 27)

Launching grants received for capital expenditure are recognised as deferred capital grant in the statement of financial position. The grants are amortised to profit or loss on a systematic basis over the useful life of the assets. Launching grants for development expenditure is deducted from the launching grants upon utilisation.

(iii) Government grants - Funds (Note 28 (a) - (i))

Government grant funds received to provide financing to eligible customers are recognised as deferred capital grant in the statement of financial position. The government grant is also utilised against credit losses and charges arising from these financing.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(c) Government grants (cont'd)

(iv) Government grants - financing scheme funds (Note 28 (j) - (q))

The benefit of financing scheme funds at a below-market rate of profit is treated as a Government grant. The financing scheme funds are recognised as a financial liability, and measured in accordance with MFRS 9 "Financial Instruments". The Government grant for financing scheme funds are measured at inception as the difference between the initial carrying value of the Government financing determined in accordance with MFRS 9 and the proceeds received. Government grant for financing scheme funds are recognised in the statement of comprehensive income (Note 10) on a systematic basis over the periods in which the Bank recognised as expenses the related costs for which the grants are intended to compensate.

(d) Financial assets

<u>Accounting policies applied from 1 January 2018</u>

(1) Classification

From 1 January 2018, the Bank classifies its financial assets in the following measurement:

- Those to be measured subsequently at fair value (either through other comprehensive income ("FVOCI") or through profit or loss ("FVTPL")); and
- Those to be measured at amortised cost.

(2) Recognition and de-recognition

Regular way purchases and sales of financial assets are recognised on settlement date, the date on which the Bank settles the commitment to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all the risks and rewards of ownership.

(3) Measurement

At initial recognition, the Bank measures its financial assets at their fair value plus, in the case of a financial asset not at FVTPL, transactions costs that are directly attributable to the acquisition of the financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

Accounting policies applied from 1 January 2018 (cont'd)

(3) Measurement (cont'd)

Business model

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objectives are solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVTPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset’s performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Bank's business model for the mortgage financing book is to hold to collect contractual cash flows. Another example is the liquidity portfolio of assets, which is held by the Bank as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at FVTPL.

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

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments’ cash flows represent solely payments of principal and profit ("the SPPP test"). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic financing arrangement i.e. profit includes only consideration for the time value of money, credit risk, other basic financing risks and a profit margin that is consistent with a basic financing arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic financing arrangement, the related financial asset is classified and measured at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

Accounting policies applied from 1 January 2018 (cont'd)

(3) Measurement (cont'd)

Debt instruments

Subsequent measurement of debt instruments depends on the Bank’s business model for managing the asset and the cash flow characteristics of the asset. The Bank reclassifies debt investments when and only when its business model for managing those assets changes.

There are three measurement categories into which the Bank classifies its debt instruments:

(i) Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent SPPP are measured at amortised cost. Profit income from these financial assets is recognised using the effective profit rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as separate line item in statement of comprehensive income.

(ii) Fair value through other comprehensive income (“FVOCI”)

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent SPPP, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, profit income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Profit income from these financial assets is included in "profit income" using the effective profit rate method. Impairment expenses are presented as separate line item in statement of comprehensive income.

(iii) Fair value through profit or loss (“FVTPL”)

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. The Bank may also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. Fair value changes is recognised in profit or loss in the period which it arises.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

Accounting policies applied from 1 January 2018 (cont'd)

(3) Measurement (cont'd)

Equity instruments

The Bank subsequently measures all equity investments at fair value. Where the Bank's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in 'net gains and losses on financial instruments' in statement of comprehensive income.

(4) Subsequent measurement – Impairment

Impairment for debt instruments and financial guarantee contracts

The Bank assesses on a forward looking basis the expected credit loss ("ECL") associated with its debt instruments carried at amortised cost and at FVOCI and financial guarantee contracts issued. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

ECL represents a probability-weighted estimate of the difference between present value of cash flows according to contract and present value of cash flows the Bank expects to receive, over the remaining life of the financial instrument. For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the customer or any other party.

The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- 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. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

Accounting policies applied from 1 January 2018 (cont'd)

(4) Subsequent measurement – Impairment (cont'd)

(i) General 3-stage approach

At each reporting date, the Bank measures ECL through loss allowance at an amount equal to 12-month ECL if credit risk on a financial instrument or a group of financial instruments has not increased significantly since initial recognition. For all other financial instruments, a loss allowance at an amount equal to lifetime ECL is required. The Bank applies a 3-stage approach on debt instruments measured at amortised cost and FVOCI, except for those that are under simplified approach, as explained below.

(ii) Simplified approach

The Bank applies MFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables and other assets.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

Accounting policies applied from 1 January 2018 (cont'd)

Significant increase in credit risk ("SICR")

The Bank considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Bank compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportable forward-looking information.

The following indicators are incorporated:

- External credit rating (as far as applicable);
- Significant changes in the expected performance and behavior of the customer, including changes in the payment status of customer in the Bank, committed into fraudulent activities, abandonment of projects and changes in operating results of the customer;
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer/issuer's ability to meet its obligations;
- Actual or expected significant changes in the operating results of the customer;
- Significant increase in credit risks on other financial instruments of the same customer; and
- Significant changes in the value of the collateral supporting the obligations.

Regardless of the analysis above, a significant increase in credit risk is presumed if a customer/issuer is more than 30 days or 1 month past due in making a contractual payment.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

Accounting policies applied from 1 January 2018 (cont'd)

Definition of default and credit-impaired financial assets

The Bank defines a financial instrument as default, which is fully aligned with the definition of credit-impaired, when it meets one or more of indicators, which include amongst others, the following criteria:

- the customer is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the customer is past due more than 3 months on any material credit obligation to the Bank;
- the customer is past due more than 30 days after maturity date for trade finance and revolving credit facilities;
- Bankruptcy or winding up petition;
- Fraudulent accounts;
- Rescheduled and/or restructured (R&R) for impaired accounts; or
- Companies under PN17 – Listed companies identified by Bursa Malaysia that are in financial distress.

In assessing whether a customer is in default, the Bank considers indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The Bank first assesses whether objective evidence of impairment exists for financial assets which are individually significant. If the Bank determines that objective evidence of impairment exists, i.e. credit impaired, for an individually-assessed financial asset, a lifetime ECL will be recognised.

Financial assets which are individually significant but not credit-impaired and not individually significant are grouped on the basis of similar credit risk characteristics (such as credit quality, instrument type, credit risk ratings, credit utilisation, customer types and other relevant factors) for collective assessment.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

<u>Accounting policies applied from 1 January 2018 (cont'd)</u>

Write off policy

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

Indicators that there is no reasonable expectation of recovery include:

- ceasing enforcement activity; and
- where the Bank's recoveries method are foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

Modification of financing

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of financings to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does 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 affect 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 is denominated in; and
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the financing.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a "new" asset at fair value and recalculates 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 assesses 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 profit or loss as a gain or loss on derecognition.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

Accounting policies applied from 1 January 2018 (cont'd)

Modification of financing (cont'd)

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. 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).

De-recognition other than a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfer nor retain substantially all the risks and rewards of ownership and the Bank has not retained control.

Generating the term structure of probability of default

Month in Arrears ("MIA") are a primary input into the determination of the term structure of Probability of Default (“PD”) for exposures. The Bank collects performance and default information on MIA for each segment.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the financing. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio. This is supported by historical analysis.

The 12-month and lifetime Exposures at Default ("EADs") are determined based on the expected payment profile, which vary by segmentation.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

Accounting policies applied from 1 January 2018 (cont'd)

Generating the term structure of probability of default (cont'd)

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark profit rates, unemployment rates and others.

The Bank formulates a ‘base case’ view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see below on "Incorporation of forward-looking information"). The Bank then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank’s quantitative modelling, the remaining lifetime PD is determined to have increased by more than a predetermined percentage/range.

Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than one MIA. Due dates are determined without considering any grace period that might be available to the customer.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

Accounting policies applied from 1 January 2018 (cont'd)

Modified financial assets

The contractual terms of a financing/advances may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing financing/advances whose terms have been modified may be derecognised and the renegotiated financing/advances recognised as a new financing/advances at fair value.

The Bank renegotiates financing/advances to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Financing/advances forbearance is granted on a selective basis if the customer is currently in default on its financing or if there is a high risk of default, there is evidence that the customer or issuer made all reasonable efforts to pay under the original contractual terms and the customer or issuer is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of financing/advances covenants.

For financial assets modified, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect principal and profit and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the customer's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

Accounting policies applied from 1 January 2018 (cont'd)

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Bank formulates a ‘base case’ view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in Malaysia.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

Accounting policies applied from 1 January 2018 (cont'd)

Measurement of expected credit losses ("ECL")

The Bank uses three categories for financial instruments at amortised cost for recognising ECL.

Category	Definition	Basis for recognising
Performing	(i) Principal or profit or both is not past due for more than 30 days; or (ii) Other accounts not classified under Stage 2 and 3	12 month ECL (Stage 1)
Under performing accounts	(i) Principal or profit or both is past due for more than 30 days but less than 90 days; or (ii) Overdue payment within 30 days after maturity date for trade finance and revolving credit facilities; or (iii) Fullfill any one of the SICR criteria	Lifetime ECL – non-credit impaired (Stage 2)
Impaired accounts	(i) Principal or profit or both is past due for more than 90 days; or (ii) Overdue payment more than 30 days after maturity date for trade finance and revolving credit facilities; or	Lifetime ECL – credit impaired (Stage 3)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

Accounting policies applied from 1 January 2018 (cont'd)

Measurement of expected credit losses ("ECL") (cont'd)

Category	Definition	Basis for recognising
Impaired accounts (cont'd)	(iii) For Cashline-i facility, it shall be classified as impaired where the outstanding amount has remained in excess of the approved limit for a period more than 90 days or 3 months; or (iv) Where payments are schedule on interval of 3 months or longer, the financing is classified as impaired as soon as default occurs (except under specific program); or (v) Fullfill any one of the other impaired triggers criteria; or (vi) Fullfill any three of the SICR triggers.	

The Bank has not used the low credit risk exemption for any financial instrument for the year ended 31 December 2018.

The key inputs into the measurement of ECL are the term structure of the following

- PD;
- Loss Given Default ("LGD"); and
- EAD.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

Accounting policies applied from 1 January 2018 (cont'd)

Measurement of expected credit losses ("ECL") (cont'd)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

ECL is determined by projecting the PD, LGD and EAD at each future point on a yearly basis individual exposure, or collective segment, and discounting these monthly expected losses back to the reporting date. The discount rate used in the ECL calculation is the original profit rate or an approximation thereof.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

Accounting policies applied from 1 January 2018 (cont'd)

Measurement of expected credit losses ("ECL") (cont'd)

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any customer's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a financing commitment or guarantee.

Forward looking economic information is also included in determining the 12 month and lifetime PD, EAD and LGD.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- product/instrument type;
- credit risk grading;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the customer.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

<u>Accounting policies applied until 31 December 2017</u>

(1) Initial recognition and subsequent measurement

Financial instruments are classified into the following categories - financing and advances, financial investments HTM and financial investments AFS. Management determines the classification of financial instruments at initial recognition.

(i) Financing and advances

Financing and advances that consist of Murabahah, Qard, Bai-Al Inah, Bai-Bithaman Ajil and Tawarruq contracts are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified in this category include cash and balances with banks and financing and advances. These financial assets are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective profit method less accumulated impairment loss and unearned profit. Profit income on financing and advances is recognised as "Profit Income" in profit or loss. Impairment losses on financing and advances are recognised in statement of comprehensive income as “Allowance for impairment on financing and advances”.

(ii) Held-to-maturity ("HTM")

Financial investments HTM are quoted non-derivative financial assets with fixed or determinable payments that management has the intention and ability to hold to maturity. These financial assets are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective profit method. Profit on investments HTM is included in “Profit Income” in statement of comprehensive income. Impairment losses, if any, are recognised in statement of comprehensive income as "Allowance for impairment on investment securities”. Regular way purchases and sales of financial investments HTM are recognised at settlement date. If the Bank was to sell or reclassify more than an insignificant amount of financial investments HTM before maturity, the entire category would be tainted and be reclassified to AFS. Furthermore, the Bank would be prohibited from classifying those financial assets as HTM for the following two years.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

Accounting policies applied until 31 December 2017 (cont'd)

(1) Initial recognition and subsequent measurement (cont'd)

(iii) Available-for-sale ("AFS")

Financial investments AFS are non-derivative financial assets that are designated as AFS and are not categorised into any of the other categories above. Financial investments AFS include financial assets that are intended to be held for an indefinite period of time, which may be sold in response to liquidity needs or changes in market conditions. These financial assets are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at fair value.

Gains and losses arising from changes in fair value are recognised in other comprehensive income, except for impairment losses, which are recognised in profit or loss. If a financial investment AFS is determined to be impaired, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Likewise, upon disposal of financial investments AFS, the cumulative fair value gain or loss recognised in equity is also transferred to profit or loss. Profit income on financial investments AFS is included as profit income in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Bank’s right to receive payment is established. Regular way purchases and sales of financial investments AFS are recognised at settlement date.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

<u>Accounting policies applied until 31 December 2017 (cont'd)</u>

(2) Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or when the rights to receive future cash flows from the assets have been transferred to a third party and substantially all the risks and rewards of ownership of the assets are also transferred.

(3) Impairment of financial assets

(i) Financing and advances

Financing and advances ("financing") of the Bank are classified as impaired when they fulfill either of the following criteria:

(1) principal or profit or both are past due for three (3) months or more;

(2) where a financing is in arrears for less than three (3) months, but exhibits indications of credit weaknesses; or

(3) where an impaired financing has been rescheduled or restructured, the financing will continue to be classified as impaired until payments based on the revised and/or restructured terms have been observed continuously for a period of six (6) months for non-retail financing and three (3) months for retail financing.

For the determination of impairment on financing, the Bank conducts assessments at each reporting period whether there is any objective evidence that a financing or a group of financing is impaired. A financing or a group of financing is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (i.e. an "incurred loss event") and that loss event has an impact on the estimated future cash flows of the financing or group of financing that can be reliably estimated.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

Accounting policies applied until 31 December 2017 (cont'd)

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

(i) Financing and advances (cont'd)

The criteria that the Bank uses to determine that there is objective evidence of an impairment includes:

(1) any significant financial difficulty of the obligor;

(2) a breach of contract, such as a default or delinquency in profit or principal payments;

(3) a high probability of bankruptcy or other financial reorganisation of the obligor; and

(4) concerns over the viability of the obligor’s business operations and its capacity to trade successfully out of financial difficulties and to generate sufficient cash flows to service its financing obligations.

The Bank first assesses individually whether objective evidence of impairment exists for financing which are individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financing, the financing is then included as a part of collective assessment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the financing carrying amount and the present value of the estimated future cash flows. The carrying amount of the financing is impaired through the use of an allowance account and the impaired amount of loss is recognised in profit or loss. Where appropriate, the calculation of the present value of estimated future cash flows of a collateralised financing reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

<u>Accounting policies applied until 31 December 2017 (cont'd)</u>

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

(i) Financing and advances (cont'd)

For collective assessment, the non-impaired financing and impaired financing which are not individually significant are grouped on the basis of homogeneous risk characteristics that are indicative of the customers' ability to pay all amounts due according to the contractual terms. The collective impairment is computed by multiplying the exposure with the PD and LGD. The PD is based on migration or regression analysis and the LGD is determined by using the collateral shortfall method. Where a financing is uncollectible, it is written off against the related allowance for financing impairment. Such financing are only written off after the necessary procedures have been completed and the amount of the loss has been determined.

In addition, the Bank has commenced time triggered write off for uncollectible financing. The collection process for all time triggered write off financing remains on going until all legal recourse are exhausted.

Subsequent recoveries of the amounts previously written off are recognised in profit or loss.

Where a financing shows evidence of credit weaknesses, the Bank may seek to renegotiate the financing rather than to take possession of collateral. This may involve an extension of the payment arrangements via rescheduling or the renegotiation of new financing terms and conditions via restructuring. Management monitors the renegotiated financing to ensure that all the revised terms are met and that the payments are made promptly for a continuous period. Where an impaired financing is renegotiated, the customer must adhere to the revised and/or restructured payment terms for a continuous period of six months for non-retail financing and three months for retail financing before the financing is classified as non-impaired. These financing continue to be subjected to individual or collective impairment assessment.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(d) Financial assets (cont'd)

Accounting policies applied until 31 December 2017 (cont'd)

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

(ii) Financial investments AFS

The Bank assesses at each reporting period whether there is objective evidence that a financial investment classified as AFS is impaired. In the case of quoted equity investments, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether objective evidence of impairment exists. Where such evidence exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised) is removed from equity and recognised in profit or loss.

Impairment losses on AFS equity investments are not reversed in profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income. For AFS debt investments, impairment losses are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss in profit or loss.

(iii) Financial investments HTM

The Bank assesses at each reporting period whether objective evidence of impairment of financial investments HTM exists as a result of one or more loss events and that loss event has an impact on the estimated future cash flows of the financial investment or group of financial investments that can be reliably estimated. Where there is objective evidence of impairment, an impairment loss is recognised as the difference between the acquisition cost and the present value of the estimated future cash flows, less any impairment loss previously recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(e) Financial liabilities

Financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortised cost. Financial liabilities measured at amortised cost include deposits from customers and financing scheme funds.

Financial liabilities are derecognised when they are redeemed or extinguished.

(f) Determination of fair value

The Bank measures financial assets at FVOCI (2017: financial investments AFS) at fair value at each reporting 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:

(i) In the principal market for the assets or liabilities, or

(ii) In the absence of a principal market, in the most advantageous market for the assets or liabilities.

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(g) Financial guarantee contracts and financing commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified customer fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure financing, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The expected credit losses under MFRS 9; and
- The premium received on initial recognition less income recognised in accordance with the principles of MFRS 15.

Financing commitments provided by the Bank are measured as the amount of the loss allowance. The Bank has not provided any commitment to provide financing/advances at a below-market profit rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

(h) Foreign currency

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

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period, except for the differences arising on the translation of non-monetary items in respect of which gains or losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(i) Income tax

(i) Current tax

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

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

(ii) Deferred tax

Deferred tax is provided for, using the “liability” method, on temporary differences as of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised for all taxable temporary differences while deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary differences arising from goodwill or from the initial recognition of an asset or a liability in a transaction which is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit.

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

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantially enacted at the reporting period. Deferred tax is recognised in profit or loss, except when it arises from a transaction which is recognised directly in equity.

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(j) Employees' benefit

(i) Short-term benefit

Wages, salaries, other fixed remuneration and bonuses are recognised as expenses in the year that services have been rendered by the employees. Medical leave is recognised when the absences occur.

(ii) Defined contribution plan

The Bank is required by law to make monthly contributions to the Employees Provident Fund ("EPF") at certain prescribed rates based on the employees' salaries. Such contributions are recognised as an expense in profit or loss as incurred.

(iii) Retirement benefit

Eligible staff are entitled for a lump sum gratuity payment upon attainment of normal retirement age of 60 years or early retirement age of 45 years for female employees and 50 years for male employees. The gratuity payment is equivalent to 0.75 of their last drawn salary multiplied by the number of years of service and a leave replacement benefit payment equivalent to 4 times their last drawn salary.

The retirement benefit liability recognised in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period, together with adjustments for actuarial gains or losses and unrecognised past service cost reflecting only the number of years of service completed up to the reporting date.

The defined benefit obligation, calculated using the projected unit credit method, by discounting the estimated future cash outflows using market yields at the end of the reporting period on Government Investment Issues which have currency and terms to maturity approximating the terms of the related liability.

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income in the period in which they arise. The actuarial gains or losses are not subsequently reclassified to profit or loss in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(k) Impairment of non-financial assets

The carrying amount of property, plant and equipment and intangible assets are reviewed to determine whether there is any indication of impairment. An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

An impairment loss is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of amortisation or depreciation, if no impairment loss had been recognised. A reversal of an impairment loss is recognised in profit or loss immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(l) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Freehold land and work in progress are not depreciated.

Property, plant and equipment are depreciated on a straight-line method at rates calculated to write off the cost less residual value of the assets over their estimated useful lives. The annual depreciation rates used are as follows:

Buildings	2%
Motor vehicles	20%
Furniture and fixtures	20%
Equipment and office machines	10%
Computer hardware	20%

Where parts of items of property, plant and equipment have different useful lives, the cost of the items is allocated on a reasonable basis and is depreciated separately.

Leasehold land is depreciated over the period of its respective leases.

At each reporting period, the residual values and useful lives of the property, plant and equipment are reviewed, and the effect of any changes is recognised prospectively. Gain or loss arising from the disposal of an asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in profit or loss.

Costs of repair and maintenance are charged to profit or loss in the year in which the costs are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(m) Intangible assets

Intangible assets consist of computer software which are initially recorded at cost. Subsequent to the recognition, computer software are measured at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is calculated using the straight-line method to allocate the cost of computer software over their estimated useful lives of 3 years. Gain or loss arising from the disposal of the asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in profit or loss.

Subsequent expenditure on an intangible asset after its purchase or completion is recognised as an expense when it is incurred, unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and the expenditure can be measured and attributed to the asset reliably.

(n) Leases

Leases are classified as finance lease or operating lease. Leases are classified as finance leases where the Bank assumes substantially all the risks and rewards of ownership of the assets. Assets under operating leases are not recognised in the statement of financial position as the risks and rewards rest with the lessor.

Lease rental is charged to profit or loss on the straight-line basis over the lease term. Benefits received or receivable as an incentive to enter into an operating lease are recognised on the straight-line basis over the lease term. However, contingent rentals arising from operating leases are recognised as an expense in a manner consistent with the basis on which they are determined.

(o) Foreclosed properties

Foreclosed properties are those acquired in order to settle the debts and are stated at the lower of cost and net realisable value.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Summary of significant accounting policies (cont'd)

(p) Provisions

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

Provisions are reviewed at the end of each reporting period and if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provisions are reversed.

Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability.

(q) Share capital

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

(r) Cash and cash equivalents

For the purposes of the statement of cash flow, cash and cash equivalents comprise cash on hand, demand deposits and highly liquid investments with original maturities of 3 months or less that are convertible into cash with an insignificant risk of changes in value.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Standards issued but not yet effective

As at the date of authorisation of these financial statements, the following MFRS and amendments to MFRS have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective which have not been adopted by the Bank.

Effective for financial periods beginning on or after 1 January 2019

Amendments to MFRS 9 Prepayment Features with Negative Compensation
MFRS 16 Leases
Amendments to MFRS 128 Long-term Interests in Associates and Joint Ventures
Annual Improvements to MFRS Standards 2015-2017 Cycle
IC Interpretation 23 Uncertainty over Income Tax Treatments

Effective for financial periods beginning on or after 1 January 2021

MFRS 17 Insurance Contracts

Effective for financial periods to be determined by the Malaysian Accounting Standards Board ("MASB")

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

The Bank plans to adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are expected to have no significant impact to the financial statements of the Bank upon their initial application, other than as discussed below:

MFRS 16 Leases

MFRS 16 will supersede the current lease guidance including MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Leases – Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The Bank will apply MFRS 16 for the financial period beginning 1 January 2019.

MFRS 16 introduces a single lessee accounting model, requiring a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Whereas, a lessor continues to classify leases as operating or finance following the rights and rewards approach of the current MFRS 117 standard.

The Bank is currently assessing the financial impact that may arise from the adoption of MFRS 16 by establishing a structured implementation programme to ensure a smooth implementation of MFRS 16.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENT

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of income, expense, assets and liabilities and the disclosure of contingent liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amount of the asset or liability affected in the future.

Critical judgements made in the application of accounting policies

The following judgments are made by the management in the process of applying the Bank's accounting policies that have the most significant impact on the financial statements.

(a) Accounting for government assistance

In carrying out its mandated role, the Bank receives various assistance from the Malaysian government either in the form of grant or financing. There are also arrangements where the Bank acts as an agent for the government in managing funds, and this arrangement is treated off-balance sheet. Judgement has been applied by management to determine the classification of government assistance whether as grants, financing or off-balance sheet.

(b) Measurement of the expected credit losses ("ECL")

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 35, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENT (cont'd)

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

(a) Provision for compensation claim

Provision for compensation claim is the amount that the Bank would rationally pay to settle the obligation estimated at the end of the reporting period. The estimates of outcomes and financial effect are determined by the judgement of the management of the Bank and supplemented by opinions from legal counsels and reports from independent experts (Note 12).

5. TRANSITION DISCLOSURES

The following pages set out the impact of adopting MFRS 9 on the statement of financial position, and retained earnings.

The impact on classification and measurement to the Bank's financial assets and financial liabilities are summarised below on the initial application of MFRS 9 on 1 January 2018 is as follows:

	Measurement category	
	MFRS 139	**MFRS 9**
Financial assets		
Cash and short term funds	Financing & receivables ("FAR")	Amortised cost
Investment securities	AFS	FVOCI
Financing and advances	FAR	Amortised cost
Other advances	FAR	Amortised cost
Other financial assets	FAR	Amortised cost
Financial liabilities		
Other financial liabilities	Amortised cost	Amortised cost

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5. TRANSITION DISCLOSURES (cont'd)

Reconciliation of carrying amount from MFRS 139 to MFRS 9 as at 1 January 2018

The Bank has assessed which business model applies to the financial assets at the date of initial application of MFRS 9, 1 January 2018 and has reclassified its financial instruments. The main effects resulting from this reclassification are as follows:

	MFRS 139 carrying amount at 31 December 2017 RM'000	Re-classification and re-measurement RM'000	Expected credit loss RM'000	MFRS 9 carrying amount at 1 January 2018 RM'000
Financial assets at FVOCI	-	4,411,116	(7,708)	4,403,408
Investment securities	4,403,960	(4,403,960)	-	-
Financing and advances	9,173,891	6,654	14,912	9,195,457
Other advances	34,067	-	(8,450)	25,617
Other assets	115,296	(6,654)	1,751	110,393
Deferred tax asset	13,994	(1,973)	-	12,021
Other liabilities				
ECL allowance for financial guarantees and financing commitments	-	-	6,050	6,050
Reserves				
Investment revaluation deficit	(27,303)	27,303	-	-
FVOCI reserves	-	(21,403)	-	(21,403)
Retained earnings	1,337,112	(717)	(5,545)	1,330,850

6. INCOME DERIVED FROM INVESTMENT OF:

	2018 RM'000	2017 RM'000
(a) Depositors' funds and others		
(i) Term deposits	495,106	433,858
(ii) Other deposits	228,251	213,280
	723,357	**647,138**

(i) Income derived from investment of term deposits

	2018 RM'000	2017 RM'000
Finance income and hibah		
Profit from financing	336,424	288,547
Profit from financial assets:		
Deposits with banks and other financial institutions	15,484	14,351
FVOCI	93,022	-
Financial investments - AFS	-	89,204
Accretion of discount less amortisation of premium	4,349	4,801
Gain arising from derecognition of financial assets at FVOCI	2,545	-
Gross dividend income from financial assets at FVOCI	5	-
Gross dividend income from AFS	-	2
Fee income		
Financing processing fees	1,445	1,423
Banking service fees	18,687	16,500
Ar-Rahnu fees	22,061	18,215
Ta'widh fees	1,084	815
Total income derived from investment of term deposits	**495,106**	**433,858**
Of which:		
Profit income earned on impaired financing and advances	**8,336**	**10,135**

6. INCOME DERIVED FROM INVESTMENT OF: (cont'd)

(a) Depositors' funds and others (cont'd)

	2018 RM'000	2017 RM'000
(ii) Income derived from investment of other deposits		
Finance income and hibah		
Profit from financing	155,097	141,847
Profit from financial assets:		
Deposits with banks and other financial institutions	7,138	7,055
FVOCI	42,884	-
Financial investments - AFS	-	43,852
Accretion of discount less amortisation of premium	2,005	2,360
Gain arising from derecognition of financial assets at FVOCI	1,173	-
Gross dividend income from financial assets at FVOCI	2	-
Gross dividend income from AFS	-	1
Fee income		
Financing processing fees	667	700
Banking service fees	8,614	8,111
Ar-Rahnu fees	10,171	8,954
Ta'widh fees	500	400
Total income derived from investment of other deposits	**228,251**	**213,280**
Of which:		
Profit income earned on impaired financing and advances	**3,843**	**4,982**

6. INCOME DERIVED FROM INVESTMENT OF: (cont'd)

	2018 RM'000	2017 RM'000 Restated
(b) Shareholder's funds		
Finance income and hibah		
Profit from financing	135,377	123,219
Profit from financial assets:		
Deposits with banks and other financial institutions	6,231	6,128
FVOCI	37,432	-
Financial investments - AFS	-	38,093
Accretion of discount less amortisation of premium	1,750	2,050
Gain arising from derecognition of financial assets at FVOCI	1,024	-
Gross dividend income from financial assets at FVOCI	2	-
Gross dividend income from AFS	-	1
Fee income		
Financing processing fees	582	607
Government Link Companies ("GLC") service fees	10,671	10,812
Banking service fees	7,520	7,046
Reimbursement of gapping cost	-	30,099
Ar-Rahnu fees	8,877	7,778
Ta'widh fees	436	348
Other Operating Income		
Reimbursement of Special Relief Grant for Flood ("SRGF")	4	14
Staff financing	3,106	1,780
Proceeds from sale of crops - Ladang Sg Tasan	607	1,360
Amortisation and utilisation of launching grant	1,224	1,902
Amortisation of operating grant	1,195	1,539
Utilisation/(writeback) of government grant - funds:		
Entrepreneur Scheme for Graduates (Note 28(a))	(2)	19
Special Fund for Terengganu Fishery (Note 28(b))	(4)	-
Development Programme for Hard-core Poor (Note 28(c))	3	63
Fund for Ministry of Youth and Sports (Note 28(d))	(166)	(436)
Bumiputera Commercial and Industrial Community Scheme HUB (Note 28(e))	348	459
National Key Economic Area (Note 28(f))	208	60
Micro Economic Stimulation Package (Note 28(g))	(2,011)	(2,714)
Micro ESP Flood Relief (Note 28(h))	22	109
Gain on disposal of property, plant and equipment	-	1,466
Other income	1,826	1,645
	216,262	**233,447**

6. INCOME DERIVED FROM INVESTMENT OF: (cont'd)

(b) Shareholder's funds (cont'd)

	2018 RM'000	2017 RM'000
Of which:		
Profit income earned on impaired financing and advances	**3,355**	**4,325**

7. WRITEBACK OF IMPAIRMENT

		2018 RM'000	2017 RM'000 Restated
Allowance (made)/written back for:			
Financing and advances	(a)	(47,462)	(17,061)
Other advances	(b)	29,061	18,362
Financial guarantees and financing commitments	(c)	1,519	-
Other assets	(d)	93	-
		(16,789)	**1,301**

(a) Financing and advances

	2018 RM'000	2017 RM'000 Restated
Stage 1 - 12-month ECL	14,250	-
Stage 2 - Lifetime ECL not credit-impaired	4,410	-
Stage 3 - Lifetime ECL credit-impaired	(84,555)	-
ECL for financing and advances	**(65,895)**	**-**
Allowance for the year	-	(36,688)
Amount written back upon recoveries and reversal of allowance	-	44,030
Individual impairment allowance - net	**-**	**7,342**
Allowance for the year	-	(180,551)
Amount written back	-	140,657
Collective impairment allowance - net	**-**	**(39,894)**
Bad debts and financing recovered	**18,433**	**15,491**
	(47,462)	**(17,061)**

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7. WRITEBACK OF IMPAIRMENT (cont'd)

(b) Other advances

	2018 RM'000	2017 RM'000 Restated
Stage 1 - 12-month ECL	256	-
Stage 2 - Lifetime ECL not credit-impaired	184	-
Stage 3 - Lifetime ECL credit-impaired	12,336	-
Writeback of other advances	**12,776**	**-**
Allowance for the year	-	(2,791)
Amount written back upon recoveries and reversal of allowance	-	3,998
Individual impairment allowance - net	**-**	**1,207**
Allowance for the year	-	(2,552)
Amount written back	-	3,604
Collective impairment allowance - net	**-**	**1,052**
Bad debts and financing recovered	**16,285**	**16,103**
	29,061	**18,362**

(c) Financial guarantees and financing commitments

	2018 RM'000	2017 RM'000
Stage 1 - 12-month ECL	1,539	-
Stage 2 - Lifetime ECL not credit-impaired	(20)	-
Stage 3 - Lifetime ECL credit-impaired	-	-
	1,519	**-**

(d) Other assets

	2018 RM'000	2017 RM'000
Stage 1 - 12-month ECL	-	-
Stage 2 - Lifetime ECL not credit-impaired	-	-
Stage 3 - Lifetime ECL credit-impaired	93	-
	93	**-**

8. INCOME ATTRIBUTABLE TO DEPOSITORS

	2018 RM'000	2017 RM'000
Deposits from customers:		
Mudharabah Funds		
Reversal of provision of undistributed profit	-	(5,072)
	-	(5,072)
Non-Mudharabah Funds		
Fixed return investment account ("FRIA")	120,750	131,761
FRIA 45 Plus	12,943	13,233
Agro Perdana-i	10,717	10,319
Agro-i Deposits	10,985	12,092
Qard	8,759	8,076
Agro Muda-i	1,983	2,577
Agro Tetangga-i	243	254
Agro Prima	93	32
	166,473	178,344
Deposits and placement of banks and other financial institutions:		
Non-Mudharabah Funds		
Pelaburan Khas-i	114,673	67,076
	281,146	**240,348**

9. PERSONNEL EXPENSES

	2018 RM'000	2017 RM'000
Salaries, allowances and bonuses	228,419	230,058
EPF contributions	28,646	26,569
SOCSO contributions	2,417	2,360
Medical insurances	8,859	8,772
Staff welfare	7,231	7,030
Non-executive directors' allowances	2,104	1,955
Staff training	3,268	2,690
Recruitment fees	1,018	1,370
Retirement benefits scheme	(613)	(244)
Others	1,175	1,394
	282,524	**281,954**

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10. OTHER OVERHEADS AND EXPENDITURES

	2018 RM'000	2017 RM'000
Maintenance cost		
Depreciation of property, plant and equipment	21,405	24,942
Amortisation of computer software	12,934	13,516
Write off of property, plant and equipment	259	590
Write off of intangible assets	-	316
Computer maintenance	19,397	18,623
Rental of premises	9,917	9,259
Water and electricity	9,624	9,562
Printing, stationery and office supplies	8,446	8,584
Office maintenance	3,948	4,150
Takaful on property, plant and equipment	3,079	2,192
Building maintenance	4,578	3,968
Quit rent and assessment	1,061	1,116
Vehicle maintenance	185	179
Computer supply	461	492
Others	246	(333)
	95,540	**97,156**
Marketing expenses		
Advertising and promotions	2,891	4,645
Others	-	528
	2,891	**5,173**
General administrative expenses		
Communication expenses	14,475	12,618
Launching grants	69	106
Legal fees	5,911	6,778
Commissions and fees	20,304	15,309
Auditors' remuneration		
- Statutory audit	1,788	458
- Regulatory related services	13	43
- Others	38	38
Goods and services tax	2,233	4,037
Security charges	11,303	10,592
Agro Perdana ID card	963	1,609
Others	3,190	4,072
	60,287	**55,660**
	158,718	**157,989**

11. FINANCE COSTS

	2018 RM'000	2017 RM'000
Profit paid on financing scheme funds		
Fund For Food ("3F") (Note 25 (a))	423	476
Micro Enterprise Fund (Note 25 (c))	583	478
Commercial Agriculture Fund ("DPK-GLC") (Note 25 (d))	8,675	8,298
Agriculture Entrepreneur Financing Scheme Fund 1 ("DPUP 1") (Note 25 (e))	45,891	44,084
Agriculture Entrepreneur Financing Scheme Fund 2 ("DPUP 2") (Note 25 (f))	5,142	4,965
Agriculture Entrepreneur Financing Scheme Fund 3 ("DPUP 3") (Note 25 (g))	5,137	5,161
Agriculture Entrepreneur Financing Scheme Fund 4 ("DPUP 4") (Note 25 (h))	946	901
Agriculture Entrepreneur Financing Scheme Fund 5 ("DPUP 5") (Note 25 (i))	1,310	170
Special Relief Facility (Note 25 (k))	211	309
Fund for Small and Medium Size Industries ("TIKS") (Note 25 (l))	15	-
Disaster Relief Facility (Note 25 (m))	15	-
	68,348	64,842
Less : Income from fair value amortisation		
Amortisation of DPK-GLC Grant (Note 28 (j))	7,925	7,548
Amortisation of DPUP 1 Grant (Note 28 (k))	39,475	37,668
Amortisation of DPUP 2 Grant (Note 28 (l))	4,392	4,215
Amortisation of DPUP 3 Grant (Note 28 (m))	4,387	4,411
Amortisation of DPUP 4 Grant (Note 28 (n))	771	728
Amortisation of DPUP 5 Grant (Note 28 (o))	1,060	138
Amortisation of Special Relief Facility (Note 28 (p))	211	309
Amortisation of Disaster Relief Facility (Note 28 (q))	15	-
	58,236	55,017
	10,112	**9,825**

12. COMPENSATION CLAIM

	2018 RM'000	2017 RM'000
Compensation claim	**79**	**(38,832)**

The amount in prior year was mainly due to the writeback of excess provision upon the settlement of a legal claim against the Bank.

13. TAX EXPENSE

	2018 RM'000	2017 RM'000
Income tax:		
Malaysian income tax	51,245	38,579
Under/(over) provision in prior years	5,115	(3,527)
	56,360	**35,052**
Deferred tax:		
Relating to origination and reversal of temporary differences	(2,104)	19,336
(Over)/under provision in prior years	(2,743)	929
Tax expense for the year	**51,513**	**55,317**

Income tax is calculated at the Malaysian statutory tax rate of 24% (2017: 24%) of the estimated assessable profit for the year. The reconciliation between tax expense and accounting profit of the Bank multiplied by the applicable corporate tax rate are as follows:

	2018 RM'000	2017 RM'000
Profit before tax and zakat	**190,251**	**230,602**
Tax at the applicable statutory tax rate of 24% (2017: 24%)	45,660	55,344
Tax effects of:		
Income not subject to tax	(581)	(825)
Expenses not deductible for tax purposes	3,525	3,396
Under/(over) provision in prior years:		
Income tax	5,115	(3,527)
Deferred tax	(2,743)	929
Tax expense	**51,513**	**55,317**

14. ZAKAT

	2018 RM'000	2017 RM'000
Zakat for the year	**4,756**	**2,631**

Zakat represents business zakat payable by the Bank to comply with the principles of Shariah and as approved by the Shariah Committee. The Bank only pays zakat on its business and does not pay zakat on behalf of depositors or shareholder. Zakat provision is initially calculated based on 2.5% of capital growth model method. However, it is compared against 2.5% of the Bank's audited profit before tax ("PBT") for the year, and the higher of the two is the final zakat payable by the Bank.

The Bank has distributed the zakat to eligible beneficiaries (asnaf) among needy individuals, mosque, non-governmental organisations, higher learning institutions (needy student welfare funds) and schools as guided and approved by Shariah Committee.

15. CASH AND SHORT TERM FUNDS

	2018 RM'000	2017 RM'000
Cash in hand	125,713	117,570
Cash at banks	253,447	198,048
Short term deposits maturing within three months:		
Licensed banks	411,275	507,875
Other financial institutions	341,054	485,190
	1,131,489	**1,308,683**

The detail on the short term deposits are as follows:

	2018	2017
Average maturities	11 days	20 days
Weighted average effective profit rates (per annum)	3.41%	3.63%

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16(a) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

		2018 RM'000	2017 RM'000
Equity investments	(a)	101	-
Debt investments	(b)	4,380,635	-
		4,380,736	**-**

(a) Equity investments

At 1 January 2018, the Bank had designated the following investment as equity securities as FVOCI :

	2018 RM'000	2017 RM'000
Quoted securities		
KUB Malaysia Berhad	**101**	**-**

(b) Debt investments

Debt instruments at FVOCI comprise the following investments having solely payments of principal and profit income:

	2018 RM'000	2017 RM'000
At fair value:		
Corporate sukuk	2,695,696	-
Government Investment Issues ("GII")	1,684,939	-
	4,380,635	**-**

16(a) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

Movements in ECL in respect of debt instruments at FVOCI are as follows:

	ECL Staging			
	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**
Balance as at 1 January 2018	-	-	-	-
Effect of adopting MFRS 9	524	7,184	-	**7,708**
Restated as at 1 January 2018/Balance as at 31 December 2018	**524**	**7,184**	**-**	**7,708**

16(b) INVESTMENT SECURITIES

	2018 RM'000	2017 RM'000
Debt securities		
AFS - at fair value		
Corporate sukuk	-	2,874,551
Government Investment Issues ("GII")	-	1,529,241
Total debt securities	**-**	**4,403,792**
Equity securities		
AFS - at fair value		
Quoted shares in Malaysia	-	168
Total investment securities	**-**	**4,403,960**

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17. FINANCING AND ADVANCES

	2018 RM'000	2017 RM'000
By Product (at amortised cost)		
Agrocash	7,154,338	6,158,268
Project Financing	4,456,531	4,109,956
Fund For Food ("3F")	800,558	830,255
Ar-Rahnu	293,841	261,761
Fishery Boat Financing Scheme ("SPBP")	151,741	120,557
MUST-i	256,877	237,498
Oil Palm Replanting Scheme ("TASKS")	4,827	5,841
MAP and MPPB Financing	83,852	91,225
Financing for Small and Medium Size Industries ("PKS")	128,423	111,727
Non-Food Production Credit Scheme ("SKPBM")	30,310	28,965
Food Production Credit Scheme ("SKPM")	116,197	110,023
Belia Tani Scheme	5,668	5,921
Fund For Small and Medium Size Industries ("TIKS")	2,396	2,344
Working Capital-i	237,960	226,874
Paddy Credit Scheme	87,979	82,433
Micro Economic Stimulus Package ("Micro-ESP-I")	94	225
National Key Economic Area ("NKEA")	11,931	18,112
Murabahah Working Capital Financing	955,703	821,931
Insani	2,212	4,179
Bai Al-Dayn Working Capital Financing	65,253	38,327
MPPB Hub	815	826
Agro Cash Line-i	417,279	329,569
Hartani-i	1,139,624	1,012,631
Agro Flood Relief	637	942
Special Relief Facility	13,607	10,767
Commercial Agriculture Fund ("DPK3")	68,383	69,277
Others	8,898	8,971
	16,495,934	**14,699,405**

17. FINANCING AND ADVANCES (cont'd)

	2018 RM'000	2017 RM'000
Brought forward from previous page	**16,495,934**	**14,699,405**
Add : Staff financing and advances	131,003	105,787
	16,626,937	**14,805,192**
Less : Unearned profit	(5,851,200)	(5,195,289)
Gross financing and advances	**10,775,737**	**9,609,903**
Less :		
Stage 1 - 12-month ECL	(57,070)	-
Stage 2 - Lifetime ECL not credit-impaired	(21,843)	-
Stage 3 - Lifetime ECL credit-impaired	(265,662)	-
Individual impairment allowance	-	(139,167)
Collective impairment allowance	-	(296,845)
Net financing and advances at amortised cost	**10,431,162**	**9,173,891**

(i) By maturity

	2018 RM'000	2017 RM'000
Maturity within six months	1,661,658	1,406,150
Between six months to one year	135,579	159,844
Between one year to three years	227,090	208,124
Between three years to five years	718,476	719,826
More than five years	8,032,934	7,115,959
	10,775,737	**9,609,903**

(ii) By sector

	2018 RM'000	2017 RM'000
Construction and Services	69,971	51,283
Fishery	394,843	407,615
Crops	3,759,434	3,781,451
Livestock	793,087	790,549
Manufacturing	1,060,388	1,057,338
Others-Primary Agriculture	29,859	31,896
Retail and Wholesale Trade	1,115,192	883,108
Household	2,273,317	2,401,052
Others	1,279,646	205,611
	10,775,737	**9,609,903**

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17. FINANCING AND ADVANCES (cont'd)

(iii) By state

	2018 RM'000	2017 RM'000
Kuala Lumpur	1,347,195	1,059,290
Selangor	1,310,672	1,181,432
Pahang	677,868	741,050
Perak	1,176,977	1,007,312
Negeri Sembilan	315,361	301,177
Melaka	452,456	381,883
Johor	954,746	862,258
Kelantan	583,707	532,426
Kedah	741,904	632,444
Perlis	165,957	153,628
Sarawak	1,181,533	1,127,687
Sabah	954,319	823,130
Pulau Pinang	465,014	399,251
Terengganu	448,028	406,935
	10,775,737	**9,609,903**

(iv) By profit rate sensitivity

	2018 RM'000	2017 RM'000
Fixed rate :		
Fund For Food ("3F")	545,865	599,254
Project Financing	85,101	195,900
MUST-i	203,838	192,377
Agrocash	22,655	47,935
Others	483,232	446,202
Variable rate :		
Agrocash	4,320,178	3,636,340
Project Financing	2,577,481	2,319,782
Murabahah Working Capital Financing	954,102	820,251
Hartani-i	563,447	499,002
Others	1,019,838	852,860
	10,775,737	**9,609,903**

17. FINANCING AND ADVANCES (cont'd)

(v) Financing by type and Shariah Contract

	Term Financing RM'000	Revolving Financing RM'000	Total RM'000
2018			
Qard	293,841	-	293,841
Bai-Al Inah	1,713,996	108	1,714,104
Tawarruq	4,420,089	1,560,093	5,980,182
Bai-Bithaman Ajil	2,722,357	-	2,722,357
Murabahah	65,253	-	65,253
	9,215,536	**1,560,201**	**10,775,737**
2017			
Qard	261,761	-	261,761
Bai-Al Inah	2,031,825	4,012	2,035,837
Tawarruq	3,391,673	1,323,827	4,715,500
Bai-Bithaman Ajil	2,558,478	-	2,558,478
Murabahah	38,327	-	38,327
	8,282,064	**1,327,839**	**9,609,903**

17. FINANCING AND ADVANCES (cont'd)

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

	2018 RM'000	2017 RM'000
At beginning of the year	435,057	457,422
Additions during the year	351,402	204,722
Reclassified as non impaired during the year	(92,312)	(81,559)
Recoveries during the year	(112,086)	(70,862)
Amount written off	(142,721)	(74,666)
At end of the year	**439,340**	**435,057**
Excluding Non-Shariah Assets		
Gross impaired	439,340	435,057
Gross impaired ratio	4.08%	4.53%
Including Non-Shariah Assets		
Gross impaired	447,521	478,666
Gross impaired ratio	4.15%	4.95%

17. FINANCING AND ADVANCES (cont'd)

(vii) Impaired financing by sector

	2018 RM'000	2017 RM'000
Sectors:		
Construction and Services	9,252	6,153
Fishery	42,624	42,020
Crops	148,193	164,516
Livestock	56,729	90,642
Manufacturing	52,000	42,190
Others-Primary Agriculture	2,013	1,127
Retail and Wholesale Trade	85,474	51,904
Others	43,055	36,505
	439,340	**435,057**

(viii) Impaired financing by state

	2018 RM'000	2017 RM'000
States:		
Kuala Lumpur	31,075	62,893
Selangor	45,655	31,936
Pahang	29,423	59,273
Perak	61,748	60,032
Negeri Sembilan	10,997	13,488
Melaka	8,068	10,964
Johor	44,435	21,600
Kelantan	27,553	31,287
Kedah	63,613	52,449
Perlis	7,598	8,484
Sarawak	20,464	13,772
Sabah	41,189	40,313
Pulau Pinang	18,992	13,833
Terengganu	28,530	14,733
	439,340	**435,057**

17. FINANCING AND ADVANCES (cont'd)

(ix) ECL / Individual and collective impairment allowance

Movements in impairment allowances are as follows:

	ECL Staging					
	Stage 1	**Stage 2**	**Stage 3**	**Collective**	**Individual**	
		Lifetime ECL Not	**Lifetime ECL**	**Assessment**	**Assessment**	
	12-month ECL	**Credit-Impaired**	**Credit-Impaired**	**Allowance**	**Allowance**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Balance as at 1 January 2018	-	-	-	296,845	139,167	**436,012**
Effect of adopting MFRS 9	61,698	37,937	314,811	(296,845)	(139,167)	**(21,566)**
Restated as at 1 January 2018	**61,698**	**37,937**	**314,811**	**-**	**-**	**414,446**
Transfer to Stage 1	16,782	(9,207)	(7,575)	-	-	**-**
Transfer to Stage 2	(4,786)	6,314	(1,528)	-	-	**-**
Transfer to Stage 3	(2,374)	(8,791)	11,165	-	-	**-**
Allowance (written back)/made during the year	(14,250)	(4,410)	84,555	-	-	**65,895**
New financing and advances originated*	17,949	997	4,119	-	-	**23,065**
Net remeasurement due to changes in credit risk	(19,978)	6,375	115,365	-	-	**101,762**
Financial assets that have been derecognised	(12,221)	(11,782)	(34,929)	-	-	**(58,932)**
Write off	-	-	(135,766)	-	-	**(135,766)**
Balance as at 31 December 2018	**57,070**	**21,843**	**265,662**	**-**	**-**	**344,575**

* New financing and advances originated include those which were not credit-impaired at origination but the credit risk has deteriorated.

17. FINANCING AND ADVANCES (cont'd)

(ix) ECL / Individual and collective impairment allowance (cont'd)

Financial assets that are purchased or originated and credit-impaired

The Bank does not purchase or originate credit impaired financing and advances.

Impact on movements in gross carrying amount on allowance for financing and advances

The following explains how significant changes in the gross carrying amount of financing and advances during the financial year have contributed to the changes in the allowance for impairment on financing and advances for the Bank.

Overall, the total allowance for impairment on financing and advances for the Bank decreased by RM69.87 million, due to the following:

(a) 12-month ECL (Stage 1) – decrease of RM4.63 million for the Bank, mainly due to:

- Financing and advances that were repaid or remeasurement of ECL due to improvement in credit quality; and

- Partially offset by financing and advances that were newly originated.

(b) Lifetime ECL Not Credit-Impaired (Stage 2) – decrease of RM16.09 million for the Bank, mainly due to:

- Financing and advances that were fully repaid; and

- Financing and advances that migrated into Stage 1 due to improvement in credit quality.

(c) Lifetime ECL Credit-Impaired (Stage 3) – decrease of RM49.15 million for the Bank, mainly due to:

- Financing and advances that were fully repaid or written off; and

- Partially offset by remeasurement of ECL due to deterioration of credit quality.

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17. FINANCING AND ADVANCES (cont'd)

(ix) ECL / Individual and collective impairment allowance

Movement in impairment allowance are as follows:

	2018 RM'000	2017 RM'000
Individual impairment allowance		
At beginning of the year	-	155,055
Allowance for the year	-	36,688
Amount written back upon recoveries and reversal of allowance	-	(44,030)
Net allowance for the year	**-**	**(7,342)**
Amount written off	-	(8,546)
At end of the year	**-**	**139,167**
Collective impairment allowance		
At beginning of the year	-	305,023
Allowance for the year	-	180,551
Amount written back	-	(140,657)
Net allowance for the year	**-**	**39,894**
Amount written off	-	(48,072)
At end of the year	**-**	**296,845**
Collective impairment allowance as a percentage of gross financing and advances less individual impairment allowance	-	**3.13%**

17. FINANCING AND ADVANCES (cont'd)

(ix) ECL / Individual and collective impairment allowance (cont'd)

Included in net ECL/collective impairment allowance charged/(written back) during the year are allowance relating to financing and advances funded using the government grants as detailed below:

	Note	2018 RM'000	2017 RM'000
Entrepreneur Scheme for Graduates	**28(a)**	(2)	19
Special Fund for Terengganu Fishery	**28(b)**	(4)	-
Development Programme for Hard-core Poor	**28(c)**	3	63
Fund for Ministry of Youth and Sports	**28(d)**	(166)	(436)
Bumiputera Commercial and Industrial Community Scheme HUB	**28(e)**	348	459
National Key Economic Area	**28(f)**	208	60
Micro Economic Stimulation Package	**28(g)**	(2,011)	(2,714)
Micro ESP Flood Relief	**28(h)**	22	109
		(1,602)	**(2,440)**

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18. OTHER ADVANCES

	2018 RM'000	2017 RM'000
(i) Non-Shariah Assets	17,027	60,596
Less :		
Stage 1 - 12-month ECL	(142)	-
Stage 2 - Lifetime ECL not credit-impaired	(398)	-
Stage 3 - Lifetime ECL credit-impaired	(6,939)	-
Individual impairment allowance	-	(21,370)
Collective impairment allowance	-	(5,159)
Non-Shariah Assets at amortised cost	**9,548**	**34,067**

Other advances relate to customer loans not in compliance with Shariah principles. All income earned during the year from these loans amounting to RM2,604,674 (2017: RM2,441,812) will be channelled to approved charities.

(ii) Movements in gross impaired Non-Shariah Assets are as follows:

	2018 RM'000	2017 RM'000
At beginning of the year	43,609	50,636
Additions during the year	3,722	11,583
Reclassified as non credit-impaired during the year	(1,069)	(1,590)
Recoveries during the year	(3,744)	(12,928)
Amount written off	(34,337)	(4,092)
At end of the year	**8,181**	**43,609**
Gross impaired Non-Shariah Assets as a percentage of gross Non-Shariah Assets	**48.05%**	**71.97%**

Ongoing efforts are made by Remedial and Recovery Department ("RRD") and Credit Recovery Centre ("CRC") to reduce the impaired Non-Shariah Assets ("NSA") accounts through rescheduling or restructuring and conversion to Islamic accounts for qualified cases. Where rehabilitative efforts failed, RRD and CRC will pursue recovery actions, including litigation, until all efforts are exhausted.

18. OTHER ADVANCES (cont'd)

(iii) ECL / Individual and collective impairment allowance (cont'd)

Movements in impairment allowances are as follows:

	ECL Staging					
	Stage 1 12-month ECL RM'000	**Stage 2 Lifetime ECL Not Credit-Impaired RM'000**	**Stage 3 Lifetime ECL Credit-Impaired RM'000**	**Collective Assessment Allowance RM'000**	**Individual Assessment Allowance RM'000**	**Total RM'000**
Balance as at 1 January 2018	-	-	-	5,159	21,370	**26,529**
Effect of adopting MFRS 9	67	551	34,361	(5,159)	(21,370)	**8,450**
Restated as at 1 January 2018	**67**	**551**	**34,361**	**-**	**-**	**34,979**
Transfer to Stage 1	517	(314)	(203)	-	-	**-**
Transfer to Stage 2	(129)	494	(365)	-	-	**-**
Transfer to Stage 3	(57)	(149)	206	-	-	**-**
Allowance written back during the year	(256)	(184)	(12,336)	**-**	**-**	**(12,776)**
Net remeasurement due to changes in credit risk	189	(181)	(988)	-	-	**(980)**
Financial assets that have been derecognised	(445)	(3)	(11,348)	-	-	**(11,796)**
Write off	-	-	(14,724)	-	-	**(14,724)**
Balance as at 31 December 2018	**142**	**398**	**6,939**	**-**	**-**	**7,479**

* There are no new other advances originated during the year.

18. OTHER ADVANCES (cont'd)

(iii) ECL / Individual and collective impairment allowance (cont'd)

Financial assets that are purchased or originated and credit-impaired

The Bank does not purchase or originate credit impaired advances.

Impact on movements in gross carrying amount on allowance for other advances

The following explains how significant changes in the gross carrying amount of other advances during the financial year have contributed to the changes in the allowance for impairment on other advances for the Bank.

Overall, the total allowance for impairment on other advances for the Bank decreased by RM27.50 million, due to the following:

(a) 12-month ECL (Stage 1) – increase of RM0.08 million for the Bank, mainly due to:

- Other advances that were fully repaid; and

- Offset by other advances that migrated into Stage 1 or remeasurement of ECL due to improvement in credit quality.

(b) Lifetime ECL Not Credit-Impaired (Stage 2) – decrease of RM0.15 million for the Bank, mainly due to:

- Other advances that migrated into Stage 1 or remeasurement of ECL due to improvement in credit quality.

(c) Lifetime ECL Credit-Impaired (Stage 3) – decrease of RM27.42 million for the Bank, mainly due to:

- Other advances that were fully repaid or written off.

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18. OTHER ADVANCES (cont'd)

(iii) ECL / Individual and collective impairment allowance

	2018 RM'000	2017 RM'000
Individual impairment allowance		
At beginning of the year	-	23,919
Allowance for the year	-	2,791
Amount written back upon recoveries and reversal of allowance	-	(3,998)
Net (writeback)/allowance for the year	**-**	**(1,207)**
Amount written off	-	(1,342)
At end of the year	**-**	**21,370**
Collective impairment allowance		
At beginning of the year	-	8,961
Allowance for the year	-	2,552
Amount written back	-	(3,604)
Net writeback for the year	**-**	**(1,052)**
Amount written off	-	(2,750)
At end of the year	**-**	**5,159**
Collective impairment allowance as a percentage of gross Non-Shariah Assets less individual impairment allowance	**-**	**13.15%**

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19. OTHER ASSETS

	2018 RM'000	2017 RM'000
Foreclosed properties	2,718	2,718
Tax recoverable	2,930	12,182
Project Ladang BPM - Sg Tasan	3,377	3,377
Profit and income receivable	81,248	72,398
Other receivables	37,360	30,346
	127,633	**121,021**
Less: Stage 1 - 12-month ECL	-	-
Stage 2 - Lifetime ECL not credit-impaired	-	-
Stage 3 - Lifetime ECL credit-impaired	(12,286)	-
Individual impairment allowance	-	(5,725)
Other assets, net of impairment	**115,347**	**115,296**

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19. OTHER ASSETS (cont'd)

Movements in impairment allowances are as follows:

	ECL Staging				
	Stage 1 12-month ECL RM'000	**Stage 2 Lifetime ECL Not Credit-Impaired RM'000**	**Stage 3 Lifetime ECL Credit-Impaired RM'000**	**Individual Assessment Allowance RM'000**	**Total RM'000**
Balance as at 1 January 2018	-	-	-	5,725	**5,725**
Effect of adopting MFRS 9	-	-	12,379	(5,725)	**6,654**
Restated as at 1 January 2018	**-**	**-**	**12,379**	**-**	**12,379**
Allowance written back during the year	-	-	(93)	-	**(93)**
Balance as at 31 December 2018	**-**	**-**	**12,286**	**-**	**12,286**

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20. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RM'000	Freehold building RM'000	Leasehold land RM'000	Leasehold buildings RM'000	Motor vehicles RM'000	Furniture and fixtures RM'000	Equipment and office machines RM'000	Computer hardware RM'000	Total RM'000
Cost									
At 1 January 2018	3,487	11,604	8,034	87,143	10,699	148,986	64,968	82,749	417,670
Additions	-	-	-	-	684	15,996	2,881	6,461	26,022
Write off	-	-	-	(110)	(137)	(1,330)	(889)	(520)	(2,986)
At 31 December 2018	**3,487**	**11,604**	**8,034**	**87,033**	**11,246**	**163,652**	**66,960**	**88,690**	**440,706**
Accumulated depreciation									
At 1 January 2018	-	4,852	2,088	29,710	8,146	116,600	45,638	71,484	278,518
Charge for the year	-	300	75	2,139	790	9,382	4,599	4,120	21,405
Write off	-	-	-	-	(137)	(1,210)	(865)	(515)	(2,727)
At 31 December 2018	**-**	**5,152**	**2,163**	**31,849**	**8,799**	**124,772**	**49,372**	**75,089**	**297,196**
Net book value									
At 31 December 2018	**3,487**	**6,452**	**5,871**	**55,184**	**2,447**	**38,880**	**17,588**	**13,601**	**143,510**

20. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Freehold land RM'000	Freehold building RM'000	Leasehold land RM'000	Leasehold buildings RM'000	Motor vehicles RM'000	Furniture and fixtures RM'000	Equipment and office machines RM'000	Computer hardware RM'000	Total RM'000
Cost									
At 1 January 2017	3,539	11,732	8,034	87,830	10,820	154,264	63,750	79,998	419,967
Additions	-	-	-	-	1,464	3,573	1,974	5,697	12,708
Disposal	(52)	(128)	-	(687)	(1,585)	-	-	-	(2,452)
Write off	-	-	-	-	-	(8,851)	(756)	(2,946)	(12,553)
At 31 December 2017	**3,487**	**11,604**	**8,034**	**87,143**	**10,699**	**148,986**	**64,968**	**82,749**	**417,670**
Accumulated depreciation									
At 1 January 2017	-	4,605	2,013	27,755	6,733	114,163	41,328	70,774	267,371
Charge for the year	-	304	75	2,145	2,998	10,781	4,987	3,652	24,942
Disposal	-	(57)	-	(190)	(1,585)	-	-	-	(1,832)
Write off	-	-	-	-	-	(8,344)	(677)	(2,942)	(11,963)
At 31 December 2017	**-**	**4,852**	**2,088**	**29,710**	**8,146**	**116,600**	**45,638**	**71,484**	**278,518**
Net book value									
At 31 December 2017	**3,487**	**6,752**	**5,946**	**57,433**	**2,553**	**32,386**	**19,330**	**11,265**	**139,152**

20. PROPERTY, PLANT AND EQUIPMENT (cont'd)

(i) The property, plant and equipment acquired from government grants - operating under the 9th Malaysian Plan (“RMK 9”) with net book value amounting to RM14,289,818 (2017: RM15,302,217) are as follows:

	Buildings RM'000	Motor vehicles RM'000	Furniture and fixtures RM'000	Equipment and office machines RM'000	Computer hardware RM'000	Total RM'000
At 31 December 2018						
Cost	19,100	1,709	28,188	4,000	23,975	76,972
Accumulated depreciation	(5,036)	(1,709)	(28,124)	(3,838)	(23,975)	(62,682)
Net book value	**14,064**	**-**	**64**	**162**	**-**	**14,290**
At 31 December 2017						
Cost	19,100	1,709	28,188	4,000	23,975	76,972
Accumulated depreciation	(4,768)	(1,709)	(27,579)	(3,639)	(23,975)	(61,670)
Net book value	**14,332**	**-**	**609**	**361**	**-**	**15,302**

20. PROPERTY, PLANT AND EQUIPMENT (cont'd)

(ii) The property, plant and equipment acquired from government grants - launching with net book value amounting to RM1,480,255 (2017: RM2,418,327) are as follows:

	Motor vehicles RM'000	Furniture and fixtures RM'000	Equipment and office machines RM'000	Computer hardware RM'000	Total RM'000
At 31 December 2018					
Cost	1,165	15,091	1,858	1,548	19,662
Accumulated depreciation	(891)	(13,953)	(1,790)	(1,548)	(18,182)
Net book value	**274**	**1,138**	**68**	**-**	**1,480**
At 31 December 2017					
Cost	1,165	14,891	1,858	1,548	19,462
Accumulated depreciation	(797)	(13,056)	(1,643)	(1,548)	(17,044)
Net book value	**368**	**1,835**	**215**	**-**	**2,418**

21. INTANGIBLE ASSETS

	Computer software RM'000
Cost	
At 1 January 2018	135,652
Additions	15,264
Write off	(12)
At 31 December 2018	**150,904**
Accumulated amortisation	
At 1 January 2018	116,304
Charge for the year	12,934
Write off	(12)
At 31 December 2018	**129,226**
Net book value	
At 31 December 2018	**21,678**
Cost	
At 1 January 2017	123,429
Additions	12,563
Write off	(340)
At 31 December 2017	**135,652**
Accumulated amortisation	
At 1 January 2017	102,812
Charge for the year	13,516
Write off	(24)
At 31 December 2017	**116,304**
Net book value	
At 31 December 2017	**19,348**

21. INTANGIBLE ASSETS (cont'd)

Included in the above is computer software acquired from the following government grants:

(a) Government Grant - Launching

	Cost RM'000	Accumulated amortisation RM'000	Net book value RM'000
2018	6,304	6,304	-
2017	6,304	6,304	-

(b) Government Grant - Operating under the 9th Malaysian Plan ("RMK 9")

	Cost RM'000	Accumulated amortisation RM'000	Net book value RM'000
2018	24,079	24,079	-
2017	24,079	24,079	-

22. DEFERRED TAX ASSETS

	2018 RM'000	2017 RM'000
At 1 January	13,994	41,187
Effect of adopting MFRS 9	(1,973)	-
At 1 January, as restated	12,021	41,187
Recognised in profit or loss	4,848	(20,265)
Recognised in equity	(5,478)	(6,928)
At 31 December	**11,391**	**13,994**
Presented after appropriate offsetting as follows:		
Deferred tax assets	11,391	13,994
Deferred tax liabilities	-	-
	11,391	**13,994**

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 relates to the same fiscal authority.

22. DEFERRED TAX ASSETS (cont'd)

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax liabilities:

	Property, plant, equipment and intangible assets RM'000
At 1 January 2018	(7,714)
Recognised in profit or loss	2,900
At 31 December 2018	**(4,814)**
At 1 January 2017	(8,637)
Recognised in profit or loss	923
At 31 December 2017	**(7,714)**

Deferred tax assets:

	Provisions RM'000	FVOCI deficit/ Investment revaluation deficit RM'000	Other temporary differences RM'000	Total RM'000
At 1 January 2018	12,975	8,733	-	21,708
Effect of adopting MFRS 9	-	(1,973)	-	(1,973)
Restated as at 1 January 2018	12,975	6,760	-	19,735
Recognised in:				
- Profit or loss	1,076	-	872	1,948
- Other comprehensive income	-	(5,478)	-	(5,478)
At 31 December 2018	**14,051**	**1,282**	**872**	**16,205**
At 1 January 2017	34,165	15,659	-	49,824
Recognised in:				
- Profit or loss	(21,190)	-	-	(21,190)
- Other comprehensive income	-	(6,926)	-	(6,926)
At 31 December 2017	**12,975**	**8,733**	**-**	**21,708**

23. (a) DEPOSITS FROM CUSTOMERS

	2018 RM'000	2017 RM'000
Tawarruq		
Fixed Return Investment Account- i (FRIA-i)	4,180,606	4,358,306
AgroPrima	91,634	11,313
	4,272,240	4,369,619
Wadiah Yad Dhamanah		
Qard savings	1,612,639	1,618,073
Agro Perdana-i	1,523,870	1,423,099
Deposit Securities	206,058	174,849
Basic Savings Accounts	5,516	3,737
	3,348,083	3,219,758
	7,620,323	**7,589,377**

Maturity structure for FRIA-i and AgroPrima are as follows:

	2018 RM'000	2017 RM'000
Within six months	2,810,079	3,351,703
Between six months to one year	1,355,793	859,639
Between one year to three years	75,911	97,955
Between three years to five years	30,457	60,322
	4,272,240	**4,369,619**

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23. (a) DEPOSITS FROM CUSTOMERS (cont'd)

The deposits are sourced from the following type of customers:

	2018 RM'000	2017 RM'000
Government	2,225,948	1,761,755
Individuals	3,043,420	2,937,702
Domestic business enterprises	1,521,045	1,820,446
Domestic other entities	790,577	1,043,581
Domestic non-banking institutions	39,333	25,893
	7,620,323	**7,589,377**

23. (b) DEPOSIT AND PLACEMENT OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018 RM'000	2017 RM'000
Tawarruq		
Pelaburan Khas-i	**2,990,170**	**2,180,070**

Maturity structure for Pelaburan Khas-i is as follows:

	2018 RM'000	2017 RM'000
Within six months	**2,990,170**	**2,180,070**

The deposits are sourced from the following types of customers:

	2018 RM'000	2017 RM'000
Government	2,059,611	1,522,312
Domestic business enterprises	775,331	637,742
Domestic non-banking institutions	155,228	20,016
	2,990,170	**2,180,070**

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24. OTHER LIABILITIES

		2018 RM'000	2017 RM'000
(a) Other payables and accruals			
	Note		
Accrued expenses		83,734	75,972
Sundry creditors		33,769	44,400
Donation/charity		1,231	5,028
Zakat payable		6,727	4,450
Provision for undistributed profit	(i)	4,390	10,663
Retirement benefits scheme	(ii)	266	1,178
Compensation claim	(iii)	1,061	982
		131,178	**142,673**

(i) Provision for undistributed profit

	2018 RM'000	2017 RM'000
At 1 January	**10,663**	**41,787**
Distribution	(6,273)	(26,052)
Writeback to profit or loss	-	(5,072)
At 31 December	**4,390**	**10,663**

Provision for undistributed profit relates to the under accrual of profit payable on Mudharabah deposits in prior years.

24. OTHER LIABILITIES (cont'd)

(ii) Retirement benefits scheme

(a) The provision for retirement benefits scheme is as follows:

	2018 RM'000	2017 RM'000
At 1 January	**1,178**	**2,087**
Current service cost [1]	(613)	(244)
Benefits paid	(299)	(665)
At 31 December	**266**	**1,178**

[1] Current service cost represents a decrease in the retirement benefit resulting from retirement and resignation of eligible employees.

(b) The principal assumptions used to determine the estimated costs and obligations are as follows:

	2018	2017
Turnover and early retirement rate		
Age brackets:		
45 - 49 years	0.00%	0.03%
50 years and over	0.06%	0.14%
Salaries increase rate (per annum)	0.00%	1.50%
Average remaining years of service of employees	8.6 years	6.5 years
Discount rate	3.95%	3.82%

(c) Sensitivity analysis for discount rate risk

A one percentage (1%) point decrease or increase in the assumed discount rate would have the following effects:

(i) Current service cost to increase by RM1,202 (2017: RM3,590) or decrease by RM1,095 (2017: RM3,346) respectively.

(ii) Provision for a retirement benefit scheme to increase to RM288,746 (2017: RM1,206,192) or decrease to RM244,393 (2017: RM1,095,294) respectively.

24. OTHER LIABILITIES (cont'd)

(iii) Compensation claim

	2018 RM'000	2017 RM'000
At 1 January	**982**	**60,814**
Addition/(Writeback) - net	79	(38,832)
Payment made during the year	-	(21,000)
At 31 December	**1,061**	**982**

The writeback made in prior year was in relation to the legal suits disclosed in Note 12.

(b) Paddy credit gratuity scheme

	2018 RM'000	2017 RM'000
At beginning of the year	**2,265**	**2,275**
Additions	62	71
Payment	(52)	(81)
At the end of year	**2,275**	**2,265**

The Bank has set up the scheme to manage gratuity to paddy credit scheme customers. The fund under this scheme is contributed through the withholding of an amount from the financing disbursed to the customers for payment of future benefits to the legal heir of the customers upon their demise.

24. OTHER LIABILITIES (cont'd)

(c) Expected credit losses for financial guarantee and financing commitments

	ECL Staging			
	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
Balance as at 1 January 2018	-	-	-	**-**
Effect of adopting MFRS 9	5,865	185	-	**6,050**
Restated as at 1 January 2018	**5,865**	**185**	**-**	**6,050**
Transfer to Stage 1	81	(81)	-	**-**
Transfer to Stage 2	(9)	9	-	**-**
Allowance (written back)/made during the year	**(1,539)**	**20**	**-**	**(1,519)**
New financing commitments and financial guarantees originated*	1,679	54	-	**1,733**
Net remeasurement due to changes in credit risk	(2,540)	10	-	**(2,530)**
Financing commitment and financial guarantees that have been derecognised	(678)	(44)	-	**(722)**
Balance as at 31 December 2018	**4,398**	**133**	**-**	**4,531**

* New financing commitments and financial guarantees originated include those which were not credit-impaired at origination but the credit risk has deteriorated.

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25. FINANCING SCHEME FUNDS

Summary of financing scheme funds is as follows:

	Note	2018 RM'000	2017 RM'000
Fund for Food ("3F")	(a)	192,399	174,770
Oil Palm Replanting Scheme ("TASKS")	(b)	8,000	9,000
Micro Enterprise Fund	(c)	42,517	38,721
Commercial Agriculture Fund ("DPK-GLC")	(d)	195,200	186,525
Agriculture Entrepreneur Financing Fund 1 ("DPUP 1")	(e)	1,038,752	999,277
Agriculture Entrepreneur Financing Fund 2 ("DPUP 2")	(f)	120,283	115,891
Agriculture Entrepreneur Financing Fund 3 ("DPUP 3")	(g)	114,129	109,742
Agriculture Entrepreneur Financing Fund 4 ("DPUP 4")	(h)	20,764	19,993
Agriculture Entrepreneur Financing Fund 5 ("DPUP 5")	(i)	28,677	27,617
Agriculture Entrepreneur Financing Fund 6 ("DPUP 6")	(j)	50,000	-
Special Relief Facility	(k)	5,051	8,073
Fund for Small and Medium Size Industries (“TIKS")	(l)	4,811	154
Disaster Relief Facility	(m)	4,725	-
		1,825,308	**1,689,763**

(a) Fund For Food ("3F")

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2018	174,493	277	174,770
Additions	65,344	-	65,344
Profit charged	-	423	423
Payments	(47,714)	(424)	(48,138)
At 31 December 2018	**192,123**	**276**	**192,399**
As at 1 January 2017	208,786	279	209,065
Additions	15,544	-	15,544
Profit charged	-	476	476
Payments	(49,837)	(478)	(50,315)
At 31 December 2017	**174,493**	**277**	**174,770**

25. FINANCING SCHEME FUNDS (cont'd)

(a) Fund For Food ("3F") (cont'd)

Under the 9th Malaysian Plan (“RMK 9”), the Government agreed to channel RM300 million every year for a tenure of 15 years (3 years grace period) at a profit rate of 0.25% per annum. The purpose of this fund is to enhance the food production industry and to reduce dependency on imports. Since 15 May 2014, new financing scheme funds channelled through the Ministry of Finance and Ministry of Agriculture was merged into DPUP 1. The balance of the above Fund for Food financing scheme is from BNM at a profit rate of 0.25% per annum. This fund has benefited 7,341 customers (2017: 7,247 customers) with accumulated disbursement amounting to RM1.41 billion (2017: RM1.35 billion).

(b) Oil Palm Replanting Scheme ("TASKS")

	Principal RM'000
As at 1 January 2018	9,000
Payments	(1,000)
At 31 December 2018	**8,000**
As at 1 January 2017	10,000
Payments	(1,000)
At 31 December 2017	**9,000**

This fund is channelled through the Ministry of Plantation Industries and Commodities to finance the replanting of oil palm plantations. The financing tenure is 20 years (5 years grace period) without profit. This fund has benefited 199 customers (2017: 199 customers) with accumulated disbursement amounting to RM14.90 million (2017: RM14.90 million).

(c) Micro Enterprise Fund

	Principal RM'000	**Profit RM'000**	**Total RM'000**
As at 1 January 2018	38,501	220	38,721
Additions	12,977	-	12,977
Profit charged	-	583	583
Payments	(9,154)	(610)	(9,764)
At 31 December 2018	**42,324**	**193**	**42,517**

25. FINANCING SCHEME FUNDS (cont'd)

(c) Micro Enterprise Fund (cont'd)

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2017	29,847	251	30,098
Additions	23,577	-	23,577
Profit charged	-	478	478
Payments	(14,923)	(509)	(15,432)
At 31 December 2017	**38,501**	**220**	**38,721**

The fund amounting to RM200.0 million was launched by BNM to increase the access for micro financing on selected eligible micro entrepreneurs. The profit rate of this fund is 1.5% per annum for a tenure of 5 years. This fund has benefited 8,183 customers (2017: 7,545 customers) with accumulated disbursement amounting to RM181.54 million (2017: RM168.71 million).

(d) Commercial Agriculture Fund (''DPK-GLC'')

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2018	181,394	5,131	186,525
Profit charged	7,925	750	8,675
At 31 December 2018	**189,319**	**5,881**	**195,200**
As at 1 January 2017	173,846	4,381	178,227
Profit charged	7,548	750	8,298
At 31 December 2017	**181,394**	**5,131**	**186,525**

The fund amounting RM300.0 million was channelled by the Government on 27 May 2014 with a bullet payment tenure of 15 years at a profit rate of 0.25% per annum. The fund was fair valued at inception using market profit rate. The difference between the proceeds received and the fair value of the financing was recognised as a government grant as disclosed in Note 28(j). The purpose of this fund is to finance the commercial agro-based industry. This fund has benefited 12 customers (2017: 9 customers) with accumulated disbursement amounting to RM78.5 million (2017: RM64.2 million).

25. FINANCING SCHEME FUNDS (cont'd)

(e) Agriculture Entrepreneur Financing Fund 1 ("DPUP 1")

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2018	982,700	16,577	999,277
Profit charged	39,475	6,416	45,891
Payments	-	(6,416)	(6,416)
At 31 December 2018	**1,022,175**	**16,577**	**1,038,752**
As at 1 January 2017	945,032	16,577	925,519
Profit charged	37,668	6,416	44,084
Payments	-	(6,416)	(6,416)
At 31 December 2017	**982,700**	**16,577**	**999,277**

The financing scheme funds which were previously channelled by the Government through the Ministry of Finance and Ministry of Agriculture was merged into this scheme from 15 May 2014 onwards. The purpose of this fund is to enhance the food production industry and agriculture related activities. The financing tenure is 15 years (5 years grace period) at a profit rate of 0.5% per annum. The fund was fair valued at inception using market profit rate. The difference between the proceeds received and the fair value of the financing was recognised as a government grant disclosed in Note 28(k). This fund has benefited 84,818 customers (2017: 84,611 customers) with accumulated disbursement amounting to RM3.37 billion (2017: RM3.17 billion).

(f) Agriculture Entrepreneur Financing Fund 2 ("DPUP 2")

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2018	115,807	84	115,891
Profit charged	4,392	750	5,142
Payments	-	(750)	(750)
At 31 December 2018	**120,199**	**84**	**120,283**
As at 1 January 2017	111,592	84	111,676
Profit charged	4,215	750	4,965
Payments	-	(750)	(750)
At 31 December 2017	**115,807**	**84**	**115,891**

25. FINANCING SCHEME FUNDS (cont'd)

(f) Agriculture Entrepreneur Financing Fund 2 ("DPUP 2") (cont'd.)

The fund amounting RM150.0 million was received from the Government on 23 December 2014. The tenure of this financing is 15 years (5 years grace period) at a profit rate of 0.5% per annum. The fund was fair valued at inception using market profit rate. The difference between the proceeds received and the fair value of the financing was recognised as a government grant as disclosed in Note 28(l). The purpose of this fund is to stimulate growth of farming activities involving upstream and downstream activities. This fund has benefited 4,945 customers (2017: 4,848 customers) with accumulated disbursement amounting to RM148.19 million (2017: RM119.28 million).

(g) Agriculture Entrepreneur Financing Fund 3 ("DPUP 3")

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2018	109,742	-	109,742
Profit charged	4,387	750	5,137
Payments	-	(750)	(750)
At 31 December 2018	**114,129**	**-**	**114,129**
As at 1 January 2017	105,331	-	105,331
Fund received	4,411	750	5,161
Profit charged	-	(750)	(750)
At 31 December 2017	**109,742**	**-**	**109,742**

The fund amounting RM150.0 million was received from the Government on 28 October 2015. The tenure of this financing is 15 years (5 years grace period) at a profit rate of 0.5% per annum. The fund was fair valued at inception using market profit rate. The difference between the proceeds received and the fair value of the financing was recognised as a government grant as disclosed in Note 28(m). The purpose of this fund is to stimulate growth of farming activities involving upstream and downstream activities. This fund has benefited 4,117 customers (2017: 4,062 customers) with accumulated disbursement amounting to RM141.58 million (2017: RM126.94 million).

25. FINANCING SCHEME FUNDS (cont'd)

(h) Agriculture Entrepreneur Financing Fund 4 ("DPUP 4")

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2018	19,993	-	19,993
Profit charged	771	175	946
Payments	-	(175)	(175)
At 31 December 2018	**20,764**	**-**	**20,764**
As at 1 January 2017	**-**	**-**	-
Fund received	19,265	-	19,265
Profit charged	728	173	901
Payments	-	(173)	(173)
At 31 December 2017	**19,993**	**-**	**19,993**

The fund amounting RM35.0 million was received from the Government on 5 January 2017. The tenure of this financing is 20 years (10 years grace period) at a profit rate of 0.5% per annum. The fund was fair valued at inception using market profit rate. The difference between the proceeds received and the fair value of the financing was recognised as a government grant as disclosed in Note 28(n). The purpose of this fund is to stimulate growth of farming activities involving upstream and downstream activities. This fund has benefited 43 customers (2017: 28 customers) with accumulated disbursement amounting to RM25.36 million (2017: RM17.07 million).

(i) Agriculture Entrepreneur Financing Fund 5 ("DPUP 5")

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2018	27,617	-	27,617
Profit charged	1,060	250	1,310
Payments	-	(250)	(250)
At 31 December 2018	**28,677**	**-**	**28,677**
As at 1 January 2017	-	-	-
Fund received	27,479	-	27,479
Profit charged	138	32	170
Payments	-	(32)	(32)
At 31 December 2017	**27,617**	**-**	**27,617**

25. FINANCING SCHEME FUNDS (cont'd)

(i) Agriculture Entrepreneur Financing Fund 5 ("DPUP 5") (cont'd)

The fund amounting RM50.0 million was received from the Government on 14 November 2017. The tenure of this financing is 20 years (10 years grace period) at a profit rate of 0.5% per annum. The fund was fair valued at inception using market profit rate. The difference between the proceeds received and the fair value of the financing was recognised as a government grant as disclosed in Note 28(o). The purpose of this fund is to stimulate growth of farming activities involving upstream and downstream activities. This fund has benefited 70 customers (2017: 5 customers) with accumulated disbursement amounting to RM32.02 million (2017: RM3.63 million).

(j) Agriculture Entrepreneur Financing Fund 6 ("DPUP 6")

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2018	-	-	-
Fund received	50,000	-	50,000
At 31 December 2018	**50,000**	**-**	**50,000**

The fund amounting RM50.0 million was received from the Government on 12 December 2018. The tenure of this financing is 10 years (1 year grace period) at a profit rate of 4.0% per annum. The purpose of this fund is to stimulate growth of farming activities involving upstream and downstream activities.

(k) Special Relief Facility

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2018	7,361	712	8,073
Fund received	41	-	41
Profit charged	-	211	211
Payments	(3,274)	-	(3,274)
At 31 December 2018	**4,128**	**923**	**5,051**
As at 1 January 2017	10,192	403	10,595
Profit charged	-	309	309
Payments	(2,831)	-	(2,831)
At 31 December 2017	**7,361**	**712**	**8,073**

25. FINANCING SCHEME FUNDS (cont'd)

(k) Special Relief Facility (cont'd)

The fund is channelled from BNM without profit to minimise loss borne by farmers affected by the flood catastrophe in December 2014. Financing is offered to farmers up to 5 years with 6 months moratorium at a profit rate of 2.25% per annum. The fund was fair valued at inception using market profit rate. The difference between the proceeds received and the fair value of the financing was recognised as a government grant as disclosed in Note 28(p). This fund has benefited 288 customers (2017: 288 customers) with accumulated disbursement amounting to RM13.39 million (2017: RM13.39 million).

(l) Fund for Small and Medium Size Industries ("TIKS")

	Principal RM'000	**Profit RM'000**	**Total RM'000**
As at 1 January 2018	154	-	154
Fund received	4,658	-	4,658
Profit charged	-	15	15
Payments	-	(16)	(16)
At 31 December 2018	**4,812**	**(1)**	**4,811**
As at 1 January 2017	-	-	-
Fund received	154	-	154
At 31 December 2017	**154**	**-**	**154**

The fund is channelled by BNM to increase access to micro financing for selected eligible small and medium agro-based entrepreneurs. The tenure of this financing is 5 years at a profit rate of 1.5% per annum. This fund has benefited 8 customers (2017: 2 customers) with accumulated disbursement amounting to RM4.98 million (2017: RM0.15 million).

(m) Disaster Relief Facility

	Principal RM'000	**Profit RM'000**	**Total RM'000**
As at 1 January 2018	-	-	-
Fund received	4,710	-	4,710
Profit charged	-	15	15
At 31 December 2018	**4,710**	**15**	**4,725**

25. FINANCING SCHEME FUNDS (cont'd)

(m) Disaster Relief Facility (cont'd)

The fund is channelled from BNM without profit to minimise loss borne by farmers affected by the flood catastrophe in December 2017. Financing is offered to farmers up to 5 years with 6 months moratorium at a profit rate of 2.25% per annum. The fund was fair valued at inception using market profit rate. The difference between the proceeds received and the fair value of the financing is recognised as a government grant as disclosed in Note 28(q). This fund has benefited 23 customers with accumulated disbursement amounting to RM5.13 million.

26. GOVERNMENT GRANT - OPERATING

	Capital Expenditure RM'000	Development Expenditure RM'000	Total RM'000
As at 1 January 2018	24,428	77	24,505
Amortisation during the year	(1,195)	-	(1,195)
At 31 December 2018	**23,233**	**77**	**23,310**
As at 1 January 2017	25,967	77	26,044
Amortisation during the year	(1,539)	-	(1,539)
At 31 December 2017	**24,428**	**77**	**24,505**

Since 2006, the Bank has received operating grant amounting to RM82.0 million from the Ministry of Finance (Incorporated). The purpose of the grant is for capital expenditure to finance the acquisition of property, plant and equipment as well as development expenditure to finance training courses provided to entrepreneurs. The property, plant and equipment acquired under this grant is disclosed in Note 20(i).

27. GOVERNMENT GRANT - LAUNCHING

	Capital Expenditure RM'000	Development Expenditure RM'000	Total RM'000
As at 1 January 2018	2,433	1,711	4,144
Utilisation during the year	-	(69)	(69)
Transfer (to)/from	200	(200)	-
Amortisation during the year	(1,155)	-	(1,155)
At 31 December 2018	**1,478**	**1,442**	**2,920**
As at 1 January 2017	3,642	2,404	6,046
Utilisation during the year	-	(1,280)	(1,280)
Transfer (to)/from	(587)	587	-
Amortisation during the year	(622)	-	(622)
At 31 December 2017	**2,433**	**1,711**	**4,144**

27. GOVERNMENT GRANT - LAUNCHING (cont'd)

In 2007, the Ministry of Finance (Incorporated) approved an allocation of RM100.0 million to the Bank for the purpose of the Bank's corporatisation. The grant is to be used for branding, product development and office expansion. The property, plant and equipment acquired under this grant is disclosed in Note 20(ii).

28. GOVERNMENT GRANTS - FUNDS

Summary of government grant funds is as follows:

	Note	2018 RM'000	2017 RM'000
Entrepreneur Scheme for Graduates	(a)	1,137	1,135
Special Fund For Terengganu Fishery	(b)	37	33
Development Programme for Hard-core Poor	(c)	2,494	2,497
Fund for Ministry of Youth and Sports	(d)	8,745	8,579
Bumiputera Commercial and Industrial Community Scheme HUB	(e)	35,325	35,673
National Key Economic Area	(f)	54,036	54,244
Micro Economic Stimulation Package	(g)	158,493	156,482
Micro ESP Flood Relief	(h)	2,869	2,891
Agriculture Mechanism and Automation Scheme	(i)	5,792	5,792
Commercial Agriculture Fund	(j)	107,500	115,425
Agriculture Entrepreneur Financing Fund 1	(k)	244,356	283,831
Agriculture Entrepreneur Financing Fund 2	(l)	29,717	34,109
Agriculture Entrepreneur Financing Fund 3	(m)	35,872	40,259
Agriculture Entrepreneur Financing Fund 4	(n)	14,236	15,007
Agriculture Entrepreneur Financing Fund 5	(o)	21,323	22,383
Special Relief Facility	(p)	125	336
Disaster Relief Facility	(q)	404	-
		722,461	**778,676**

(a) Entrepreneur Scheme for Graduates ("SUTKS")

	2018 RM'000	2017 RM'000
At beginning of the year	1,135	1,154
Transfer from/(to) ECL / collective impairment allowance (Note 17 (ix))	2	(19)
At end of the year	**1,137**	**1,135**

28. GOVERNMENT GRANTS - FUNDS (cont'd)

(a) Entrepreneur Scheme for Graduates ("SUTKS") (cont'd)

The objective of this programme is to reduce the unemployment rate among graduates by creating career opportunities in the agricultural sector. Financing is offered under *Al – Bai' Bithaman Ajil* which imposes a profit rate of 3% per annum. The grant has benefited 203 graduates (2017: 203 graduates) with accumulated disbursement amounting to RM8.35 million (2017: RM8.35 million).

(b) Special Fund for Terengganu Fishery ("DKSP")

	2018 RM'000	2017 RM'000
At beginning of the year	33	33
Transfer from ECL / collective impairment allowance (Note 17 (ix))	4	-
At end of the year	**37**	**33**

The objective of this fund is to raise the socioeconomic status of fishermen, fish breeders and aquaculture entrepreneurs. The financing is offered under *Al – Bai' Bithaman Ajil* up to 100% of the total project cost at a profit free-rate. The financing terms would depend on the project with payment terms not exceeding 10 years. The grant has benefited 877 customers (2017: 877 customers) with accumulated disbursement amounting to RM29.90 million (2017: RM29.90 million).

(c) Development Programme for Hard-core Poor ("PPRT")

	2018 RM'000	2017 RM'000
At beginning of the year	2,497	2,560
Transfer to ECL /collective impairment allowance (Note 17 (ix))	(3)	(63)
At end of the year	**2,494**	**2,497**

This program represents profit-free financing from the Government to the hard-core poor. The grant has benefited 92 customers (2017: 90 customers) with accumulated disbursement amounting to RM0.66 million (2017: RM0.64 million).

28. GOVERNMENT GRANTS - FUNDS (cont'd)

(d) Fund for Ministry of Youth and Sports ("DKBS")

	2018 RM'000	2017 RM'000
At beginning of the year	8,579	8,143
Transfer from ECL / collective impairment allowance (Note 17 (ix))	166	436
At end of the year	**8,745**	**8,579**

The purpose of this fund is to encourage youth involvement in the agricultural industry under *Skim Belia Tani.* The grant has benefited 524 customers (2017: 524 customers) with accumulated disbursement amounting to RM15.73 million (2017: RM15.73 million).

(e) Bumiputera Commercial and Industrial Community Scheme HUB ("MPPB HUB")

	2018 RM'000	2017 RM'000
At beginning of the year	35,673	36,132
Transfer to ECL / collective impairment allowance (Note 17 (ix))	(348)	(459)
At end of the year	**35,325**	**35,673**

The objective of this fund is to finance Bumiputera agricultural ventures with maximum financing available up to RM200,000 per financing. The grant has benefited 512 customers (2017: 510 customers) with accumulated disbursement amounting to RM41.67 million (2017: RM41.48 million).

(f) National Key Economic Area ("NKEA")

	2018 RM'000	2017 RM'000
At beginning of the year	54,244	54,304
Transfer to ECL / collective impairment allowance (Note 17 (ix))	(208)	(60)
At end of the year	**54,036**	**54,244**

The purpose of this fund is to encourage entrepreneur participation in agro based industries by providing a maximum of RM300,000 per financing. The grant has benefited 997 customers (2017: 997 customers) with accumulated disbursement amounting to RM124.18 million (2017: RM124.18 million).

28. GOVERNMENT GRANTS - FUNDS (cont'd)

(g) Micro Economic Stimulation Package ("Micro - ESPi")

	2018 RM'000	2017 RM'000
At beginning of the year	156,482	153,768
Transfer from ECL / collective impairment allowance (Note 17 (ix))	2,011	2,714
At end of the year	**158,493**	**156,482**

The purpose of this fund is to encourage entrepreneur participation in agricultural production activities by providing a maximum of RM20,000 per financing. The grant has benefited 17,286 customers (2017: 17,286 customers) with accumulated disbursement amounting to RM334.73 million (2017: RM334.73 million).

(h) Micro ESP Flood Relief

	2018 RM'000	2017 RM'000
At beginning of the year	2,891	3,000
Transfer to ECL / collective impairment allowance (Note 17 (ix))	(22)	(109)
At end of the year	**2,869**	**2,891**

The objective of this program is to minimise loss of income borne of farmers affected by flood catastrophe in December 2014. Financing is offered up to 5 years with 6 months moratorium at a profit rate of 3.75% per annum.

(i) Agriculture Mechanism and Automation Scheme ("MAP")

	RM'000
At 31 December 2017 and 31 December 2018	**5,792**

The objective of this program is to encourage automation and usage of high technology in agriculture sector. Financing is offered up to 9 years at a profit rate of 3.75% per annum.

28. GOVERNMENT GRANTS - FUNDS (cont'd)

(j) Commercial Agriculture Fund (''DPK-GLC'')

	2018 RM'000	2017 RM'000
At beginning of the year	115,425	122,973
Amortisation (Note 11)	(7,925)	(7,548)
At end of the year	**107,500**	**115,425**

The benefit of this below market rate financing scheme fund amounting to RM300.0 million, channelled by the Government on 27 May 2014 at a profit rate of 0.25% per annum, is recognised as a Government Grant as disclosed in Note 25 (d).

(k) Agriculture Entrepreneur Financing Fund 1 ("DPUP 1")

	2018 RM'000	2017 RM'000
At beginning of the year	283,831	321,499
Amortisation (Note 11)	(39,475)	(37,668)
At end of the year	**244,356**	**283,831**

The financing scheme funds which were channelled by the Government through the Ministry of Finance and Ministry of Agriculture and Agro-Based Industries was merged into this scheme. The benefit of this below market rate financing scheme fund at a profit rate of 0.5% per annum, is recognised as a Government Grant as disclosed in Note 25 (e).

(l) Agriculture Entrepreneur Financing Fund 2 ("DPUP 2")

	2018 RM'000	2017 RM'000
At beginning of the year	34,109	38,324
Amortisation (Note 11)	(4,392)	(4,215)
At end of the year	**29,717**	**34,109**

The benefit of this below market rate financing scheme fund amounting to RM150.0 million, received from the Government on 23 December 2014 at a profit rate of 0.5% per annum, is recognised as a Government Grant as disclosed in Note 25 (f).

28. GOVERNMENT GRANTS - FUNDS (cont'd)

(m) Agriculture Entrepreneur Financing Fund 3 ("DPUP 3")

	2018 RM'000	2017 RM'000
At beginning of the year	40,259	44,670
Amortisation (Note 11)	(4,387)	(4,411)
At end of the year	**35,872**	**40,259**

The benefit of this below market rate financing scheme fund amounting to RM150.0 million, received from the Government on 28 October 2015 at a profit rate of 0.5% per annum, is recognised as a Government Grant as disclosed in Note 25 (g).

(n) Agriculture Entrepreneur Financing Fund 4 ("DPUP 4")

	2018 RM'000	2017 RM'000
At beginning of the year	15,007	-
Funds received	-	15,735
Amortisation (Note 11)	(771)	(728)
At end of the year	**14,236**	**15,007**

The benefit of this below market rate financing scheme fund amounting to RM35.0 million, received from the Government on 5 January 2017 at a profit rate of 0.5% per annum, is recognised as a Government Grant as disclosed in Note 25 (h).

(o) Agriculture Entrepreneur Financing Fund 5 ("DPUP 5")

	2018 RM'000	2017 RM'000
At beginning of the year	22,383	-
Funds received	-	22,521
Amortisation (Note 11)	(1,060)	(138)
At end of the year	**21,323**	**22,383**

The benefit of this below market rate financing scheme fund amounting to RM50.0 million, received from the Government on 14 November 2017 at a profit rate of 0.5% per annum, is recognised as a Government Grant as disclosed in Note 25 (i).

28. GOVERNMENT GRANTS - FUNDS (cont'd)

(p) Special Relief Facility

	2018 RM'000	2017 RM'000
At beginning of the year	336	645
Amortisation (Note 11)	(211)	(309)
At end of the year	**125**	**336**

The benefit of this below market rate financing scheme fund amounting to RM12.87 million, received from the BNM in 2015, is recognised as a Government Grant as disclosed in Note 25 (k).

(q) Disaster Relief Facility

	2018 RM'000	2017 RM'000
Funds received	419	-
Amortisation (Note 11)	(15)	-
At end of the year	**404**	**-**

The benefit of this below market rate financing scheme fund amounting to RM5.13 million, received from the BNM in 2018, is recognised as a Government Grant as disclosed in Note 25 (m).

29. SHARE CAPITAL

	2018 RM'000	2017 RM'000
Issued and fully paid	**1,000,000**	**1,000,000**

30. RESERVES

	Note	2018 RM'000	2017 RM'000
Non-distributable reserve:			
Statutory reserves	(a)	487,109	487,109
Investment revaluation deficit	(b)	-	(27,303)
FVOCI deficit	(c)	(4,056)	-
Regulatory reserve	(d)	34,951	-
Distributable reserve:			
Retained earnings		1,404,381	1,337,112
		1,922,385	**1,796,918**

(a) Statutory reserves

Transfer of profit to reserve fund is only applicable when Risk Weighted Capital Ratio ("RWCR") of the Bank is below the threshold of 16% as approved by BNM via a letter to the Bank dated 22 February 2008.

(b) Investment revaluation deficit

The investment revaluation deficit was in respect of unrealised fair value loss on financial investments - AFS.

(c) FVOCI deficit

The FVOCI deficit is in respect of unrealised fair value loss on financial assets at FVOCI.

(d) Regulatory reserve

Regulatory reserve is maintained in addition to the expected credit loss allowance that has been assessed and recognised in accordance with MFRS, as required by BNM.

31. DIVIDENDS

	2018 RM'000	2017 RM'000
Final dividend of 2.55 sen net of tax, on 1,000,000,000 ordinary shares in respect of the financial year ended 31 December 2017	25,500	-
Final dividend of 2.00 sen net of tax, on 1,000,000,000 ordinary shares in respect of the financial year ended 31 December 2016	-	20,000
	25,500	**20,000**

At the forthcoming Annual General Meeting, a final single tier dividend in respect of the current financial year ended 31 December 2018 of 2.00 sen on 1,000,000,000 ordinary shares of RM1.00 each, amounting to dividend payable of RM20,000,000 will be proposed for 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 earnings in the financial year ending 31 December 2019.

32. COMMITMENTS AND CONTINGENCIES

	2018 RM'000	2017 RM'000 Restated
Credit related exposures		
Transaction related contingencies	42,781	38,462
Trade related contingencies	10,927	55,618
Financing commitments	959,740	937,138
	1,013,448	**1,031,218**
Capital commitment		
Approved and contracted for:		
Capital expenditure	**3,306**	**1,741**
Contingent liabilities		
Certain legal actions taken against the Bank with compensation claims	**42,729**	**5,679,131**
Total Commitments and Contingencies	**1,059,483**	**6,712,090**

32. COMMITMENTS AND CONTINGENCIES (cont'd)

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

Case 1

The Bank filed a claim against a customer on 13 August 2015 to recover outstanding financing provided to the customer of approximately RM22.0 million. The customer then filed a counterclaim for approximately RM18.3 million alleging inadequate assistance from certain government agencies which affected its operations. However, the customer has not provided any evidence to support the claim. The case was fixed for full trial on several dates i.e. 22 and 23 November 2017, 23 until 26 January 2018, 21 until 23 February 2018, 13, 16 until 18 and 23 April 2018, 26 and 27 July 2018, 15 until 17 August 2018, 3 until 5 September 2018, 12 and 13 February 2019, 2 until 4 March 2019, 9 until 11 April 2019, and 16 until 18 April 2019.

The Bank's solicitors are of the view that the Bank has a good chance of succeeding in its claim and has a fair chance of successfully defending the counter claim by the customer.

Case 2

The Bank filed a claim against a customer on 2 September 2015 to recover outstanding financing of approximately RM12.0 million. The customer filed a counterclaim against the Bank on 23 November 2015 for approximately RM5.6 billion relating to loss of profits. However, the customer has not provided any evidence to support the claim. The Bank had on 4 April 2016 obtained a Summary Judgement against the customer and its guarantors with costs of RM5,000.00. On 29 March 2017, the Court had dismissed the customer's claim upon a full trial. The customer and its guarantors had filed an appeal at the Court of Appeal on 19 April 2017. On 25 September 2017 the customer had been made to wind up by the Court and the Bank had also initiated bankruptcy proceedings against the guarantors. There were series of case managements in relation to the customer's appeal due to among others, lack of capacity to proceed with the appeal since the customer has been wound up, the court had adjourned the hearing to 10 January 2019.

On 10 January 2019, the Court of Appeal had dismissed the customer's appeal with costs of RM5,000.00. The customer did not file motion for leave to appeal within the stipulated time period, therefore the case is considered to be closed.

Case 3

A customer had initiated a legal action against the Bank to nullify the charge created or registered by the Bank as a security for a financing facility amounting to RM48,000,000.00 granted to the customer. The customer had alleged that the charge is defective, null and void on the basis that the charge was registered on 3 October 2011 after the termination of the financing facility by the Bank on 25 April 2011. This case was fixed for case management on 13 July 2018 and hearing of the customer's claim is fixed on 13 March 2019. In the meantime, the customer had filed an injunction application i.e to restrain the Bank from proceeding with foreclosure matter.

32. COMMITMENTS AND CONTINGENCIES (cont'd)

A summary of the status of material litigations against the Bank is as follows: (cont'd)

Case 3 (cont'd)

The said application was fixed for decision and clarification and also case management on 29 November 2018, whereby the court had dismissed the customer's injunction application with costs of RM5,000.00 to be paid to the Bank. The customer appealed against the decision on 7 December 2018. The customer had also filed for a motion of stay of proceeding at the Court of Appeal on 4 December 2018 whereby the hearing of this application is fixed on 28 March 2019.

The court has dismissed the customers' claim, injunction application and motion of stay of proceeding. The customer has up to 12 April 2019 to file for an appeal against the decision by the

The Bank's solicitors are of the view that the Bank has a fair chance in successfully defending the case.

The banking facilities granted in all the cases mentioned above, which are treated as off balance sheet, were disbursed from a fund managed by the Bank for which the Bank earned management fees. All risks including credit risk on unpaid financing are not to be borne by the Bank.

33. RELATED PARTY DISCLOSURES

(a) Parent entity

The Bank is a Government Linked Corporation, with all shares held by the Minister of Finance (Incorporated) on behalf of the Government of Malaysia. All entities controlled by the Government of Malaysia meet the definition of related parties of the Bank.

(b) Key management personnel compensation

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. The key management personnel of the Bank includes Executive Director and Non-Executive Directors and certain members of senior management of the Bank. Remuneration paid to key management personnel of the Bank includes the following :

i) Salaries and bonuses.
ii) Allowances paid to the Directors.
iii) Other emoluments include Employee Provident Fund ("EPF") contributions, retirement compensation and benefit in kind.

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33. RELATED PARTY DISCLOSURES (cont'd)

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

	Salaries and Bonuses RM'000	Allowances RM'000	Other Emoluments RM'000	Total RM'000
2018				
Executive Director				
Tuan Syed Alwi Bin Mohamed Sultan (from 2 April 2018 to 6 September 2018)	273	-	47	320
	273	-	47	320
Non Executive Directors				
Y. Bhg Tan Sri Mohamad Zabidi bin Zainal	-	342	-	342
Y. Bhg Dato' Dr. Mohamad Hashim bin Ahmad Tajudin	-	280	-	280
Y. Bhg Datin Setia Shahariah binti Hashim	-	276	-	276
Y. Bhg Datuk Seri Dr. Ismail bin Haji Bakar	-	41	2	43
Y. Bhg Dato' Dr. Yusof bin Ismail	-	140	-	140
Puan Azizah binti Abdul Rahman	-	276	-	276
Tuan Haji Ibrahim bin Hassan	-	290	5	295
Puan Faizah binti Abdullah	-	237	5	242
Encik Abdul Rahim bin Abd Hadi	-	185	-	185
Encik Jit Singh A/L Santok Singh	-	25	-	25
	-	2,092	12	2,104
Senior Management	4,003	-	1,281	5,284
	4,276	**2,092**	**1,340**	**7,708**

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33. RELATED PARTY DISCLOSURES (cont'd)

Remuneration of directors and other members of key management are as follows: (cont'd)

	Salaries and Bonuses RM'000	Allowances RM'000	Other Emoluments RM'000	Total RM'000
2017				
Executive Director				
YH. Dato’ Wan Mohd Fadzmi bin Che Wan Othman Fadzilah	727	-	251	978
	727	-	251	978
Non Executive Directors				
Y. Bhg Tan Sri Mohamad Zabidi bin Zainal	-	366	-	366
Y. Bhg Dato' Dr. Mohamad Hashim bin Ahmad Tajudin	-	309	4	313
Y. Bhg Datin Setia Shahariah binti Hashim	-	281	-	281
Y. Bhg Datuk Seri Dr. Ismail bin Haji Bakar	-	83	-	83
Y. Bhg Dato' Dr. Yusof bin Ismail	-	105	5	110
Puan Azizah binti Abdul Rahman	-	299	5	304
Tuan Haji Ibrahim bin Hassan	-	200	-	200
Puan Faizah binti Abdullah	-	156	-	156
Encik Ng Chih Kaye	-	132	10	142
	-	1,931	24	1,955
Senior Management	3,427	-	1,385	4,812
	4,154	**1,931**	**1,660**	**7,745**

33. RELATED PARTY DISCLOSURES (cont'd)

(c) Transactions with key management personnel

The following table provides the total amount of transactions, which have been entered into with key management personnel for the relevant financial year.

	2018 RM'000	2017 RM'000
Deposits	448	156

No financing has been granted to the directors and senior management of the Bank.

(d) Transactions with related parties

	Note	2018 RM'000	2017 RM'000
Income			
Reimbursement of gapping cost	(i)	-	30,099
GLC service fees	(ii)	10,671	10,812
Commission	(iii)	3,579	3,731
Profit income on deposits placed with government linked companies		14,507	15,133
Expense			
Profit expense on deposits placed by government linked entities		5,795	5,510
Profit expense on financing scheme funds paid and payable to the Ministry of Finance and BNM		10,338	10,134
Contributions to:			
Employee Provident Fund ("EPF")		28,646	26,569
Social Security Organisation ("SOCSO")		2,417	2,360

33. RELATED PARTY DISCLOSURES (cont'd)

(d) Transactions with related parties (cont'd)

Description for income with related parties are as follows:

(i) Income from Ministry of Finance for the profit differential between market rate and subsidised rate on financing disbursed by the Bank at subsidised rate, as disclosed in Note 6(b).

(ii) Fees earned for managing the government funds for financing disbursement paid by Ministry of Finance, as disclosed in Note 6(b).

(iii) Commission earned as bills collection agent from Government of Malaysia controlled entities.

(e) Outstanding balances arising from transactions with related parties

(i) Included in Assets

	2018 RM'000	2017 RM'000
Financing to related parties	8,750	10,761
Short term deposits/placements with related parties	341,054	485,190

(ii) Included in Liabilities

	2018 RM'000	2017 RM'000
Government Grant - Operating	23,310	24,505
Government Grant - Launching	2,920	4,144
Government Grant - Funds	722,461	778,676
Financing scheme funds	1,825,308	1,689,763
Deposits from related entities	4,285,559	3,284,067

(f) Terms and conditions

Transactions with related parties were made on terms equivalent to those that prevailed in negotiated transactions.

34. FINANCING FACILITIES WITH CONNECTED PARTIES

	2018 RM'000	2017 RM'000
Outstanding exposures with connected parties	1,770,807	1,059,203
% of outstanding exposures to connected parties as a proportion of total exposure	11.08%	7.59%
% of outstanding financing exposures with connected parties which is non-performing or in default	0.00%	0.02%

The above disclosure on Financing Facilities with Connected Parties is presented in accordance with paragraph 14.1 as per BNM’s policy on Financing Facilities with Connected Parties.

35. FINANCIAL INSTRUMENTS

A. FINANCIAL RISK MANAGEMENT

(a) General risk management

(i) Introduction and overview

The Bank embraces risk management as an integral component of its business, operations and decision making process to ensure that optimum returns are generated with high regard to uncertainties in the business and market environment. The Bank's business activities and operations involve the use of financial instruments that expose the Bank to a variety of financial and business risks as follows;

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Shariah risk

(ii) Risk management framework

The Board of Directors ("The Board") is ultimately responsible for the establishment and oversight of the Bank's risk management associated with the Bank's operations and activities.

The Bank has the Broad Risk Management Framework ("BRMF") that encompasses credit, market, liquidity, operational and Shariah risks as part of its risk governance. The Bank's risk management policies are established to identify and analyse the risks exposed to the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's current strategies, products and services.

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(a) General risk management (cont'd)

(ii) Risk management framework (cont'd)

The Bank's risk management policies are established to identify and mitigate all risks faced by the Bank, to set appropriate risk appetite and risk limits as well as to control and monitor risk exposures and adherence to the approved limits.

(iii) Risk governance framework

The Board may empower the following committees for the oversight function of risk management matters and activities;

- Board Risk Management Committee ("BRMC")
- Board Credit and Investment Committee ("BCIVC")
- Board Audit Committee ("BAC")

At senior management level the following committees had been established to oversight risk management activities and risk exposures.

- Management Risk Committee ("MRC")
- Asset Liability Committee ("ALCO")
- Management Audit Committee ("MAC")

(b) Credit risk

(i) Nature of credit risk

The Bank’s exposure to credit risk is primarily from lending/financing activities to retail consumers, micro, small and medium-sized enterprises ("SMEs") and corporate customers. Investment in equities, bonds and other marketable securities as well as other financial/banking instruments, whether they are classified under banking book or trading book, may also expose the Bank to credit risk and counterparty credit risk.

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

(ii) Definition of credit risk

Credit risk is the risk of potential loss due to failure of or unwillingness of the customers or counterparties to fulfil their contractual financial obligations as and when they arise.

(iii) Objective of credit risk management

The goal of credit risk management is to keep credit risk exposure to an acceptable level and to ensure the returns are commensurate with risk.

(iv) Management of credit risk

The management of credit risk is governed by the credit risk management framework which sets out the risk management governance and infrastructure, risk management processes and control responsibilities.

Policies, procedures and guidelines for credit operations are properly documented and are made available through the Bank's intranet and Risk Management Division portal. These policies and procedures are subject to periodical review and enhancement to ensure its relevancy and in line with business directions and market environment.

(v) Measurement of credit risk

Collateral position in financing and advances

Credit facilities are granted on the basis of the customer's credit standing, project viability and payment capacity as per the Bank's credit policy. However, due to the nature of its financing, the Bank generally requires collateral against financing and advances to customers in the form of charges over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of financing and is revalued once in two years or when a financing is impaired.

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

(v) Measurement of credit risk (cont'd)

Collateral position in financing and advances (cont'd)

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

(i) Project financing – charges over land, buildings, plant and machinery, fishing vessels, ownership claim over vehicles, term deposits and pledges over shares and marketable securities.

(ii) Retail financing – charges over land and term deposits for certain types of financing.

	Secured RM'000	Unsecured RM'000	Total RM'000	Financial effect of collateral* %
2018				
Neither past due nor impaired	3,869,314	6,218,162	10,087,476	38.4
Past due but not impaired	183,461	65,460	248,921	73.7
Impaired	318,371	120,969	439,340	72.5
	4,371,146	**6,404,591**	**10,775,737**	**40.6**
2017				
Neither past due nor impaired	4,220,918	4,721,297	8,942,215	47.2
Past due but not impaired	163,848	68,783	232,631	70.4
Impaired	277,783	157,274	435,057	63.8
	4,662,549	**4,947,354**	**9,609,903**	**48.5**

* Based on quantification of the extent to which collateral and other credit enhancements mitigate credit risk in respect of the amount that best represents the maximum exposure to credit risk.

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

(v) Measurement of credit risk (cont'd)

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	
	2018	**2017**
	RM'000	**RM'000**
Credit exposure for on-balance sheet items		
Cash and short term funds	1,131,489	1,308,683
Financial assets at fair value through other comprehensive income	4,380,736	-
Investment securities	-	4,403,960
Financing and advances	10,431,162	9,173,891
Other advances	9,548	34,067
Other financial assets	106,322	97,019
	16,059,257	**15,017,620**
Credit exposure for off-balance sheet items		
Transaction related contingencies	42,781	38,462
Trade related contingencies	10,927	55,618
Financing commitments	959,740	937,138
	1,013,448	**1,031,218**
Total maximum credit risk exposure	**17,072,705**	**16,048,838**

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

(v) Measurement of credit risk (cont'd)

Credit quality of gross financing and advances

All financing, advances and other financing are categorised into 'neither past due nor impaired', 'past due but not impaired' and 'impaired'.

Past due financing refers to financing, advances and other financing that are overdue by one day or more.

Financing, advances and other financing are classified impaired when they fulfill any of the criteria as per disclosed in Note 3.2(d) Measurement of expected credit losses ("ECL").

Quality classification definitions

Where ECL model is applied, the credit quality of financial instruments subject to credit risk are assessed by reference to the internal rating system adopted by the Bank in 2018, as summarised below:

Financing and advances and financing commitments and financial guarantee

Rating classification	Credit grades
Performing	Stage 1
Under perfoming	Stage 2
Impaired	Stage 3

Other financial instruments

Rating classification	External rating	
	RAM	MARC
Investment grade		
Long Term Rating	A, AA, AAA	A, AA, AAA
Short Term Rating	P1, P2, P3	MARC-1, MARC-2, MARC-3
Non investment grade		
Long Term Rating	B, BB, BBB	B, BB, BBB
Short Term Rating	P4	MARC-4
Impaired	C/D, NP, D	C, SD, D

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

(v) Measurement of credit risk (cont'd)

Credit quality of gross financing and advances (cont'd)

Other financial instruments includes cash and short term funds, deposits and placement with bank and other FIs, debt instruments at FVOCI and equity instruments at FVOCI.

Credit quality description can be summarised as follows:
(i) Performing
(ii) Under performing
(iii) Investment Grade
(iv) Non-investment grade
(v) No rating
(vi) Impaired

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

(v) Measurement of credit risk (cont'd)

Credit quality of gross financing and advances (cont'd)

Impaired financing

The breakdown of the gross financing and advances assessed as impaired, by sectors and the fair value of related collateral held by Bank as security are as follows:

	Gross impaired financing RM'000	Stage 3 Lifetime ECL credit - impaired RM'000	Fair Value of Collaterals RM'000
Sectors:			
2018			
Construction and Services	9,252	3,571	5,681
Fishery	42,624	26,248	16,376
Crops	148,193	80,329	67,864
Livestock	56,729	35,178	21,551
Manufacturing	52,000	35,137	16,863
Retail and Wholesale Trade	85,474	53,031	32,443
Others	45,068	40,236	4,832
	439,340	**273,730**	**165,610**

	Gross individually impaired financing RM'000	Individual impairment allowance RM'000	Fair Value of Collaterals RM'000
2017			
Construction and Services	6,153	126	6,027
Fishery	42,020	11,383	30,637
Crops	164,516	31,177	133,339
Livestock	90,642	53,995	36,647
Manufacturing	42,190	21,617	20,573
Retail and Wholesale Trade	51,904	6,861	45,043
Others	37,632	14,008	23,624
	435,057	**139,167**	**295,890**

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

(v) Measurement of credit risk (cont'd)

Credit quality of gross financing and advances (cont'd)

The breakdown of collective impairment allowance for financing and advances by sectors are as follows:

	2017 RM'000
Sectors:	
Construction and Services	4,764
Fishery	24,029
Crops	102,016
Livestock	18,771
Manufacturing	31,164
Retail and Wholesale Trade	58,230
Others	57,871
Collective impairment allowance	**296,845**

Credit risk in investment activities

The credit risk management approach for investment activities is primarily deliberated at the Board Credit and Investment Committee (“BCIVC”). In the case of investment portfolio, the setting of credit limits is done and regularly reviewed by Market Risk Management Department ("MRMD"), as the middle office for treasury operations. Various credit limits on investment exposures are proposed to the Management Risk Committee (“MRC”) for endorsement and escalated to BRMC or Board for approval. Report on compliance of various investment exposure limits are done by MRMD which is presented and deliberated at the Asset Liability Committee ("ALCO") on a monthly basis.

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

(v) Measurement of credit risk (cont'd)

Credit risk in investment activities (cont'd)

The Bank’s investment policy stipulates the minimum investment grade for debt securities, types of permissible transactions, exposure limits for single customer/counterparty, credit rating, industry/sector and risk level (high, medium, low). In addition, the Bank has also set interbank limits for placements of money in various financial institutions which are reviewed on a regular basis to mitigate concentration limits in its investment portfolio.

Investment portfolio concentration

The portfolio profile is as follows:

	RM'000	Composition (%)
Corporate sukuk	2,695,696	62
Government Investment Issues ("GII")	1,684,939	38
Equity securities	101	-
Carrying amount at 31 December 2018	**4,380,736**	**100**
Corporate sukuk	2,874,551	65
Government Investment Issues ("GII")	1,529,241	35
Equity securities	168	-
Carrying amount at 31 December 2017	**4,403,960**	**100**

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

(v) Measurement of credit risk (cont'd)

Credit risk in investment activities (cont'd)

Credit quality of investment securities

The following table presents the Bank's exposure to credit risk of financial instruments analysed by ratings from external credit rating agencies:

Ratings

	2018 RM'000	2017 RM'000
<u>**Corporate sukuk**</u>		
Financial assets at FVOCI (2017: AFS securities)		
Government-Guaranteed ("GG")	1,227,846	1,388,704
Quasi-Govt	90,310	90,191
AAA	745,254	746,452
AA	597,298	614,920
A	20,221	20,231
BBB	14,767	14,053
TOTAL	**2,695,696**	**2,874,551**

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35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

(v) Measurement of credit risk (cont'd)

Credit quality of financial assets - financial investments portfolio and other financial assets.

	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Total RM'000
2018				
Cash and short term funds	1,131,489	-	-	1,131,489
Financial assets at FVOCI	4,380,736	-	-	4,380,736
Financing and advances	10,087,476	248,921	439,340	10,775,737
	15,599,701	**248,921**	**439,340**	**16,287,962**
As a percentage of gross balance	**95.77%**	**1.53%**	**2.70%**	**100%**
2017				
Cash and short term funds	1,308,683	-	-	1,308,683
Investment securities	4,403,960	-	-	4,403,960
Financing and advances	8,942,215	232,631	435,057	9,609,903
	14,654,858	**232,631**	**435,057**	**15,322,546**
As a percentage of gross balance	**95.64%**	**1.52%**	**2.84%**	**100%**

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35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

(v) Measurement of credit risk (cont'd)

Analysis of aging of financing and advances for past due but not impaired.

	Past due but not impaired			
	Due within 30 days RM'000	**Due within 31 to 60 days RM'000**	**Due within 61 to 90 days RM'000**	**Total RM'000**
2018				
Term Financing	120,753	72,018	45,736	238,507
Revolving Financing	2,796	3,669	3,949	10,414
	123,549	**75,687**	**49,685**	**248,921**
2017				
Term Financing	104,878	69,580	46,229	220,687
Revolving Financing	8,288	2,998	658	11,944
	113,166	**72,578**	**46,887**	**232,631**

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity risk

(i) Nature of liquidity risk

Liquidity risk relates to the ability of the Bank to maintain sufficient liquid assets to meet current and future financial commitments and obligations (anticipated or unanticipated) when they fall due without incurring unacceptable losses. Liquidity risk may arise when there is a mismatch between funding against lending/financing within predetermined time buckets. The mismatches may lead to the inability for the Bank to fulfil its contractual obligations when they fall due. As such, the Bank has to maintain a portion of liquid assets in terms of cash, cash equivalents and marketable securities to match respective maturity buckets.

(ii) Definition of liquidity risk

Liquidity risk is defined as the inability of the Bank to meet timely payment on any of its financial obligations to customers or counterparties when they fall due or the Bank is unable or cannot easily unwind or offset a particular position at/or near the previous market price because of inadequate market depth or because of disruptions in the market place caused by the change in market sentiment or due to a specific event or series of events.

(iii) Management of liquidity risk

The management of liquidity risk is governed by the Market and Liquidity Risk Management Framework ("MLRF") which sets out the risk management governance and infrastructure, risk management processes and control responsibilities.

The Board through BRMC approves all policies in relation to liquidity risk management which are regularly reviewed by MRMD. BRMC also oversees the effectiveness and compliance of those policies on a regular basis.

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity risk (cont'd)

(iii) Management of liquidity risk (cont'd)

Senior management is responsible to monitor and oversee liquidity risk exposures through the ALCO using primary tools such as maturity mismatch analysis, funding gaps, maximum cumulative outflows and funding concentration ratios using internal as well as market wide information to address possible liquidity issues. ALCO oversees the Bank's financial position structure with regard to liquidity risk exposures and executes controls, within prudent limits and bucketing to manage risks arising from mismatches of maturities across the financial position structure, as well as from undrawn commitments and other contingent obligations. The day-to-day liquidity requirements and position is managed by Treasury Department ("TD") while MRMD, under Risk Management Division ("RMD") acts as Middle Office in monitoring and reporting liquidity risks to ALCO.

(iv) Measurement of liquidity risk

The liquidity risk management of the Bank is aligned with the New Liquidity Framework ("NLF") issued by BNM, and is measured and managed based on projected cash flows. In addition to ensuring compliance with the NLF, the Bank's maintains a liquidity compliance buffer to meet any unexpected cash outflows. The measurement of liquidity risk is done through financial position profiling using predetermined time buckets. The exposure limits for each bucket, in particular within a one year bond is closely monitored and analysed to ensure that the Bank has sufficient cash and liquefiable assets to meet contractual and behavioural maturities/commitments, and to determine the causes and ways to improve the gaps. The Bank maintains sufficient liquid assets (minimum 5% of total deposits) to meet contractual and behavioural maturities and commitments up to one week tenure. For up to one month bucket, the Bank maintains liquid assets of at least 7% of total deposits to meet contractual and behavioural maturities and commitments when they fall due.

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity risk (cont'd)

(v) Contingency funding plan ("CFP")

The Bank has a Contingency Funding Plan ("CFP") in place to deal with liquidity crisis situations. The CFP enables Management to make timely and well-informed decisions in managing any liquidity crisis caused by the Bank's specific risk adverse positions as well as unfavourable market developments. The Bank sets out early warning indicators through various triggers, crisis escalation processes, a crisis management team and funding strategies to mitigate liquidity crisis situations. The CFP is tested and reviewed regularly to update the latest position and matters in relation to liquidity risk profiles of the Bank.

(vi) Stress testing on liquidity risk

As part of liquidity risk management, liquidity risk exposures are also measured through funding concentration, financing deposit ratios, cash and liquid asset ratios. Stress testing is conducted to quantify the worst case scenario of the liquidity position of the Bank based on deposit run-off, market crisis shock, capital erosion and negative publicity. The Bank emphasises the importance of low cost stable and retail deposits as the primary source of funds to finance its lending activities in addition to corporate and other high cost deposits.

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35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity Risk (cont'd)

Maturity analysis of assets and liabilities based on discounted contractual cash flows:

	<6 months RM'000	6 - 12 months RM'000	1 - 3 years RM'000	3 - 5 years RM'000	>5 years RM'000	Non-specific maturity RM'000	Total RM'000
2018							
Assets							
Cash and short term funds	1,131,489	-	-	-	-	-	1,131,489
FVOCI	75,074	220,007	677,219	1,348,022	2,060,313	101	4,380,736
Financing and advances *	1,661,658	135,579	227,090	718,476	8,032,934	-	10,775,737
Other advances *	6,318	3,225	2,091	2,715	2,678	-	17,027
Property, plant and equipment	-	-	-	-	-	143,510	143,510
Intangible assets	-	-	-	-	-	21,678	21,678
Deferred tax assets	-	-	-	-	-	11,391	11,391
Other assets	98,080	982	4,669	486	5,035	6,095	115,347
Total assets	**2,972,619**	**359,793**	**911,069**	**2,069,699**	**10,100,960**	**182,775**	**16,596,915**

* Gross before allowance for impairment

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity Risk (cont'd)

Maturity analysis of assets and liabilities based on discounted contractual cash flows: (cont'd)

	<6 months RM'000	6 - 12 months RM'000	1 - 3 years RM'000	3 - 5 years RM'000	>5 years RM'000	Non-specific maturity RM'000	Total RM'000
2018 (cont'd)							
Liabilities							
Deposit from customers	6,158,162	1,355,793	75,911	30,457	-	-	7,620,323
Deposit and placement of banks and other financial institutions	2,990,170	-	-	-	-	-	2,990,170
Financing scheme funds	48,038	109,043	314,513	329,151	1,024,563	-	1,825,308
Government grant	-	-	-	-	-	748,691	748,691
Other liabilities	-	119,495	11,683	-	-	6,806	137,984
Total liabilities	**9,196,370**	**1,584,331**	**402,107**	**359,608**	**1,024,563**	**755,497**	**13,322,476**
Net maturity mismatch	**(6,223,751)**	**(1,224,538)**	**508,962**	**1,710,091**	**9,076,397**	**(572,722)**	**3,274,439**

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity Risk (cont'd)

Maturity analysis of assets and liabilities based on discounted contractual cash flows: (cont'd)

2017	<6 months RM'000	6 - 12 months RM'000	1 - 3 years RM'000	3 - 5 years RM'000	>5 years RM'000	Non-specific maturity RM'000	Total RM'000
Assets							
Cash and short term funds	1,308,683	-	-	-	-	-	1,308,683
Investment securities *	14,999	265,495	649,750	1,116,665	2,356,590	461	4,403,960
Financing and advances *	1,406,150	159,844	208,124	719,826	7,115,959	-	9,609,903
Other advances *	41,453	1,237	9,338	4,207	4,361	-	60,596
Property, plant and equipment	-	-	-	-	-	139,152	139,152
Intangible assets	-	-	-	-	-	19,348	19,348
Deferred tax assets	-	-	-	-	-	13,994	13,994
Other assets	94,705	526	2,781	205	10,984	6,095	115,296
Total assets	**2,865,990**	**427,102**	**869,993**	**1,840,903**	**9,487,894**	**179,050**	**15,670,932**

* Gross before allowance for impairment

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity Risk (cont'd)

Maturity analysis of assets and liabilities based on discounted contractual cash flows: (cont'd)

	<6 months RM'000	6 - 12 months RM'000	1 - 3 years RM'000	3 - 5 years RM'000	>5 years RM'000	Non-specific maturity RM'000	Total RM'000
2017 (cont'd)							
Liabilities							
Deposit from customers	6,571,461	859,639	97,955	60,322	-	-	7,589,377
Deposit and placement of banks and other financial institutions	2,180,070	-	-	-	-	-	2,180,070
Financing scheme funds	48,584	46,529	222,134	328,651	1,043,865	-	1,689,763
Government grants	-	-	-	-	-	807,325	807,325
Other liabilities	-	-	-	-	-	144,938	144,938
Total liabilities	**8,800,115**	**906,168**	**320,089**	**388,973**	**1,043,865**	**952,263**	**12,411,473**
Net maturity mismatch	**(5,934,125)**	**(479,066)**	**549,904**	**1,451,930**	**8,444,029**	**(773,213)**	**3,259,459**

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity Risk (cont'd)

Maturity analysis of financial liabilities based on undiscounted contractual cash flows:

	<6 months RM'000	6 - 12 months RM'000	1 - 3 years RM'000	3 - 5 years RM'000	>5 years RM'000	Non-specific maturity RM'000	Total RM'000
2018 (cont'd)							
Liabilities							
Deposit from customers	6,237,968	1,394,298	82,564	35,035	-	-	7,749,865
Deposit and placement of banks and other financial institutions	3,123,233	-	-	-	-	-	3,123,233
Financing scheme funds	48,120	109,514	319,213	337,393	1,517,757	-	2,331,997
Government grants	-	-	-	-	-	748,691	748,691
Other liabilities	-	119,495	11,683	-	-	6,806	137,984
Total liabilities	**9,409,321**	**1,623,307**	**413,460**	**372,428**	**1,517,757**	**755,497**	**14,091,770**

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity Risk (cont'd)

Maturity analysis of financial liabilities based on undiscounted contractual cash flows: (cont'd)

	<6 months RM'000	6 - 12 months RM'000	1 - 3 years RM'000	3 - 5 years RM'000	>5 years RM'000	Non-specific maturity RM'000	Total RM'000
2017 (cont'd)							
Liabilities							
Deposit from customers	6,659,611	882,248	105,889	68,683	-	-	7,716,431
Deposit and placement of banks and other financial institutions	2,265,093	-	-	-	-	-	2,265,093
Financing scheme funds	48,667	46,686	225,441	336,880	1,654,059	-	2,311,733
Government grant	-	-	-	-	-	807,325	807,325
Other liabilities	-	141,680	993	-	-	2,265	144,938
Total liabilities	**8,973,371**	**1,070,614**	**332,323**	**405,563**	**1,654,059**	**809,590**	**13,245,520**

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market risk

(i) Nature of market risk

Market risks arises from volatilities in profit rates, equity prices, commodity prices, credit spreads and foreign exchange rates which are inherent in the investment portfolio. The market risk exposure for the Bank relates to all financial assets and liabilities held for investment in the banking book as well as for trading purposes. As the Bank's investment portfolio focuses on profit rate bearing assets and liabilities, movements/changes in profit rates in the market may pose major and significant risk to the fair value of the investment portfolio of the Bank.

(ii) Definition of market risk

Market risk is defined as the risk of losses in On and Off Balance Sheet positions arising from unexpected movements in market prices due to volatility in profit rates, equity prices, commodity prices, foreign exchange rates etc.

(iii) Management of market risk

The management of market risks, in particular the profit rate risk is governed by the MLRF which sets out the risk management governance and infrastructure, risk management processes and control responsibilities.

The Board through BRMC approves all policies in relation to market rate risks, in particular the profit rate risk management which are reviewed on a regular basis. BRMC also oversees the effectiveness and compliance of those policies as well as approve new and revised existing policies.

At senior management level, ALCO deliberates market risk management by executing decisions, business strategies and action plans within the policies and guidelines approved by BRMC or the Board.

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market risk (cont'd)

(iii) Management of market risk (cont'd)

The daily management of the investment portfolio is executed by the TD. MRMD acts as the middle office for investment and treasury related activities by executing risk governance and risk assessments on a regular basis. MRMD also provides independent assessment on market risk in relation to investment activities, including recommendation for new acquisitions and evaluation on mark-to-market prices and yield curves on investment returns, in particular for the FVOCI portfolio. MRMD provides monthly report to ALCO and BRMC for investment portfolio governance including the compliance of limits approved by BRMC/Board.

For bank-wide market risk management, MRMD monitors the profit rate risk sensitivity through the Profit Rate Sensitivity Gap ("PRG"), Earnings at Risk ("EAR") and Duration Weighted Gap ("DWG") regularly and presents reports to ALCO every month. MRMD also signs off new product proposal papers and documents (together with other risk management units) for new products by incorporating relevant assessments and advice on market (and liquidity risks) prior to escalation to higher levels for BNM approval.

(iv) Measurement of profit rate risk

The measurement of the Bank's exposures to profit rate risk is done through the following;

- **Sensitivity analysis**

  Sensitivity analysis is used to determine how different values of an independent variable will impact a particular dependent variable under a given set of assumptions. This technique is used within specific boundaries that will depend on one or more input variables, such as the effect of changes in profit rates on bonds prices.

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market risk (cont'd)

(iv) Measurement of profit rate risk (cont'd)

- **Profit rate gap ("PRG") analysis**

  Gap analysis is conducted to determine the gap between the Risk Sensitive Assets ("RSAs") and Risk Sensitive Liabilities ("RSLs") in relation to their sensitivity to profit rate movements in the market for any given period of time. The RSAs and RSLs are classified into predetermined buckets based on respective repricing modes which are either contractual or behavioural in nature and in particular to the movements of the Overnight Policy Rate ("OPR") announced by BNM. The gap between RSAs and RSLs for each bucket represents the amounts and percentages of the PRG. For the measurement of PRG, the Bank takes the position of all buckets within one year sukuk and matches it against the predetermined limit to reflect sensitivity to the movement in the Net Profit Income ("NPI") and capital. The Bank establishes a limit of +/-10% on the PRG to effectively mitigate profit rate risk. The non sensitive assets or liabilities which lack definite repricing intervals are assigned to buckets according to relevant judgment and past experience of the Bank.

- **Duration weighted gap ("DWG") analysis**

  DWG analysis utilises the time-weighted average maturity of the present value of the cash flows from assets, liabilities and off-balance sheet items. It measures the relative sensitivity of the value of these instruments to changes in profit rates (the average term to repricing), and therefore reflects how changes in profit rates will affect the Bank’s economic value, that is, the present value of equity. The Bank applies DWG to measure its capital and balance sheet sensitivity to the profit rate movements for all buckets as per PRG with the incorporation of predetermined weights.

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market risk (cont'd)

(iv) Measurement of profit rate risk (cont'd)

- **Earnings at risk ("EaR") analysis**

  EaR analysis aims to quantify the impact on the projection of NPI in the event of an adverse change in prevailing profit rates for a period of 1 year, depending on profit rate sensitivity of the Bank (Asset Sensitive or Liability Sensitive). The Bank assumes a maximum 100 basis point rate movement as the worst case scenario.

- **Value at risk ("VaR") analysis**

  The Bank has in place the VaR model in measuring profit rate risk on its investment portfolio, despite not having a trading book portfolio. VaR is a statistical measure of the potential losses that could occur as a result of movements in market rates and prices over a specified time horizon within a given confidence level. The Bank adopted the Historical Simulation Approach for 250 days with 99% confidence level and predetermined VaR limit.

- **Stress test analysis/Scenario analysis**

  Stress testing/simulation analysis are done based on macro economic variables, particularly "yield rates on sukuk values ("Duration") and "beta ratio on equity" as well as possibility of sukuk downgrading impact. The stress testing/simulation analysis employs a range of simulated scenarios on the Bank’s investment portfolio to assess the impact on investment values, profitability and capital of the Bank.

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market Risk (cont'd)

(v) Profit Rate Risk

The following tables below indicate the effective profit rate at the reporting date and the Bank's sensitivity to profit rate by time band based on the earlier of contractual repricing date and maturity date.

	<6 months RM '000	12 months RM '000	1 - 3 years RM '000	3 - 5 years RM '000	>5 years RM '000	Non-profit sensitive RM '000	Total RM '000	Effective Profit Rate
2018								
Assets								
Cash and short term funds	752,329	-	-	-	-	379,160	1,131,489	3.41%
FVOCI	75,074	220,007	677,219	1,348,022	2,060,313	101	4,380,736	4.21%
Financing and advances*	9,116,214	117,166	136,612	484,493	481,912	439,340	10,775,737	6.62%
Other advances*	-	-	-	-	-	17,027	17,027	
Property, plant and equipment	-	-	-	-	-	143,510	143,510	
Intangible assets	-	-	-	-	-	21,678	21,678	
Deferred tax assets	-	-	-	-	-	11,391	11,391	
Other assets	-	-	-	-	-	115,347	115,347	
Total assets	**9,943,617**	**337,173**	**813,831**	**1,832,515**	**2,542,225**	**1,127,554**	**16,596,915**	

* Gross before allowance for impairment

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market Risk (cont'd)

(v) Profit Rate Risk (cont'd)

	<6 months RM '000	12 months RM '000	1 - 3 years RM '000	3 - 5 years RM '000	>5 years RM '000	Non-profit sensitive RM '000	Total RM '000	Effective Profit Rate
2018 (cont'd)								
Liabilities								
Deposits from customers	6,158,162	1,355,793	75,911	30,457	-	-	7,620,323	2.26%
Deposit and placement of banks and other financial institution	2,990,170	-	-	-	-	-	2,990,170	4.45%
Financing scheme funds	48,038	109,043	314,513	329,151	1,024,563	-	1,825,308	0.45%
Government grant						748,691	748,691	
Other liabilities	-	-	-	-	-	137,984	137,984	
Total liabilities	**9,196,370**	**1,464,836**	**390,424**	**359,608**	**1,024,563**	**886,675**	**13,322,476**	

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35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market Risk (cont'd)

(v) Profit Rate Risk (cont'd)

	<6 months RM '000	12 months RM '000	1 - 3 years RM '000	3 - 5 years RM '000	>5 years RM '000	Non-profit sensitive RM '000	Total RM '000	Effective Profit Rate
2017								
Assets								
Cash and short term funds	993,065	-	-	-	-	315,618	1,308,683	3.63%
Investment securities	14,999	265,495	649,750	1,116,665	2,356,590	461	4,403,960	4.11%
Financing and advances*	7,865,475	110,704	199,390	470,304	528,973	435,057	9,609,903	6.48%
Other advances*	-	-	-	-	-	60,596	60,596	
Property, plant and equipment						139,152	139,152	
Intangible assets						19,348	19,348	
Deferred tax assets						13,994	13,994	
Other assets	-	-	-	-	-	115,296	115,296	
Total assets	**8,873,539**	**376,199**	**849,140**	**1,586,969**	**2,885,563**	**1,099,522**	**15,670,932**	

* Gross before allowance for impairment

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market Risk (cont'd)

(v) Profit Rate Risk (cont'd)

	<6 months RM '000	12 months RM '000	1 - 3 years RM '000	3 - 5 years RM '000	>5 years RM '000	Non-profit sensitive RM '000	Total RM '000	Effective Profit Rate
2017 (cont'd)								
Liabilities								
Deposits from customers	6,571,461	859,639	97,955	60,322	-	-	7,589,377	2.65%
Deposit and placement of banks and other financial institution	2,180,070	-	-	-	-	-	2,180,070	3.65%
Financing scheme funds	48,584	46,529	222,134	328,651	1,043,865	-	1,689,763	0.45%
Government grants	-	-	-	-	-	807,325	807,325	
Other liabilities	-	-	-	-	-	144,938	144,938	
Total liabilities	**8,800,115**	**906,168**	**320,089**	**388,973**	**1,043,865**	**952,263**	**12,411,473**	

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market Risk (cont'd)

Profit rate sensitivity

The table below shows the impact of the Bank's profit before tax and equity to an up and down 100 basis point parallel rate shock:

	2018		2017	
	+100bp	-100bp	+100bp	-100bp
	RM '000	RM '000	RM '000	RM '000
Impact on profit before tax	94,350	(94,350)	81,282	(81,282)
Impact on equity	(200,966)	213,043	(216,309)	232,404

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(e) Operational risk

(i) Nature of operational risk

Operational risk is inherent in the Bank's business operations and associated with the Bank's involvement with financial instruments, other than credit, market and liquidity risks.

(ii) Definition of operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems and from external events. This definition includes legal risk but excludes strategic and reputational risk.

(iii) Management of operational risk

The management of operational risk is governed by the Operational Risk Management Framework ("ORMF") which sets out the risk management governance and infrastructure, risk management processes and control responsibilities which is in line with the regulatory guidelines set by the Bank of International Settlements ("BIS"), Basel Accords and BNM.

The Board through BRMC approves all policies in relation to operational risk management which are reviewed on a regular basis. BRMC also oversees the effectiveness and compliance of those policies as well as approve new and revised policies.

Senior Management takes the responsibility of managing the business risks, the ultimate responsibility for establishing and maintaining appropriate risk management processes, making risk management an integral part of the Bank's operations, aligning risk management to internal policies and procedures as well as ensuring that all risk based-limits are adhered to by the business divisions, departments and units.

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(e) Operational risk (cont'd)

(iv) Measurement of operational risk

- **Oversight structure and lines of defence**

The interplay between the risk owners at the business level, Risk Management Division ("RMD") and Internal Audit Department ("IAD") forms the framework for the Bank's "three lines of defence" in the managing of operational risks.

The first line of defence is the Business risk owners, who are responsible for the day-to-day operational risk management where Key Performance Indicators ("KPIs"), Key Risk Indicators ("KRIs") and Key Control Indicators ("KCIs"), Risk Maps, Key Risk Control Self-Assessment ("RCSA") and Incident Management and Data Collection ("IMDC") are in place and aligned to the business objectives.

RMD as the second line of defence is responsible for operational risk management oversight while IAD as the third line of defence is entrusted to perform independent assurance over the effectiveness of the operational risk management initiatives by RMD and the Business Units.

- **Risk management process**

Operational Risk Management ("ORM") refers to the end-to-end process that ensures operational risks are effectively managed from the time they are identified to the time the risks are mitigated within the risk appetite of the Bank. It is the responsibility of everyone at the Bank. This generic process is used to manage operational risks at all levels from units to Head office. The operational risk management process comprises 4 steps namely:

(i) Risk identification
(ii) Risk assessment
(iii) Managing and controlling risk
(iv) Monitoring and reporting risk

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(e) Operational risk (cont'd)

(iv) Measurement of operational risk (cont'd)

- **Reporting and communication guidelines**

  In establishing a sound ORM at the Bank, the reporting and communication lines are extremely important. As operational risk is pervasive across the organisation and the range and type of incidents is broad, from fraud to product and system failures and from errors in the front office to the back office, it is important to share information at all levels. Information sharing should be through both formal reporting lines and face-to-face communication.

- **Culture**

  Operational risk culture encompasses general awareness, attitude, behaviour of employees to the key operational risk causes such as people, process, systems and external events.

  Adequate awareness and training in operational risk is to be given to the staff and their roles and responsibilities clearly defined. In addition, the performance management process encourages staff to perform and behave in a manner consistent with the Bank’s operational risk management objectives. Adequate training is to be provided to the staff to ensure that they have acquired adequate level of knowledge and skill sets to perform their roles and responsibilities in operational risk management.

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(f) Capital management

Regulatory capital

BNM sets and monitors capital requirements for the Bank as a whole.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual sukuk (which are classified as innovative tier 1 securities), retained earnings, translation reserve and non-controlling interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes qualifying subordinated liabilities, government grants and collective impairment allowances for non-impaired financing.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated financing capital may not exceed 50 percent of tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital.

The Bank’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and sustain future development of the business. The impact of the level of capital on shareholders’ return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the period. Management uses regulatory capital ratios in order to monitor its capital base, and these capital ratios remain the international standards for measuring capital adequacy. The Bank has developed a Capital Management Plan ("CMP") to facilitate effective management of capital and address potential impact from financing deterioration as well as to provide an adequate buffer to support business expansion.

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(f) Capital management (cont'd)

Capital allocation

Capital allocation between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be varied to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is subject to review by the ALCO as appropriate.

Capital Adequacy

The capital adequacy ratio of the Bank as at the end of the reporting period is as

	2018 %	2017 %
Before deducting proposed dividend:		
Core capital ratio	**23.13**	24.94
Risk-weighted capital ratio	**26.46**	28.98
After deducting proposed dividend:		
Core capital ratio	**22.97**	24.71
Risk-weighted capital ratio	**26.30**	28.75

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(f) Capital management (cont'd)

The capital adequacy ratio of the Bank as at 31 December 2018 has incorporated the market risk pursuant to the BNM Market Risk Capital Adequacy Framework which became effective on 1 April 2005.

	2018 RM'000	2017 RM'000
Components of Tier I and Tier II capital		
Tier I capital		
Share capital	1,000,000	1,000,000
Statutory reserves	487,109	487,109
Retained earnings	1,404,381	1,337,112
Less: Deferred tax assets	(11,391)	(13,994)
Total Tier I capital	**2,880,099**	**2,810,227**
Tier II capital		
ECL / Collective impairment allowance [1]	83,984	159,622
Regulatory reserve	34,951	-
Government Grants - Operating	23,310	24,505
Government Grants - Launching	2,920	4,144
Government Grants - Funds [2]	268,928	267,326
Total Tier II capital	**414,093**	**455,597**
Total capital base	**3,294,192**	**3,265,824**

[1] The eligible amount for Tier II capital is limited to only ECL / collective impairment allowance on non-impaired financing and advances.

[2] The Government Grants - Funds exclude those grants relating to the fair valuation of financing scheme funds at below market rate amounting to RM453.13 million (2017: RM511.35 million).

35. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(f) Capital management (cont'd)

The breakdown of risk-weighted assets in the various categories of risk-weights is as follows:

	Notional RM'000	Risk-weighted RM'000
0%	3,291,945	-
20%	1,235,256	247,051
50%	32,677	16,339
100%	11,684,983	11,684,983
Off balance sheet risk-weighted assets	-	501,296
Total risk-weighted assets at 31 December 2018	**16,244,861**	**12,449,669**
0%	3,233,564	-
20%	1,448,059	289,612
50%	33,492	16,746
100%	10,474,692	10,474,692
Off balance sheet risk-weighted assets	-	488,158
Total risk-weighted assets at 31 December 2017	**15,189,807**	**11,269,208**

35. FINANCIAL INSTRUMENTS (cont'd)

B. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Fair value is the amount at which the financial assets could be exchanged or financial liabilities could be settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the best estimates of fair values as of the reporting period.

<u>Fair value hierarchy</u>

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets of identical assets or liabilities;

Level 2: Other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: Techniques which use inputs which have significant effect on the fair value that are not based on observable market data.

(i) Financial assets and financial liabilities carried at fair value

Set out below, is a comparison by the class of the fair value of the Bank's financial instruments:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2018				
Financial assets				
FVOCI	101	4,380,635	-	4,380,736
2017				
Financial assets				
Investment securities-AFS	168	4,403,792	-	4,403,960

35. FINANCIAL INSTRUMENTS (cont'd)

B. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (cont'd)

(ii) Financial assets and financial liabilities at carrying amount

	2018		2017	
	Carrying amount RM'000	**Fair value RM'000**	**Carrying amount RM'000**	**Fair value RM'000**
Financial assets				
Financing and advances	10,431,162	6,595,215	9,173,891	5,916,406
	10,431,162	**6,595,215**	**9,173,891**	**5,916,406**
Financial liabilities				
Deposits from customers	7,620,323	7,472,916	7,589,377	7,379,580
Deposit and placement of banks and other financial institutions	2,990,170	2,862,776	2,180,070	2,103,300
	10,610,493	**10,335,692**	**9,769,447**	**9,482,880**

The fair value of financing and advances, deposits from customers and deposit and placement of banks and other financial institutions are at Level 2 (2017: Level 2).

The methods and assumptions used in estimating the fair values of financial instruments are as follows:

(i) Financial assets at FVOCI

The fair values of private debt securities and Malaysian government investment issues are determined by reference to the market value of these instruments published by Bond Pricing Agency Malaysia (BPAM).

The fair value of equities securities are determined based on quoted price from Bursa Malaysia Securities Berhad.

(ii) Financing and advances

For fixed-rate financing with maturities within a year, financing and advances at variable rates, the estimated fair values approximate their respective carrying values.

For fixed-rate financing with maturities more than a year, the fair values are estimated based on expected future cash flows of contractual instalments and discounted at prevailing rate at the end of the reporting period offered for similar financing to new customers with similar credit profiles, where applicable.

35. FINANCIAL INSTRUMENTS (cont'd)

B. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (cont'd)

(ii) Financial assets and financial liabilities at carrying amount (cont'd)

(iii) Deposits from customers

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

C. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS

	Financial assets at FVOCI RM'000	Financial assets and liabilities at amortised cost RM'000	Total RM'000
2018			
Financial assets			
Cash and short term funds	-	1,131,489	1,131,489
Deposits with financial institutions	-	-	-
Financial assets at FVOCI	4,380,736	-	4,380,736
Financing and advances	-	10,431,162	10,431,162
Other financial assets	-	106,322	106,322
	4,380,736	**11,668,973**	**16,049,709**
Financial liabilities			
Deposits from customers	-	7,620,323	7,620,323
Deposit and placement of banks and other financial institutions	-	2,990,170	2,990,170
Financing scheme funds	-	1,825,308	1,825,308
Other financial liabilities	-	33,769	33,769
	-	**12,469,570**	**12,469,570**

35. FINANCIAL INSTRUMENTS (cont'd)

C. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS (cont'd)

	AFS securities RM'000	Financial assets and liabilities at amortised cost RM'000	Total RM'000
2017			
Financial assets			
Cash and short term funds	-	1,308,683	1,308,683
Deposits with financial institutions	-	-	-
Investment securities	4,403,960	-	4,403,960
Financing and advances	-	9,173,891	9,173,891
Other financial assets	-	97,019	97,019
	4,403,960	**10,579,593**	**14,983,553**
Financial liabilities			
Deposits from customers	-	7,589,377	7,589,377
Deposit and placement of banks and other financial institutions	-	2,180,070	2,180,070
Financing scheme funds	-	1,689,763	1,689,763
Other financial liabilities	-	44,400	44,400
	-	**11,503,610**	**11,503,610**

36. SHARIAH NON COMPLIANT EVENT

(1) Nature of Non-Compliant ("SNC") Events

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-compliant risks across the Bank.

SNC event is a result of the Bank's failure to comply with the Shariah rules and principles determined by the relevant Shariah regulatory councils. Any transactions that are suspected to be Shariah non-compliant are reported to the SC for their deliberation and conclusion as to whether any Shariah requirements have been breached.

For the financial year ended 31 December 2018, the nature of Shariah non-compliance deliberated by the SC were as follows:

Financing products

(i) Non-compliance with Shariah requirement on the sequence of Bai Al-Inah execution.

(2) Amount of Shariah non-compliant accounts and tainted income

Throughout the year of 2018, there were 5 accounts (2017: 3 accounts) as SNC events reported to BNM. All of the SNC events had been rectified and resolved within 2018.

37. RESTATEMENT OF COMPARATIVES

Certain amounts in the comparative financial statements and note disclosures have been restated to conform with the current year's presentation as detailed below:

	As previously stated RM'000	Adjustments RM'000	As Restated RM'000
Statement of comprehensive income			
31.12.2017			
Income derived from investment of shareholder's funds	239,046	(5,599)	233,447
(Provision of)/writeback of impairment	(4,298)	5,599	1,301
Statement of financial position			
31.12.2017			
Commitments and Contingencies	6,656,472	55,618	6,712,090