**BANK PERTANIAN MALAYSIA BERHAD**
**Registration No: 200801010522 (811810-U)**
**(Incorporated in Malaysia)**

**AUDITED FINANCIAL STATEMENTS**
**FOR YEAR ENDED 31 DECEMBER 2019**
(In Ringgit Malaysia)

Registration No: 200801010522 (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 2019.

## 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 conducted in compliance with Shariah principles.

## RESULTS

| | **RM'000** |
|---|---|
| Profit before tax and zakat | 205,415 |
| Tax | (51,795) |
| Zakat | (5,135) |
| Net profit for the year | **148,485** |

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.

## 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 2018, a final dividend of 2.00 sen on 1,000,000,000 ordinary shares declared on 17 May 2019 and paid on 3 June 2019 | 20,000 |

At the forthcoming Annual General Meeting, a final single tier dividend in respect of the current financial year ended 31 December 2019 of 3.00 sen on 1,000,000,000 ordinary shares amounting to dividend payable of RM30,000,000 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 2020.

**BANK PERTANIAN MALAYSIA BERHAD**
(Incorporated in Malaysia)

## 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.

## 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 Dato' Dr. Mohamad Hashim bin Ahmad Tajudin

Y. Bhg Datin Setia Shahariah binti Hashim

Puan Azizah binti Abdul Rahman

Tuan Haji Ibrahim bin Hassan

Puan Faizah binti Abdullah

Encik Abdul Rahim bin Abd Hadi

Encik Jit Singh A/L Santok Singh

Y. Bhg Dato' Mohd Sallehhuddin bin Hassan
(appointed on 15 March 2019)

Puan Zarina binti Zakaria
(appointed on 6 April 2020)

Y. Bhg Tan Sri Mohamad Zabidi Bin Zainal (Chairman)
(ceased on 29 July 2019)

Y. Bhg Dato' Dr. Yusof bin Ismail
(resigned on 3 June 2019)

**BANK PERTANIAN MALAYSIA BERHAD**
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## 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 as disclosed in Note 32 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; 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**

The subsequent event is disclosed in note 37 to the financial statements. There are no events after the statements of financial position up the date when the financial statements are authorized for issuance which is within the period from 1 January 2020 to 29 May 2020.

**OUTLOOK FOR NEXT FINANCIAL YEAR**

The coronavirus disease ("COVID-19") pandemic is inflicting severe impact on global economic activities. The IMF April 2020 World Economic Outlook Report projected the global economy to contract sharply by -3% in 2020 but projected to grow by 5.8% in 2021 on the assumption of pandemic fading in second half of 2020 and normalization of economic activities, helped by policy support.

Economic policies should cushion the impact of severe slowdown to ensure economic recovery can start quickly once the pandemic fades. The policymakers worldwide needs to implement substantial targeted fiscal, monetary, and financial market measures to support affected households and businesses.

In Malaysia, the economy is expected to shrink. BNM forecasts GDP growth of -2% and 0.5% in 2020, reflecting the impact of the global COVID-19 pandemic, domestic Movement Control Order (MCO) and the drop in crude oil prices.

To mitigate the impact of recession, the Government subsequently introduced stimulus packages, *Pakej Rangsangan Ekonomi 2020* of RM20b (1.3% of GDP) and *Pakej Rangsangan Ekonomi Prihatin Rakyat* of RM260b (17% of GDP) as well as BNM’s financial measures expected to provide relief to individuals and businesses hardest hit by the COVID-19 pandemic.

There are also earnings risks from an OPR (Overnight Policy Rate) cut in 2020, whereby BNM reduced 100bps in stages from January 2020 up to May 2020. The analysts are predicting another possible cut in OPR as early as July 2020 resulting in a further compression to the contracting Net Profit Margin of the bank.

**BUSINESS PLAN AND STRATEGY**

The year 2020 will be challenging given the impact of COVID-19 and significant supply chain disruptions, low demand and market level, currency shocks arising from the spread of the pandemic.

At Agrobank, the macro economic uncertainties and market volatility will have an impact on agriculture integrated value chain and necessitates the implementation of more robust risk mitigation measures.

The government’s economic stimulus package together with BNM’s relief measures are aimed at helping affected Malaysian which includes additional funds for SMEs amounting to RM13.1b under BNM’s Fund for SMEs, as well as six month moratorium on loan repayments.

**BANK PERTANIAN MALAYSIA BERHAD**
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## BUSINESS PLAN AND STRATEGY (cont'd)

As we brace for a global recession, we will closely manage the net profit margin contraction in a low rate environment whilst still pursuing financing growth. We will monitor and understand existing customers financing requirements and proactively engage customers who are facing cash flow difficulties and help provide a viable solution to a workable credit plan to be executed during the moratorium period.

Other key priorities for Agrobank are to increase productivity of existing workforce, simplification of existing processes, maintaining cost discipline while maintaining liquidity and capital levels in line with regulatory requirements.

## 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 9 to the financial statements.

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

**DATO' DR. MOHAMAD HASHIM BIN AHMAD TAJUDIN**

**AZIZAH BINTI ABDUL RAHMAN**

Registration No: 200801010522 (811810-U)

**BANK PERTANIAN MALAYSIA BERHAD**
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**STATEMENT BY DIRECTORS**
**Pursuant to Section 251(2) of the Companies Act, 2016**

We, **DATO' DR. MOHAMAD HASHIM BIN AHMAD TAJUDIN** 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 166 are properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 December 2019 and of 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 29 May 2020.

**DATO' DR. MOHAMAD HASHIM BIN AHMAD TAJUDIN**

**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 **KHADIJAH BINTI ISKANDAR**, being the Director and Covering Duties President/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 166 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**

**KHADIJAH BINTI ISKANDAR**

Subscribed and solemnly declared by the above named
**AZIZAH BINTI ABDUL RAHMAN** and **KHADIJAH BINTI ISKANDAR**
at KUALA LUMPUR in the Federal Territory on 29 May 2020.

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.)

**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.

Firstly, the Shariah Committee was established to ensure that the Bank's Islamic banking business and operational affairs as well as activities are in compliance with Shariah rules and principles. The roles and responsibilities of the Shariah Committee are as prescribed in the Shariah Governance Framework ("SGF") issued by BNM, which states that the Shariah Committee is responsible for all Bank decisions, views and opinions relating to Shariah matters. The committee endorses Shariah policies and procedures, and reviews reports escalated by the dedicated Shariah functions. The committee members rigorously deliberate on issues and recommendations to mitigate Shariah control weaknesses and potential Shariah non-compliances.

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 ("SAC") 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.

To ensure smoothness and timely execution of our business operation, we had approved a Guideline on the Shariah Upfront Approval empowering the Head of Shariah Department to approve non-substantial variation to Shariah-related matters, and the approvals are reported to us periodically for review and confirmation.

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.

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**BANK PERTANIAN MALAYSIA BERHAD**
(Incorporated in Malaysia)

**SHARIAH COMMITTEE'S REPORT (cont'd)**

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.

In our opinion:

(a) The contracts, transactions and dealings entered by the Bank during the financial year ended 31 December 2019 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.

(f) We hereby confirm that the overall operations, business, affairs and activities of the Bank are Shariah-compliant and do not involve any material Shariah non-compliance event, except for the matter as set out in Note 35 to the financial statements, in which such matter has been resolved by the Shariah Committee.

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 2019 have been conducted in conformity with Shariah.

**ASSOC. PROF. DR. MOHAMED FAIROOZ BIN ABDUL KHIR**
Chairman of the Committee

**DR. MOHAMAD SABRI BIN ZAKARIA**
Member of the Committee

Kuala Lumpur, Malaysia
29 May 2020

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Ernst & Young PLT
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Registration No: 200801010522 (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 2019, 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 166.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and 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 Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and IESBA Code.

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

## Report on the audit of the financial statements (cont'd.)

*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, Shariah committee's report and the annual report, but does not include the financial statements of the Bank and our auditors' report thereon. The annual report 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.

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 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.

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

## Report on the audit of the financial statements (cont'd.)

*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.

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.

- 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.

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

**Report on the audit of the financial statements (cont'd.)**

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

- 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.

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

**Other matters**

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

Ernst & Young PLT

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

Wan Daneena Liza Bt Wan Abdul Rahman
No. 02978/03/2022 J
Chartered Accountant

Kuala Lumpur, Malaysia
29 May 2020

**BANK PERTANIAN MALAYSIA BERHAD**
(Incorporated in Malaysia)

**STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

| | Note | 2019 RM'000 | 2018 RM'000 Restated |
|---|---|---|---|
| Income derived from investment of depositors' funds and others | **5(a)** | 766,007 | 723,357 |
| Income derived from investment of shareholder's funds | **5(b)** | 244,810 | 223,523 |
| Allowance for impairment | **6** | (26,016) | (24,050) |
| **Total distributable income** | | **984,801** | **922,830** |
| Income attributable to depositors | **7** | (297,353) | (281,146) |
| **Total net income** | | **687,448** | **641,684** |
| Personnel expenses | **8** | (307,625) | (282,524) |
| Other overheads and expenditures | **9** | (161,355) | (158,718) |
| Finance costs | **10** | (12,248) | (10,112) |
| Compensation claim | | (805) | (79) |
| **Profit before tax and zakat** | | **205,415** | **190,251** |
| Tax expense | **11** | (51,795) | (51,513) |
| Zakat | **12** | (5,135) | (4,756) |
| **Net profit for the year** | | **148,485** | **133,982** |
| **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 financial year | | 139,193 | 27,633 |
| Reclassification to profit or loss | | (21,818) | (4,742) |
| Income tax related to the above | | (28,170) | (5,494) |
| Total items that may be reclassified to profit or loss | | **89,205** | **17,397** |
| **Items that will not be reclassified to profit or loss** | | | |
| Equity instruments at FVOCI | | | |
| Revaluation gain/(loss) on equity instruments at FVOCI | | 43 | (66) |
| Income tax related to the above | | (10) | 16 |
| Total items that will not be reclassified to profit or loss | | **33** | **(50)** |
| Other comprehensive income for the year, net of tax | | **89,238** | **17,347** |
| **Total comprehensive income for the year** | | **237,723** | **151,329** |

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

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**BANK PERTANIAN MALAYSIA BERHAD**
(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION**
**AS AT 31 DECEMBER 2019**

| | Note | 2019 RM'000 | 2018 RM'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and short term funds | **13** | 1,409,555 | 1,131,489 |
| Financial assets at fair value through other comprehensive income ("FVOCI") | **14** | 3,637,557 | 4,380,736 |
| Financing and advances | **15** | 11,467,252 | 10,431,162 |
| Other advances | **16** | 6,869 | 9,548 |
| Other assets | **17** | 148,040 | 115,347 |
| Property, plant and equipment | **18** | 142,446 | 143,510 |
| Intangible assets | **19** | 25,719 | 21,678 |
| Right-of-use assets | **20** | 49,797 | - |
| Deferred tax assets | **21** | - | 11,391 |
| **TOTAL ASSETS** | | **16,887,235** | **16,244,861** |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Deposits from customers | **22 (a)** | 7,557,636 | 7,620,323 |
| Deposit and placement of banks and other financial institutions | **22 (b)** | 3,280,172 | 2,990,170 |
| Other liabilities | | | |
| Other payables and accruals | **23 (a)** | 154,397 | 131,178 |
| Paddy credit gratuity scheme | **23 (b)** | 2,281 | 2,275 |
| Expected credit loss ("ECL") allowance for financial guarantees and financing commitments | **23 (c)** | 6,176 | 4,531 |
| Lease liabilities | **20** | 40,134 | - |
| Deferred tax liabilities | **21** | 12,702 | - |
| Financing Scheme Funds | **24** | 1,973,320 | 1,825,308 |
| Government Grants | | | |
| Operating | **25** | 23,008 | 23,310 |
| Launching | **26** | 2,491 | 2,920 |
| Funds | **27** | 694,810 | 722,461 |
| **Total Liabilities** | | **13,747,127** | **13,322,476** |
| **Equity** | | | |
| Share capital | **28** | 1,000,000 | 1,000,000 |
| Reserves | **29** | 2,140,108 | 1,922,385 |
| **Total Equity** | | **3,140,108** | **2,922,385** |
| **TOTAL LIABILITIES AND EQUITY** | | **16,887,235** | **16,244,861** |
| **Commitments and Contingencies** | **31** | **1,057,686** | **1,059,483** |

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

**BANK PERTANIAN MALAYSIA BERHAD**
(Incorporated in Malaysia)

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

| | | Non-distributable reserves | | | Distributable reserves | |
|---|---|---|---|---|---|---|
| | **Share capital RM'000** | **Statutory reserves RM'000** | **FVOCI reserve/ (deficit) RM'000** | **Regulatory reserve RM'000** | **Retained earnings RM'000** | **Total RM'000** |
| **As at 1 January 2019** | 1,000,000 | 487,109 | (4,056) | 34,951 | 1,404,381 | 2,922,385 |
| Net profit for the year | - | - | - | - | 148,485 | 148,485 |
| Other comprehensive income for the year | - | - | 89,238 | - | - | 89,238 |
| Total comprehensive income for the year | - | - | 89,238 | - | 148,485 | 237,723 |
| Dividends paid (Note 30) | - | - | - | - | (20,000) | (20,000) |
| **At 31 December 2019** | **1,000,000** | **487,109** | **85,182** | **34,951** | **1,532,866** | **3,140,108** |

**BANK PERTANIAN MALAYSIA BERHAD**
(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN EQUITY**
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (cont'd)**

| | | Non-distributable reserves | | | Distributable reserves | |
|---|---|---|---|---|---|---|
| | Share capital RM'000 | Statutory reserves RM'000 | FVOCI reserve/ (deficit) RM'000 | Regulatory reserve RM'000 | Retained earnings RM'000 | Total RM'000 |
| **As at 1 January 2018** | 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 30) | - | - | - | - | (25,500) | (25,500) |
| **At 31 December 2018** | **1,000,000** | **487,109** | **(4,056)** | **34,951** | **1,404,381** | **2,922,385** |

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 2019**

| | 2019<br>RM'000 | 2018<br>RM'000<br>Restated |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit before tax and zakat | 205,415 | 190,251 |
| **Adjustments for:** | | |
| Allowance for impairment on financing and advances | 73,584 | 65,895 |
| Writeback of allowance for impairment on other advances | (1,496) | (12,776) |
| Allowance for/(writeback of) impairment on financial guarantees and financing commitments | 1,645 | (1,519) |
| Allowance for/(writeback of) impairment on other assets | 302 | (93) |
| Depreciation of property, plant and equipment | 21,345 | 21,405 |
| Depreciation of right-of-use assets | 10,051 | - |
| Amortisation of computer software | 15,008 | 12,934 |
| Write off of property, plant and equipment | 56 | 259 |
| Gain on disposal of property, plant and equipment | (76) | - |
| Gain on disposal of financial assets at FVOCI | (21,818) | (4,742) |
| Gross dividend income from financial assets at FVOCI | - | (9) |
| Management fees on Government Grant - Funds | (200) | - |
| Amortisation and utilisation of Government Grants: | | |
| Government Grant - Operating | (302) | (1,195) |
| Government Grant - Launching | (429) | (1,224) |
| Government Grant - Funds | 2,374 | 1,602 |
| Finance costs | 12,248 | 10,112 |
| Finance cost for lease liabilities | 1,910 | - |
| Finance cost for provision for re-instatement | 225 | - |
| Provision made/(writeback) for retirement benefits scheme | 34 | (613) |
| Provision made for compensation claim | 805 | 79 |
| Utilisation of Non-Shariah Income ("NSI") | (4,589) | (4,657) |
| **Operating profit before working capital changes** | **316,092** | **275,709** |
| Change in financing and advances | (1,109,674) | (1,301,600) |
| Change in other advances | 4,175 | 28,845 |
| Change in other assets | (35,925) | (15,864) |
| Change in deposits from customers | (62,687) | 30,946 |
| Change in deposit and placement of banks and other financial institutions | 290,002 | 810,100 |
| Change in other payables and accruals | 6,416 | (8,581) |
| Change in paddy credit gratuity scheme | 6 | 10 |
| **Cash used in operating activities** | **(591,595)** | **(180,435)** |
| Tax paid | (37,332) | (45,357) |
| Zakat paid | (6,293) | (2,479) |
| **Net cash used in operating activities** | **(635,220)** | **(228,271)** |

**BANK PERTANIAN MALAYSIA BERHAD**
(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS**
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (cont'd)**

| | 2019<br>RM'000 | 2018<br>RM'000<br>Restated |
|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of financial assets at FVOCI | (229,592) | (260,915) |
| Proceeds from disposal of financial assets at FVOCI | 1,112,007 | 311,153 |
| Dividends received from financial assets at FVOCI | - | 9 |
| Purchase of property, plant and equipment | (26,307) | (26,022) |
| Purchase of computer software | (19,049) | (15,264) |
| Proceeds from disposal of property, plant and equipment | 175 | - |
| **Net cash generated from investing activities** | **837,234** | **8,961** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Payments of lease liabilities | (9,887) | - |
| Additional funds received for Financing Scheme Funds | 217,102 | 137,730 |
| Payments of Financing Scheme Funds | (119,640) | (61,142) |
| Profits paid on Financing Scheme Funds | (11,523) | (9,391) |
| Additional funds received for Government Grant - Funds | 20,000 | 419 |
| Dividends paid | (20,000) | (25,500) |
| **Net cash generated from financing activities** | **76,052** | **42,116** |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | **278,066** | **(177,194)** |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | **1,131,489** | **1,308,683** |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | **1,409,555** | **1,131,489** |
| **CASH AND CASH EQUIVALENTS CONSIST OF:** | | |
| Cash and short term funds (Note 13) | **1,409,555** | **1,131,489** |

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

## 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 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 29 May 2020.

## 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

The accounting policies adopted by the Bank are consistent with those adopted in the audited financial statements for the financial year ended 31 December 2018 except for the new Malaysian Financial Reporting Standards ('MFRS"), interpretation and amendments to standards to be applied for the financial periods beginning on 1 January 2019:

MFRS 16 Leases
Amendments to MFRS 9 Prepayment Features with Negative Compensation
Amendments to MFRS 119 Plan Amendment, Curtailment or Settlement
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

The adoption of the above standards, amendments to standards and interpretations did not have a material impact on the financial statements of the Bank except for MFRS 16 as discussed below:

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.1 Changes in accounting policies (cont'd)

**MFRS 16 Leases**

MFRS 16 is effective for annual periods beginning on 1 January 2019. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and low value assets.

The Bank adopted MFRS 16 using modified retrospective approach and comparatives are not restated.

The Bank also applied the available practical expedients wherein it:
(i) used a single discount rate to a portfolio of leases with reasonably similar characteristics;

(ii) used hindsight in determining the lease term if the contract contains options to extend or terminate the lease;

(iii) leases with a lease term of less than 12 months are exempted from recognition; and

(iv) leases of low-value assets mainly refers to office equipment, are exempted.

The effect of adopting MFRS 16 is as follows:

**Impact on the statement of financial position:**

| | 31 December 2018 RM'000 | Adjustment RM'000 | 1 January 2019 RM'000 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 143,510 | (5,871) | 137,639 |
| Right-of-use assets | - | 56,626 | 56,626 |
| **Total assets** | **143,510** | **50,755** | **194,265** |
| **Liabilities** | | | |
| Lease liabilities | - | 45,226 | 45,226 |
| Provision for re-instatement cost | - | 5,529 | 5,529 |
| | **-** | **50,755** | **50,755** |

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.1 Changes in accounting policies (cont'd)

**MFRS 16 Leases (cont'd)**

**Impact on the statement of profit or loss:**

| | **2019 RM'000** |
|---|---|
| Depreciation of right-of-use assets | 10,051 |
| Finance cost on lease liabilities | 1,910 |
| Finance cost on provision for re-instatement | 225 |
| Expense relating to short-term leases | 65 |
| Expense relating to leases of low-value assets (included in maintenance cost) | 1,634 |
| **Impact to profit for the year** | **13,885** |

**Impact on the statement of cash flows:**

| | **2019 RM'000** |
|---|---|
| Depreciation of right-of-use assets | 10,051 |
| Finance cost on lease liabilities | 1,910 |
| Finance cost on provision for re-instatement | 225 |
| **Impact to net cash flows from operating activities** | **12,186** |
| Payment of lease liabilities | (9,887) |
| **Impact to net cash flows from financing activities** | **(9,887)** |

There are no material impact on other comprehensive income.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.1 Changes in accounting policies (cont'd)

**MFRS 16 Leases (cont'd)**

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

| | RM'000 |
|---|---|
| **Assets** | |
| Operating lease commitments as at 31 December 2018 | 52,534 |
| Weighted average incremental borrowing rate as at 1 January 2019 | 3.78% |
| Discounted operating lease commitments as at 1 January 2019 | **46,925** |
| Less: | |
| Commitments relating to short-term leases | 65 |
| Commitments relating to leases of low-value assets | 1,634 |
| Lease liabilities as at 1 January 2019 | **45,226** |

## 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") 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 gross 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

Financing processing fee is recognised as income based on the contractual arrangement. Government-link corporation ("GLC") services fee is recognised on an accrual basis in accordance with the term of agreement.

Fees and commissions are generally recognised on an accrual basis when the service has been provided. These fees include banking service fees and Ar-Rahnu fees.

(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 25)

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 26)

Launching 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. Launching grants for development expenditure is deducted from the launching grants upon utilisation.

(iii) Government grants - Funds (Note 27 (a) - (j))

Government grant funds received to provide financing to eligible customers are recognised as deferred capital grants in the statement of financial position. The government grants 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 27 (k) - (t))

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 profit or loss (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**

(1) Classification

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 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)**

(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 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)

(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 losses 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)**

(3) Measurement (cont'd)

**Equity instruments**

The Bank 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.

**BANK PERTANIAN MALAYSIA BERHAD**
(Incorporated in Malaysia)

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**3.2 Summary of significant accounting policies (cont'd)**

**(d) Financial assets (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)

**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 behaviour 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)

**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 or not 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)

**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 or not 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)

**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") is 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)

**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)

**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)**

**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)

**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<br><br>(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<br><br>(ii) Overdue payment within 30 days after maturity date for trade finance and revolving credit facilities; or<br><br>(iii) Fullfill any one of the SICR triggers | Lifetime ECL – non-credit impaired (Stage 2) |
| Impaired accounts | (i) Principal or profit or both is past due for more than 90 days; or<br><br>(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)

**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<br><br>(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<br><br>(v) Fullfill any one of the other impaired triggers criteria; or<br><br>(vi) Fullfill any three of the SICR triggers. | |

The Bank has not used the low credit risk exemption for any financial instrument.

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)**

**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)

**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)

#### (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 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.

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

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

*Bank as a lessee*

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

*i) Right-of-use assets*

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

| | |
|---|---|
| Equipment and computer hardware | 1 to 5 years |
| Real estate | 2 to 10 years |
| Leasehold land | 60 to 99 years |

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.2 Summary of significant accounting policies (cont'd)

#### (n) Leases (cont'd)

*Bank as a lessee (cont'd)*

*i) Right-of-use assets (cont'd)*

If ownership of the leased asset transfers to the Bank at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment assessment as described on Note 3.2 (k).

*ii) Lease liabilities*

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

In calculating the present value of lease payments, the Bank uses its incremental financing rate at the lease commencement date because the profit rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of profit and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Bank's right-of-use assets and lease liabilities are disclosed in Note 20.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.2 Summary of significant accounting policies (cont'd)

#### (n) Leases (cont'd)

*Bank as a lessee (cont'd)*

*iii) Short-term leases and leases of low-value assets*

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

#### (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.

#### (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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.2 Summary of significant accounting policies (cont'd)

#### (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 flows, 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 2020**

Amendment to MFRS 3 Definition of a Business
Amendment to MFRS 101 and MFRS 108 Definition of Material
Revised Conceptual Framework to Financial Reporting (the Conceptual Framework)
Amendment to MFRS 9, MFRS 139 and MFRS 7 Profit Rate Benchmark Reform

**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 and 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.

## 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.

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

### Critical judgements made in the application of accounting policies (cont'd)

(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 34, 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.

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

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

The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

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

### Critical judgements made in the application of accounting policies (cont'd)

(c) Determining the lease term of contracts with renewal and termination options - Bank as lessee (cont'd)

**(i) Real Estate Leases and Leasehold Land**

The Bank leases office buildings and houses for the branches office space and staff accommodations. The leases of office space typically run for a period of two (2) to five (5) years and leases of houses for one (1) to three (3) years, whereas the leasehold land is between 60 to 99 years. Most leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

Some leases of office buildings contain extension options exercisable by the Bank up to one (1) year before the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

**(ii) Other Assets**

The Bank leases ATM machines and printer with lease term of one (1) to three (3) years. In some cases, the Bank has options to purchase the assets at the end of the contract term. The Bank also leases IT equipments and other office equipments such as water purifiers and printers with contract terms of three (3) to five (5) years. These leases are short term and/or low value items. The Bank has elected not to recognise right-of-use assets and lease liabilities for these leases.

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

**Critical judgements made in the application of accounting policies (cont'd)**

(d) Income taxes (Note 11) and Deferred tax assets (Note 21)

Significant judgement is required in estimating the provision for income taxes as there are interpretations of tax law for which the final outcome has not been established, such as the tax deductibility of expected credit loss on financial instruments. Liabilities for taxation are recognised based on estimates of whether additional taxes will be payable. The estimations process may involve seeking advice of experts, where appropriate.

Where the final liability for taxation assessed by the Inland Revenue Board is different from the amounts that were initially recorded, these differences will affect the income tax expense and deferred tax provisions in the period in which the estimate is revised or when the final tax liability is established.

**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.

(b) Leases - Estimating the incremental financing rate

The Bank cannot readily determine the profit rate implicit in the lease, therefore, it uses its incremental financing rate (IFR) to measure lease liabilities. The IFR is the rate of profit that the Bank would have to pay to finance over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IFR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IFR using observable inputs (such as market profit rate) when available and is required to make certain specific estimates.

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## 5. INCOME DERIVED FROM INVESTMENT OF:

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| **(a) Depositors' funds and others** | | |
| (i) Term deposits | 524,347 | 495,106 |
| (ii) Other deposits | 241,660 | 228,251 |
| | **766,007** | **723,357** |

### (i) Income derived from investment of term deposits

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| **Finance income and hibah** | | |
| Profit from financing and advances | 362,741 | 336,424 |
| Profit from financial assets: | | |
| Deposits with banks and other financial institutions | 16,430 | 15,484 |
| FVOCI | 83,963 | 93,022 |
| Accretion of discount less amortisation of premium | 2,029 | 4,349 |
| **Investment income** | | |
| Gain arising from derecognition of financial assets at FVOCI | 11,580 | 2,545 |
| Gross dividend income from financial assets at FVOCI | - | 5 |
| **Fee income** | | |
| Financing processing fees | 1,876 | 1,445 |
| Banking service fees | 19,190 | 18,687 |
| Ar-Rahnu fees | 25,302 | 22,061 |
| Ta'widh | 1,236 | 1,084 |
| **Total income derived from investment of term deposits** | **524,347** | **495,106** |
| Of which: | | |
| Profit income earned on impaired financing and advances | **9,460** | **8,336** |

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

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

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| **(ii) Income derived from investment of other deposits** | | |
| **Finance income and hibah** | | |
| Profit from financing and advances | 167,179 | 155,097 |
| Profit from financial assets: | | |
| Deposits with banks and other financial institutions | 7,572 | 7,138 |
| FVOCI | 38,697 | 42,884 |
| Accretion of discount less amortisation of premium | 935 | 2,005 |
| **Investment income** | | |
| Gain arising from derecognition of financial assets at FVOCI | 5,337 | 1,173 |
| Gross dividend income from financial assets at FVOCI | - | 2 |
| **Fee income** | | |
| Financing processing fees | 865 | 667 |
| Banking service fees | 8,844 | 8,614 |
| Ar-Rahnu fees | 11,661 | 10,171 |
| Ta'widh | 570 | 500 |
| **Total income derived from investment of other deposits** | **241,660** | **228,251** |
| Of which: | | |
| Profit income earned on impaired financing and advances | **4,360** | **3,843** |

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

| | 2019 RM'000 | 2018 RM'000 Restated |
|---|---|---|
| **(b) Shareholder's funds** | | |
| **Finance income and hibah** | | |
| Profit from financing and advances | 153,537 | 135,377 |
| Profit from financial assets: | | |
| Deposits with banks and other financial institutions | 6,954 | 6,231 |
| FVOCI | 35,539 | 37,432 |
| Accretion of discount less amortisation of premium | 859 | 1,750 |
| **Investment income** | | |
| Gain arising from derecognition of financial assets at FVOCI | 4,901 | 1,024 |
| Gross dividend income from financial assets at FVOCI | - | 2 |
| **Fee income** | | |
| Financing processing fees | 794 | 582 |
| Government-Linked Corporation ("GLC") service fees | 10,488 | 10,671 |
| Banking service fees | 8,123 | 7,520 |
| Ar-Rahnu fees | 10,709 | 8,877 |
| Ta'widh | 523 | 436 |
| **Other operating income** | | |
| Reimbursement of Special Relief Grant for Flood ("SRGF") | - | 4 |
| Staff financing | 3,676 | 3,106 |
| Proceeds from sale of crops - Ladang Sg Tasan | 719 | 607 |
| Amortisation and utilisation of launching grant | 429 | 1,224 |
| Amortisation of operating grant | 302 | 1,195 |
| Utilisation/(writeback) of government grant - funds: | | |
| Entrepreneur Scheme for Graduates (Note 27(a)) | (3) | (2) |
| Special Fund for Terengganu Fishery (Note 27(b)) | 1 | (4) |
| Development Programme for Hard-core Poor (Note 27(c)) | 9 | 3 |
| Fund for Ministry of Youth and Sports (Note 27(d)) | (277) | (166) |
| Bumiputera Commercial and Industrial Community Scheme HUB (Note 27(e)) | (55) | 348 |
| National Key Economic Area (Note 27(f)) | (488) | 208 |
| Micro Economic Stimulation Package (Note 27(g)) | (1,543) | (2,011) |
| Micro ESP Flood Relief (Note 27(h)) | (18) | 22 |
| Utilisation of Non-Shariah Income ("NSI") (Note 23(a)(i)) | 4,589 | 4,657 |
| Other income | 5,042 | 4,430 |
| | **244,810** | **223,523** |

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

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

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| Of which: | | |
| Profit income earned on impaired financing and advances | **4,004** | **3,355** |

## 6. ALLOWANCE FOR IMPAIRMENT

| | | 2019 RM'000 | 2018 RM'000 Restated |
|---|---|---|---|
| Allowance (made)/written back for: | | | |
| Financing and advances | (a) | (48,001) | (47,462) |
| Other advances | (b) | 23,932 | 21,800 |
| Financial guarantees and financing commitments | (c) | (1,645) | 1,519 |
| Other assets | (d) | (302) | 93 |
| | | **(26,016)** | **(24,050)** |

### (a) Financing and advances

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| Stage 1 - 12-month ECL | (12,934) | 14,250 |
| Stage 2 - Lifetime ECL not credit-impaired | (11,234) | 4,410 |
| Stage 3 - Lifetime ECL credit-impaired | (49,416) | (84,555) |
| ECL for financing and advances | **(73,584)** | **(65,895)** |
| Bad debts and financing recovered | **25,583** | **18,433** |
| | **(48,001)** | **(47,462)** |

## 6. ALLOWANCE FOR IMPAIRMENT (cont'd)

### (b) Other advances

| | 2019<br>RM'000 | 2018<br>RM'000<br>Restated |
|---|---|---|
| Stage 1 - 12-month ECL | 69 | 256 |
| Stage 2 - Lifetime ECL not credit-impaired | 252 | 184 |
| Stage 3 - Lifetime ECL credit-impaired | 1,175 | 7,679 |
| Writeback of other advances | **1,496** | **8,119** |
| Bad debts and financing recovered | **22,436** | **13,681** |
| | **23,932** | **21,800** |

### (c) Financial guarantees and financing commitments

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| Stage 1 - 12-month ECL | (1,537) | 1,539 |
| Stage 2 - Lifetime ECL not credit-impaired | (108) | (20) |
| Stage 3 - Lifetime ECL credit-impaired | - | - |
| | **(1,645)** | **1,519** |

### (d) Other assets

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| Lifetime ECL credit-impaired | **(302)** | **93** |

## 7. INCOME ATTRIBUTABLE TO DEPOSITORS

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| **Deposits from customers:** | | |
| **Non-Mudharabah Funds** | | |
| Fixed return investment account ("FRIA") | 150,254 | 120,750 |
| FRIA 45 Plus | 12,522 | 12,943 |
| Agro Perdana-i | 16,993 | 16,402 |
| Agro-i Deposits | 10,218 | 10,985 |
| Qard | 3,157 | 3,074 |
| Agro Muda-i | 1,907 | 1,983 |
| Agro Tetangga-i | 222 | 243 |
| Agro Prima | 353 | 93 |
| | 195,626 | 166,473 |
| **Deposits and placement of banks and other financial institutions:** | | |
| **Non-Mudharabah Funds** | | |
| Pelaburan Khas-i | 101,727 | 114,673 |
| | **297,353** | **281,146** |

## 8. PERSONNEL EXPENSES

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| Salaries, allowances and bonuses | 246,818 | 228,419 |
| EPF contributions | 31,376 | 28,646 |
| SOCSO contributions | 2,569 | 2,417 |
| Medical insurances | 9,995 | 8,859 |
| Staff welfare | 8,609 | 7,251 |
| Non-executive directors' allowances | 1,725 | 2,104 |
| Staff training | 4,065 | 3,268 |
| Recruitment fees | 1,253 | 1,018 |
| Retirement benefits scheme | 34 | (633) |
| Others | 1,181 | 1,175 |
| | **307,625** | **282,524** |

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## 9. OTHER OVERHEADS AND EXPENDITURES

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| **Maintenance cost** | | |
| Depreciation of property, plant and equipment | 21,345 | 21,405 |
| Depreciation of right-of-use assets | 10,051 | - |
| Amortisation of computer software | 15,008 | 12,934 |
| Write off of property, plant and equipment | 56 | 259 |
| Computer maintenance | 22,060 | 19,397 |
| Rental of premises | - | 9,917 |
| Expenses relating to short-term leases | 65 | - |
| Storage services | 693 | - |
| Water and electricity | 9,195 | 9,624 |
| Printing, stationery and office supplies | 6,438 | 8,446 |
| Office maintenance | 3,295 | 3,948 |
| Takaful on property, plant and equipment | 3,193 | 3,079 |
| Building maintenance | 3,733 | 4,578 |
| Finance cost on lease liabilities | 1,910 | - |
| Finance cost on provision for re-instatement | 225 | - |
| Quit rent and assessment | 1,117 | 1,061 |
| Vehicle maintenance | 406 | 185 |
| Computer supply | 168 | 461 |
| Others | 432 | 246 |
| | **99,390** | **95,540** |
| **Marketing expenses** | | |
| Advertising and promotions | 4,674 | 2,891 |
| Others | 161 | - |
| | **4,835** | **2,891** |
| **General administrative expenses** | | |
| Communication expenses | 16,672 | 14,475 |
| Launching grants | 9 | 69 |
| Legal fees | 4,600 | 5,911 |
| Commissions and fees | 20,696 | 20,304 |
| Auditors' remuneration | | |
| - Statutory audit | 910 | 1,788 |
| - Regulatory related services | 13 | 13 |
| - Others | 39 | 38 |
| Goods and services tax | - | 2,233 |
| Security charges | 11,355 | 11,303 |
| Agro Perdana ID card | 888 | 963 |
| Others | 1,948 | 3,190 |
| | **57,130** | **60,287** |
| | **161,355** | **158,718** |

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## 10. FINANCE COSTS

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| **Profit paid on financing scheme funds** | | |
| Fund For Food ("3F") (Note 24 (a)) | 575 | 423 |
| Micro Enterprise Fund (Note 24 (c)) | 642 | 583 |
| Commercial Agriculture Fund ("DPK-GLC") (Note 24 (d)) | 9,069 | 8,675 |
| Agriculture Entrepreneur Financing Scheme Fund 1 ("DPUP 1") (Note 24 (e)) | 46,525 | 45,891 |
| Agriculture Entrepreneur Financing Scheme Fund 2 ("DPUP 2") (Note 24 (f)) | 5,337 | 5,142 |
| Agriculture Entrepreneur Financing Scheme Fund 3 ("DPUP 3") (Note 24 (g)) | 5,342 | 5,137 |
| Agriculture Entrepreneur Financing Scheme Fund 4 ("DPUP 4") (Note 24 (h)) | 983 | 946 |
| Agriculture Entrepreneur Financing Scheme Fund 5 ("DPUP 5") (Note 24 (i)) | 1,360 | 1,310 |
| Agriculture Entrepreneur Financing Scheme Fund 6 ("DPUP 6") (Note 24 (j)) | 2,240 | - |
| Special Relief Facility (Note 24 (l)) | 110 | 211 |
| Fund for Small and Medium Size Industries ("TIKS") (Note 24 (m)) | 183 | 15 |
| Disaster Relief Facility (Note 24 (n)) | 158 | 15 |
| | 72,524 | 68,348 |
| **Less : Income from fair value amortisation** | | |
| Amortisation of DPK-GLC Grant (Note 27 (k)) | 8,319 | 7,925 |
| Amortisation of DPUP 1 Grant (Note 27 (l)) | 40,463 | 39,475 |
| Amortisation of DPUP 2 Grant (Note 27 (m)) | 4,587 | 4,392 |
| Amortisation of DPUP 3 Grant (Note 27 (n)) | 4,592 | 4,387 |
| Amortisation of DPUP 4 Grant (Note 27 (o)) | 808 | 771 |
| Amortisation of DPUP 5 Grant (Note 27 (p)) | 1,110 | 1,060 |
| Amortisation of DPUP 6 Grant (Note 27 (q)) | 130 | - |
| Amortisation of Special Relief Facility (Note 27 (s)) | 109 | 211 |
| Amortisation of Disaster Relief Facility (Note 27 (t)) | 158 | 15 |
| | 60,276 | 58,236 |
| | **12,248** | **10,112** |

## 11. TAX EXPENSE

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| Income tax: | | |
| Malaysian income tax | 58,224 | 51,246 |
| (Over)/under provision in prior years | (2,342) | 5,115 |
| | **55,882** | **56,361** |
| Deferred tax: (Note 21) | | |
| Relating to origination and reversal of temporary differences | (5,445) | (2,105) |
| Under/(over) provision in prior years | 1,358 | (2,743) |
| | **(4,087)** | **(4,848)** |
| Tax expense for the year | **51,795** | **51,513** |

Income tax is calculated at the Malaysian statutory tax rate of 24% (2018: 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:

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| Profit before tax and zakat | **205,415** | **190,251** |
| Tax at the applicable statutory tax rate of 24% (2018: 24%) | 49,300 | 45,660 |
| Tax effects of: | | |
| Income not subject to tax | (954) | (581) |
| Expenses not deductible for tax purposes | 4,433 | 4,062 |
| Under/(over) provision in prior years: | | |
| Income tax | (2,342) | 5,115 |
| Deferred tax | 1,358 | (2,743) |
| Tax expense | **51,795** | **51,513** |

## 12. ZAKAT

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| Zakat for the year | **5,135** | **4,756** |

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

## 13. CASH AND SHORT TERM FUNDS

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| Cash in hand | 142,500 | 125,713 |
| Cash at banks | 140,241 | 253,447 |
| Short term deposits maturing within three months: | | |
| Licensed banks | 725,010 | 411,275 |
| Other financial institutions | 401,804 | 341,054 |
| | **1,409,555** | **1,131,489** |

The details on the short term deposits are as follows:

| | 2019 | 2018 |
|---|---|---|
| Average maturities | 13 days | 11 days |
| Weighted average effective profit rates (per annum) | 3.03% | 3.41% |

## 14. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

| | | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|---|
| Equity investments | (a) | 144 | 101 |
| Debt investments | (b) | 3,637,413 | 4,380,635 |
| | | **3,637,557** | **4,380,736** |

### (a) Equity investments

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| Quoted securities | | |
| KUB Malaysia Berhad | **144** | **101** |

### (b) Debt investments

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

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| At fair value: | | |
| Corporate sukuk | 2,371,083 | 2,695,696 |
| Government Investment Issues ("GII") | 1,266,330 | 1,684,939 |
| | **3,637,413** | **4,380,635** |

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## 14. 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** | **Stage 2** | **Stage 3** | |
| | | **Lifetime ECL Not** | **Lifetime ECL** | |
| | **12-month ECL** | **Credit - Impaired** | **Credit - Impaired** | **Total** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| As at 1 January 2018/31 December 2018/31 December 2019 | **524** | **7,184** | **-** | **7,708** |

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## 15. FINANCING AND ADVANCES

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| **By Product (at amortised cost)** | | |
| Agrocash | 7,611,279 | 7,154,338 |
| Project Financing | 4,913,114 | 4,456,531 |
| Fund For Food ("3F") | 902,844 | 800,558 |
| Ar-Rahnu | 350,875 | 293,841 |
| Fishery Boat Financing Scheme ("SPBP") | 147,979 | 151,741 |
| MUST-i | 256,073 | 256,877 |
| Oil Palm Replanting Scheme ("TASKS") | 3,991 | 4,827 |
| Bumiputera Commercial and Industrial Community Scheme ("MPPB") | 75,228 | 83,852 |
| Financing for Small and Medium Size Industries ("PKS") | 120,116 | 128,423 |
| Non-Food Production Credit Scheme ("SKPBM") | 25,056 | 30,310 |
| Food Production Credit Scheme ("SKPM") | 100,554 | 116,197 |
| Belia Tani Scheme | 5,398 | 5,668 |
| Fund For Small and Medium Size Industries ("TIKS") | 7,399 | 2,396 |
| Working Capital-i | 275,386 | 237,960 |
| Paddy Credit Scheme | 92,585 | 87,979 |
| Micro Economic Stimulus Package ("Micro-ESP-I") | 71 | 94 |
| National Key Economic Area ("NKEA") | 7,704 | 11,931 |
| Murabahah Working Capital Financing | 1,190,201 | 955,703 |
| Insani | 1,226 | 2,212 |
| Bai Al-Dayn Working Capital Financing | 107,383 | 65,253 |
| MPPB Hub | 693 | 815 |
| Agro Cash Line-i | 470,853 | 417,279 |
| Hartani-i | 1,237,368 | 1,139,624 |
| Agro Flood Relief | 441 | 637 |
| Special Relief Facility | 9,272 | 13,607 |
| Commercial Agriculture Fund ("DPK3") | 78,220 | 68,383 |
| Agro Industrial Hire Purchase-i | 6,782 | - |
| Others | 12,342 | 8,898 |
| | **18,010,433** | **16,495,934** |

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## 15. FINANCING AND ADVANCES (cont'd)

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| Brought forward from previous page | **18,010,433** | **16,495,934** |
| Add : Staff financing and advances | 155,130 | 131,003 |
| | **18,165,563** | **16,626,937** |
| Less : Unearned profit | (6,331,625) | (5,851,200) |
| **Gross financing and advances** | **11,833,938** | **10,775,737** |
| Less : | | |
| Stage 1 - 12-month ECL | (75,451) | (57,070) |
| Stage 2 - Lifetime ECL not credit-impaired | (24,993) | (21,843) |
| Stage 3 - Lifetime ECL credit-impaired | (266,242) | (265,662) |
| **Net financing and advances at amortised cost** | **11,467,252** | **10,431,162** |

(i) By maturity

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| Maturity within six months | 2,001,475 | 1,661,658 |
| Between six months to one year | 232,913 | 135,579 |
| Between one year to three years | 205,105 | 227,090 |
| Between three years to five years | 733,983 | 718,476 |
| More than five years | 8,660,462 | 8,032,934 |
| | **11,833,938** | **10,775,737** |

(ii) By sector

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| Construction and Services | 77,513 | 73,986 |
| Fishery | 567,343 | 422,495 |
| Crops | 4,403,269 | 4,142,804 |
| Livestock | 855,205 | 798,037 |
| Manufacturing | 1,395,302 | 1,071,122 |
| Others-Primary Agriculture | 31,598 | 31,745 |
| Retail and Wholesale Trade | 1,305,703 | 1,157,928 |
| Household | 3,063,814 | 2,749,979 |
| Others | 134,191 | 327,641 |
| | **11,833,938** | **10,775,737** |

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## 15. FINANCING AND ADVANCES (cont'd)

(iii) By state

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| Kuala Lumpur | 1,593,693 | 1,347,195 |
| Selangor | 1,289,835 | 1,310,672 |
| Pahang | 742,465 | 677,868 |
| Perak | 1,287,713 | 1,176,977 |
| Negeri Sembilan | 298,772 | 315,361 |
| Melaka | 527,369 | 452,456 |
| Johor | 1,058,438 | 954,746 |
| Kelantan | 633,329 | 583,707 |
| Kedah | 839,668 | 741,904 |
| Perlis | 177,002 | 165,957 |
| Sarawak | 1,237,776 | 1,181,533 |
| Sabah | 1,114,453 | 954,319 |
| Pulau Pinang | 572,891 | 465,014 |
| Terengganu | 460,534 | 448,028 |
| | **11,833,938** | **10,775,737** |

(iv) By profit rate sensitivity

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| **Fixed rate :** | | |
| Fund For Food ("3F") | 605,275 | 545,865 |
| Project Financing | 54,406 | 85,101 |
| MUST-i | 203,240 | 203,838 |
| Agrocash | 9,470 | 22,655 |
| Others | 469,522 | 483,232 |
| **Variable rate :** | | |
| Agrocash | 4,651,501 | 4,320,178 |
| Project Financing | 2,811,606 | 2,577,481 |
| Murabahah Working Capital Financing | 1,188,838 | 954,102 |
| Hartani-i | 615,561 | 563,447 |
| Others | 1,224,519 | 1,019,838 |
| | **11,833,938** | **10,775,737** |

## 15. FINANCING AND ADVANCES (cont'd)

(v) Financing by type and Shariah contract

| | Term Financing RM'000 | Revolving Financing RM'000 | Total RM'000 |
|---|---|---|---|
| **2019** | | | |
| Qard | 350,875 | - | 350,875 |
| Bai-Al Inah | 1,402,334 | 25 | 1,402,359 |
| Tawarruq | 5,105,558 | 1,889,272 | 6,994,830 |
| Bai-Bithaman Ajil | 2,973,771 | - | 2,973,771 |
| Murabahah | 107,382 | - | 107,382 |
| Ijarah | 4,721 | - | 4,721 |
| | **9,944,641** | **1,889,297** | **11,833,938** |
| **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** |

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

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| At beginning of the year | 439,340 | 435,057 |
| Additions during the year | 377,770 | 351,402 |
| Reclassified as non impaired during the year | (110,880) | (92,312) |
| Recoveries during the year | (130,523) | (112,086) |
| Amount written off | (63,918) | (142,721) |
| At end of the year | **511,789** | **439,340** |
| **Excluding Non-Shariah Assets** | | |
| Gross impaired | 511,789 | 439,340 |
| Gross impaired ratio | 4.32% | 4.08% |
| **Including Non-Shariah Assets** | | |
| Gross impaired | 518,121 | 447,521 |
| Gross impaired ratio | 4.37% | 4.15% |

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**15. FINANCING AND ADVANCES (cont'd)**

(vii) Impaired financing by sector

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| **Sectors:** | | |
| Construction and Services | 19,258 | 9,252 |
| Fishery | 49,243 | 42,624 |
| Crops | 166,840 | 148,193 |
| Livestock | 67,323 | 56,729 |
| Manufacturing | 57,505 | 52,000 |
| Others-Primary Agriculture | 3,115 | 2,013 |
| Retail and Wholesale Trade | 113,776 | 85,474 |
| Others | 34,729 | 43,055 |
| | **511,789** | **439,340** |

(viii) Impaired financing by state

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| **States:** | | |
| Kuala Lumpur | 46,209 | 31,075 |
| Selangor | 65,058 | 45,655 |
| Pahang | 19,609 | 29,423 |
| Perak | 53,913 | 61,748 |
| Negeri Sembilan | 18,845 | 10,997 |
| Melaka | 15,531 | 8,068 |
| Johor | 42,716 | 44,435 |
| Kelantan | 37,530 | 27,553 |
| Kedah | 56,924 | 63,613 |
| Perlis | 4,703 | 7,598 |
| Sarawak | 22,434 | 20,464 |
| Sabah | 50,468 | 41,189 |
| Pulau Pinang | 38,074 | 18,992 |
| Terengganu | 39,775 | 28,530 |
| | **511,789** | **439,340** |

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## 15. FINANCING AND ADVANCES (cont'd)

(ix) ECL

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 | Total RM'000 |
| Balance as at 1 January 2019 | 57,070 | 21,843 | 265,662 | **344,575** |
| Transfer to Stage 1 | 9,528 | (5,575) | (3,953) | **-** |
| Transfer to Stage 2 | (2,573) | 5,096 | (2,523) | **-** |
| Transfer to Stage 3 | (1,508) | (7,605) | 9,113 | **-** |
| Allowance made during the year | 12,934 | 11,234 | 49,416 | **73,584** |
| New financing and advances originated* | 26,255 | 2,206 | 14,070 | **42,531** |
| Net remeasurement due to changes in credit risk | (4,122) | 11,033 | 59,826 | **66,737** |
| Financial assets that have been derecognised | (9,199) | (2,005) | (24,480) | **(35,684)** |
| Write off | - | - | (51,473) | **(51,473)** |
| Balance as at 31 December 2019 | **75,451** | **24,993** | **266,242** | **366,686** |

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

## 15. FINANCING AND ADVANCES (cont'd)

(ix) ECL (cont'd)

Movements in impairment allowances are as follows: (cont'd)

| | ECL Staging | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | |
| | | Lifetime ECL Not | Lifetime ECL | |
| | 12-month ECL | Credit-Impaired | Credit-Impaired | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Balance 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.

**15. FINANCING AND ADVANCES (cont'd)**

(ix) ECL (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 increased by RM22.11 million from RM344.58 million to RM366.69 million, due to the following:

(a) 12-month ECL (Stage 1) – increase of RM18.38 million for the Bank, mainly due to:

- Financing and advances that were newly originated;
- Financing and advances which migrated from Stage 2 and Stage 3 to Stage 1 due to improvement in credit quality; and
- Partially offset by financing and advances that were repaid.

(b) Lifetime ECL Not Credit-Impaired (Stage 2) – increase of RM3.15 million for the Bank, mainly due to:

- Financing and advances which migrated from Stage 1 into Stage 2 due to deterioration in credit quality; and
- Remeasurement of ECL due to deterioration credit quality partially offset by financing and advances transfer to Stage 1 and 3.

(c) Lifetime ECL Credit-Impaired (Stage 3) – increase of RM0.58 million for the Bank, mainly due to:

- Financing and advances which migrated into Stage 3 due to deterioration in credit quality; and
- Remeasurement of ECL due to deterioration of credit quality partially offset by financing and advances that were fully repaid and written off.

## 16. OTHER ADVANCES

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| (i) Non-Shariah Assets | 11,914 | 17,027 |
| Less : | | |
| Stage 1 - 12-month ECL | (75) | (142) |
| Stage 2 - Lifetime ECL not credit-impaired | (78) | (398) |
| Stage 3 - Lifetime ECL credit-impaired | (4,892) | (6,939) |
| Non-Shariah Assets at amortised cost | **6,869** | **9,548** |

Other advances relate to customer loans not in compliance with Shariah principles. All income earned during the year from these loans amounting to RM4,214,125 (2018: RM2,235,292) will be channelled to approved charities.

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

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| At beginning of the year | 8,181 | 43,609 |
| Additions during the year | 2,498 | 3,722 |
| Reclassified as non credit-impaired during the year | (372) | (1,069) |
| Recoveries during the year | (2,229) | (3,744) |
| Amount written off | (1,746) | (34,337) |
| At end of the year | **6,332** | **8,181** |
| Gross impaired Non-Shariah Assets as a percentage of gross Non-Shariah Assets | **53.15%** | **48.05%** |

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.

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## 16. OTHER ADVANCES (cont'd)

(iii) ECL

Movements in impairment allowances are as follows:

| | ECL Staging | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | |
| | | **Lifetime ECL Not** | **Lifetime ECL** | |
| | **12-month ECL** | **Credit-Impaired** | **Credit-Impaired** | **Total** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Balance as at 1 January 2019 | 142 | 398 | 6,939 | **7,479** |
| Transfer to Stage 1 | 25 | (5) | (20) | **-** |
| Transfer to Stage 2 | (16) | 16 | **-** | **-** |
| Transfer to Stage 3 | (7) | (79) | 86 | **-** |
| Allowance written back during the year | (69) | (252) | (1,175) | **(1,496)** |
| Net remeasurement due to changes in credit risk | (53) | (24) | (209) | **(286)** |
| Financial assets that have been derecognised | (16) | (228) | (966) | **(1,210)** |
| Write off | **-** | **-** | (938) | **(938)** |
| Balance as at 31 December 2019 | **75** | **78** | **4,892** | **5,045** |

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

## 16. OTHER ADVANCES (cont'd)

(iii) ECL (cont'd)

Movements in impairment allowances are as follows: (cont'd)

| | ECL Staging | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | |
| | | Lifetime ECL Not | Lifetime ECL | |
| | 12-month ECL | Credit-Impaired | Credit-Impaired | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Balance 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) | (7,679) | **(8,119)** |
| Net remeasurement due to changes in credit risk | 189 | (181) | 3,669 | **3,677** |
| Financial assets that have been derecognised | (445) | (3) | (11,348) | **(11,796)** |
| Write off | - | - | (19,381) | **(19,381)** |
| Balance as at 31 December 2018 | **142** | **398** | **6,939** | **7,479** |

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

## 16. OTHER ADVANCES (cont'd)

(iii) ECL (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 RM2.44 million, due to the following:

(a) 12-month ECL (Stage 1) – decrease of RM0.07 million for the Bank, mainly due to:

- Other advances that migrated into Stage 2 and 3 or remeasurement of ECL due to deterioration in credit quality; and

- Other advances that were fully repaid.

(b) Lifetime ECL Not Credit-Impaired (Stage 2) – decrease of RM0.32 million for the Bank, mainly due to:

- Other advances that were fully repaid; and

- 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 RM2.05 million for the Bank, mainly due to:

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

- Other advances that were fully repaid and written off.

## 17. OTHER ASSETS

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| Foreclosed properties | 2,718 | 2,718 |
| Tax recoverable | - | 2,930 |
| Project Ladang BPM - Sg Tasan | 3,377 | 3,377 |
| Profit and income receivable | 83,651 | 81,248 |
| Other receivables | 70,882 | 37,360 |
| | **160,628** | **127,633** |
| Less: Impairment allowance | (12,588) | (12,286) |
| Other assets, net of impairment allowance | **148,040** | **115,347** |

Movements in impairment allowances are as follows:

| | Lifetime ECL<br>Credit-Impaired<br>RM'000 | Total<br>RM'000 |
|---|---|---|
| Balance as at 1 January 2019 | 12,286 | 12,286 |
| Allowance made during the year | 302 | 302 |
| Balance as at 31 December 2019 | **12,588** | **12,588** |

| | Lifetime ECL<br>Credit-Impaired<br>RM'000 | Total<br>RM'000 |
|---|---|---|
| Balance 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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## 18. 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 2019 | 3,487 | 11,604 | 8,034 | 87,033 | 11,246 | 163,652 | 66,960 | 88,690 | 440,706 |
| Effect of adopting MFRS 16 | - | - | (8,034) | - | - | - | - | - | (8,034) |
| At 1 January 2019, restated | 3,487 | 11,604 | - | 87,033 | 11,246 | 163,652 | 66,960 | 88,690 | 432,672 |
| Additions | - | - | - | - | 51 | 17,573 | 2,842 | 5,841 | 26,307 |
| Disposal | - | (223) | - | - | (527) | - | - | - | (750) |
| Write off | - | - | - | - | - | (36) | (527) | (29) | (592) |
| At 31 December 2019 | **3,487** | **11,381** | **-** | **87,033** | **10,770** | **181,189** | **69,275** | **94,502** | **457,637** |
| **Accumulated depreciation** | | | | | | | | | |
| At 1 January 2019 | - | 5,152 | 2,163 | 31,849 | 8,799 | 124,772 | 49,372 | 75,089 | 297,196 |
| Effect of adopting MFRS 16 | - | - | (2,163) | - | - | - | - | - | (2,163) |
| At 1 January 2019, restated | - | 5,152 | - | 31,849 | 8,799 | 124,772 | 49,372 | 75,089 | 295,033 |
| Charge for the year | - | 294 | - | 2,139 | 741 | 9,211 | 4,187 | 4,773 | 21,345 |
| Disposal | - | (124) | - | - | (527) | - | - | - | (651) |
| Write off | - | - | - | - | | (36) | (472) | (28) | (536) |
| At 31 December 2019 | **-** | **5,322** | **-** | **33,988** | **9,013** | **133,947** | **53,087** | **79,834** | **315,191** |
| **Net book value** | | | | | | | | | |
| At 31 December 2019 | **3,487** | **6,059** | **-** | **53,045** | **1,757** | **47,242** | **16,188** | **14,668** | **142,446** |

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## 18. 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 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** |

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## 18. 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 RM13,988,302 (2018: RM14,289,818) 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 2019** | | | | | | |
| Cost | 19,100 | 1,709 | 28,188 | 4,000 | 23,975 | 76,972 |
| Accumulated depreciation | (5,112) | (1,709) | (28,188) | (4,000) | (23,975) | (62,984) |
| **Net book value** | **13,988** | **-** | **-** | **-** | **-** | **13,988** |
| **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** |

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## 18. PROPERTY, PLANT AND EQUIPMENT (cont'd)

(ii) The property, plant and equipment acquired from government grants - launching with net book value amounting to RM1,058,799 (2018: RM1,480,255) 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 2019** | | | | | |
| Cost | 1,165 | 15,091 | 1,858 | 1,548 | 19,662 |
| Accumulated depreciation | (985) | (14,258) | (1,813) | (1,548) | (18,604) |
| **Net book value** | **180** | **833** | **45** | **-** | **1,058** |
| **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** |

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## 19. INTANGIBLE ASSETS

| | Computer software RM'000 |
|---|---|
| **Cost** | |
| At 1 January 2019 | 150,904 |
| Additions | 19,049 |
| At 31 December 2019 | **169,953** |
| **Accumulated amortisation** | |
| At 1 January 2019 | 129,226 |
| Charge for the year | 15,008 |
| At 31 December 2019 | **144,234** |
| **Net book value** | |
| At 31 December 2019 | **25,719** |
| **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** |

**19. 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 |
|---|---|---|---|
| 2019 | 6,304 | (6,304) | - |
| 2018 | 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 |
|---|---|---|---|
| 2019 | 24,079 | (24,079) | - |
| 2018 | 24,079 | (24,079) | - |

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## 20. LEASES

### Bank as a lessee

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

| | Real estate RM'000 | Equipment RM'000 | Leasehold land RM'000 | Computer hardware RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| At 1 January 2019 | **50,500** | **166** | **5,871** | **89** | **56,626** |
| Additions | 3,222 | - | - | - | 3,222 |
| Depreciation expense | (9,904) | (56) | (75) | (16) | (10,051) |
| At 31 December 2019 | **43,818** | **110** | **5,796** | **73** | **49,797** |

Set out below are the carrying amounts of lease liabilities (included under other liabilities) and the movements during the period:

| | 2019 RM'000 |
|---|---|
| At 1 January | 45,226 |
| Additions | 2,885 |
| Accretion of profit | 1,910 |
| Payments | (9,887) |
| At 31 December | **40,134** |

The maturity analysis of lease liabilities are disclosed in Note 34.

The following are the amounts recognised in profit or loss:

| | 2019 RM'000 |
|---|---|
| Depreciation | 10,051 |
| Finance cost on lease liabilities | 1,910 |
| Expense relating to short-term leases | 65 |
| Expense relating to leases of low-value assets (included in maintenance cost) | 1,634 |
| Total amount recognised in profit or loss | **13,660** |

## 21. DEFERRED TAX (LIABILITIES) / ASSETS

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| At 1 January | 11,391 | 12,021 |
| Recognised in profit or loss (Note 11) | 4,087 | 4,848 |
| Recognised in other comprehensive income | (28,180) | (5,478) |
| At 31 December | **(12,702)** | **11,391** |
| Presented after appropriate offsetting as follows: | | |
| Deferred tax assets | - | 11,391 |
| Deferred tax liabilities | (12,702) | - |
| | **(12,702)** | **11,391** |

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.

## 21. DEFERRED TAX (LIABILITIES) / 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 2019 | (4,814) |
| Recognised in profit or loss | (507) |
| At 31 December 2019 | **(5,321)** |
| At 1 January 2018 | (7,714) |
| Recognised in profit or loss | 2,900 |
| At 31 December 2018 | **(4,814)** |

**Deferred tax assets:**

| | **Provisions RM'000** | **FVOCI (reserve)/ deficit RM'000** | **Other temporary differences RM'000** | **Total RM'000** |
|---|---|---|---|---|
| At 1 January 2019 | 14,051 | 1,282 | 872 | 16,205 |
| Recognised in: | | | | |
| - Profit or loss | 4,370 | - | 224 | 4,594 |
| - Other comprehensive income | - | (28,180) | - | (28,180) |
| At 31 December 2019 | **18,421** | **(26,898)** | **1,096** | **(7,381)** |
| 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** |

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## 22. (a) DEPOSITS FROM CUSTOMERS

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| **Tawarruq** | | |
| Fixed Return Investment Account- i (FRIA-i) | 3,960,158 | 4,180,606 |
| AgroPrima | 178,364 | 91,634 |
| | 4,138,522 | 4,272,240 |
| **Wadiah Yad Dhamanah** | | |
| Qard savings | 1,600,012 | 1,612,639 |
| Agro Perdana-i | 1,584,625 | 1,523,870 |
| Deposit Securities | 228,308 | 206,058 |
| Basic Savings Accounts | 6,169 | 5,516 |
| | 3,419,114 | 3,348,083 |
| | **7,557,636** | **7,620,323** |

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

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| Within six months | 2,792,867 | 2,810,079 |
| Between six months to one year | 1,223,076 | 1,355,793 |
| Between one year to three years | 74,841 | 75,911 |
| Between three years to five years | 47,738 | 30,457 |
| | **4,138,522** | **4,272,240** |

**22. (a) DEPOSITS FROM CUSTOMERS (cont'd)**

The deposits are sourced from the following type of customers:

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| Government | 2,392,120 | 2,225,948 |
| Individuals | 3,059,468 | 3,043,420 |
| Domestic business enterprises | 1,119,777 | 1,521,045 |
| Domestic other entities | 932,046 | 790,577 |
| Domestic non-banking institutions | 54,225 | 39,333 |
| | **7,557,636** | **7,620,323** |

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

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| **Tawarruq** | | |
| Pelaburan Khas-i | **3,280,172** | **2,990,170** |

Maturity structure for Pelaburan Khas-i is as follows:

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| Within six months | 3,277,170 | 2,990,170 |
| Between six months to one year | 3,002 | - |
| | **3,280,172** | **2,990,170** |

The deposits are sourced from the following types of customers:

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| Government | 1,414,397 | 2,059,611 |
| Domestic business enterprises | 1,461,364 | 775,331 |
| Domestic non-banking institutions | 404,411 | 155,228 |
| | **3,280,172** | **2,990,170** |

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## 23. OTHER LIABILITIES

### (a) Other payables and accruals

| | Note | 2019 RM'000 | 2018 RM'000 |
|---|---|---|---|
| Accrued expenses | | 74,815 | 83,734 |
| Sundry creditors | | 48,682 | 33,769 |
| Donation/charity | (i) | 67 | 1,231 |
| Zakat payable | | 5,764 | 6,727 |
| Provision for re-instatement cost | (ii) | 6,091 | - |
| Tax payable | | 15,620 | - |
| Provision for undistributed profit | (iii) | 1,528 | 4,390 |
| Retirement benefits scheme | (iv) | 300 | 266 |
| Compensation claim | (v) | 1,530 | 1,061 |
| | | **154,397** | **131,178** |

### (i) Donation/charity payable

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| **At 1 January** | **1,231** | **5,028** |
| Addition | 4,214 | 2,235 |
| Utilisation during the year: | | |
| Provision for other advances (Note 5(b)) | (4,589) | (4,657) |
| Tax penalty | (789) | - |
| Acquisition of building and premises | - | (1,375) |
| **At 31 December** | **67** | **1,231** |

Donation/charity payable relate to income in respect of loans which are not in compliance with Shariah principle. Non-shariah income ("NSI") is utilised for the following:

(a) to utilise NSI as a provision for other advances ("NSA") Non-Shariah Assets;
(b) to utilise NSI to pay tax on NSI inclusive of tax penalty arising from non declaration of NSI; or
(c) to distribute NSI to selected Majlis Agama Negeri for the purpose of acquisition of building or office premises.

### (ii) Provision for re-instatement cost

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| **At 1 January** | **-** | **-** |
| Effect of adopting MFRS 16 | **5,529** | **-** |
| **Restated as at 1 January** | **5,529** | |
| Discount unwinding | 225 | - |
| Addition | 337 | - |
| **At 31 December** | **6,091** | **-** |

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## 23. OTHER LIABILITIES (cont'd)

### (iii) Provision for undistributed profit

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| **At 1 January** | **4,390** | **10,663** |
| Distribution | (2,862) | (6,273) |
| **At 31 December** | **1,528** | **4,390** |

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

### (iv) Retirement benefits scheme

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

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| **At 1 January** | **266** | **1,178** |
| Current service cost [1] | 34 | (613) |
| Benefits paid | - | (299) |
| **At 31 December** | **300** | **266** |

[1] Current service cost in 2019 represents an increase in the retirement benefit resulting from an additional year of service rendered by the employees. While in 2018, the 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:

| | 2019 | 2018 |
|---|---|---|
| Turnover and early retirement rate | | |
| Age brackets: | | |
| 50 years and over | 2.11% | 2.11% |
| Salaries increase rate (per annum) | 5.00% | 5.00% |
| Average remaining years of service of employees | 7.6 years | 8.6 years |
| Discount rate | 3.28% | 3.95% |

**23. OTHER LIABILITIES (cont'd)**

(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 RM23,227 (2018: RM1,202) or decrease by RM21,355 (2018: RM1,095) respectively.

(ii) Provision for a retirement benefit scheme to increase to RM323,510 (2018: RM288,746) or decrease to RM278,928 (2018: RM244,393) respectively.

**(v) Compensation claim**

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| **At 1 January** | **1,061** | **982** |
| Additions | 805 | 79 |
| Payments made during the year | (336) | - |
| **At 31 December** | **1,530** | **1,061** |

**(b) Paddy credit gratuity scheme**

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| At beginning of the year | **2,275** | **2,265** |
| Additions | 36 | 62 |
| Payments | (30) | (52) |
| At the end of year | **2,281** | **2,275** |

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.

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## 23. OTHER LIABILITIES (cont'd)

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

| | ECL Staging | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | |
| | | **Lifetime ECL Not** | **Lifetime ECL** | |
| | **12-month ECL** | **Credit-Impaired** | **Credit-Impaired** | **Total** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Balance as at 1 January 2019 | 4,398 | 133 | - | **4,531** |
| Transfer to Stage 1 | 95 | (95) | - | - |
| Transfer to Stage 2 | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - |
| **Allowance made during the year** | **1,537** | **108** | - | **1,645** |
| New financing commitments and financial guarantees originated* | 3,629 | 6 | - | **3,635** |
| Net remeasurement due to changes in credit risk | (779) | 126 | - | **(653)** |
| Financing commitment and financial guarantees that have been derecognised | (1,313) | (24) | - | **(1,337)** |
| Balance as at 31 December 2019 | **6,030** | **146** | - | **6,176** |

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

## 23. OTHER LIABILITIES (cont'd)

### (c) Expected credit losses for financial guarantee and financing commitments (cont'd)

| | ECL Staging | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | |
| | | Lifetime ECL Not | Lifetime ECL | |
| | 12-month ECL | Credit-Impaired | Credit-Impaired | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Balance 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.

## 24. FINANCING SCHEME FUNDS

Summary of financing scheme funds is as follows:

| | Note | 2019 RM'000 | 2018 RM'000 |
|---|---|---|---|
| Fund for Food ("3F") | (a) | 282,509 | 192,399 |
| Oil Palm Replanting Scheme ("TASKS") | (b) | 7,000 | 8,000 |
| Micro Enterprise Fund | (c) | 45,792 | 42,517 |
| Commercial Agriculture Fund ("DPK-GLC") | (d) | 204,269 | 195,200 |
| Agriculture Entrepreneur Financing Fund 1 ("DPUP 1") | (e) | 1,016,571 | 1,038,752 |
| Agriculture Entrepreneur Financing Fund 2 ("DPUP 2") | (f) | 124,870 | 120,283 |
| Agriculture Entrepreneur Financing Fund 3 ("DPUP 3") | (g) | 118,721 | 114,129 |
| Agriculture Entrepreneur Financing Fund 4 ("DPUP 4") | (h) | 21,572 | 20,764 |
| Agriculture Entrepreneur Financing Fund 5 ("DPUP 5") | (i) | 29,787 | 28,677 |
| Agriculture Entrepreneur Financing Fund 6 ("DPUP 6") | (j) | 49,293 | 50,000 |
| Agriculture Entrepreneur Financing Fund 7 ("DPUP 7") | (k) | 50,386 | - |
| Special Relief Facility | (l) | 2,772 | 5,051 |
| Fund for Small and Medium Size Industries (“TIKS") | (m) | 16,118 | 4,811 |
| Disaster Relief Facility | (n) | 3,660 | 4,725 |
| | | **1,973,320** | **1,825,308** |

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

| | Principal RM'000 | Profit RM'000 | Total RM'000 |
|---|---|---|---|
| As at 1 January 2019 | 192,123 | 276 | 192,399 |
| Additions | 139,212 | - | 139,212 |
| Charged to profit or loss | - | 575 | 575 |
| Payments | (49,101) | (576) | (49,677) |
| At 31 December 2019 | **282,234** | **275** | **282,509** |

## 24. FINANCING SCHEME FUNDS (cont'd)

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

| | Principal RM'000 | Profit RM'000 | Total RM'000 |
|---|---|---|---|
| As at 1 January 2018 | 174,493 | 277 | 174,770 |
| Additions | 65,344 | - | 65,344 |
| Charged to profit or loss | - | 423 | 423 |
| Payments | (47,714) | (424) | (48,138) |
| At 31 December 2018 | **192,123** | **276** | **192,399** |

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 7,626 customers (2018: 7,341 customers) with accumulated disbursement amounting to RM1.55 billion (2018: RM1.41 billion).

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

| | Principal RM'000 |
|---|---|
| As at 1 January 2019 | 8,000 |
| Payments | (1,000) |
| At 31 December 2019 | **7,000** |
| As at 1 January 2018 | 9,000 |
| Payments | (1,000) |
| At 31 December 2018 | **8,000** |

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 (2018: 199 customers) with accumulated disbursement amounting to RM14.90 million (2018: RM14.90 million).

### (c) Micro Enterprise Fund

| | Principal RM'000 | Profit RM'000 | Total RM'000 |
|---|---|---|---|
| As at 1 January 2019 | 42,324 | 193 | 42,517 |
| Additions | 6,519 | - | 6,519 |
| Charged to profit or loss | - | 642 | 642 |
| Payments | (3,219) | (667) | (3,886) |
| At 31 December 2019 | **45,624** | **168** | **45,792** |

## 24. FINANCING SCHEME FUNDS (cont'd)

### (c) Micro Enterprise Fund (cont'd)

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

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 8,486 customers (2018: 8,183 customers) with accumulated disbursement amounting to RM187.63 million (2018: RM181.54 million).

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

| | Principal RM'000 | Profit RM'000 | Total RM'000 |
|---|---|---|---|
| As at 1 January 2019 | 189,319 | 5,881 | 195,200 |
| Charged to profit or loss | 8,319 | 750 | 9,069 |
| At 31 December 2019 | **197,638** | **6,631** | **204,269** |
| As at 1 January 2018 | 181,394 | 5,131 | 186,525 |
| Charged to profit or loss | 7,925 | 750 | 8,675 |
| At 31 December 2018 | **189,319** | **5,881** | **195,200** |

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 27(k). The purpose of this fund is to finance the commercial agro-based industry. This fund has benefited 17 customers (2018: 12 customers) with accumulated disbursement amounting to RM95.25 million (2018: RM78.5 million).

**24. 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 2019 | 1,022,175 | 16,577 | 1,038,752 |
| Charged to profit or loss | 40,463 | 6,062 | 46,525 |
| Payments | (62,644) | (6,062) | (68,706) |
| At 31 December 2019 | **999,994** | **16,577** | **1,016,571** |
| As at 1 January 2018 | 982,700 | 16,577 | 999,277 |
| Charged to profit or loss | 39,475 | 6,416 | 45,891 |
| Payments | - | (6,416) | (6,416) |
| At 31 December 2018 | **1,022,175** | **16,577** | **1,038,752** |

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 27(l). This fund has benefited 84,887 customers (2018: 84,818 customers) with accumulated disbursement amounting to RM3.48 billion (2018: RM3.37 billion).

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

| | Principal RM'000 | Profit RM'000 | Total RM'000 |
|---|---|---|---|
| As at 1 January 2019 | 120,199 | 84 | 120,283 |
| Charged to profit or loss | 4,587 | 750 | 5,337 |
| Payments | - | (750) | (750) |
| At 31 December 2019 | **124,786** | **84** | **124,870** |
| As at 1 January 2018 | 115,807 | 84 | 115,891 |
| Charged to profit or loss | 4,392 | 750 | 5,142 |
| Payments | - | (750) | (750) |
| At 31 December 2018 | **120,199** | **84** | **120,283** |

## 24. 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 27(m). The purpose of this fund is to stimulate growth of farming activities involving upstream and downstream activities. This fund has benefited 4,950 customers (2018: 4,945 customers) with accumulated disbursement amounting to RM155.67 million (2018: RM148.19 million).

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

| | Principal RM'000 | Profit RM'000 | Total RM'000 |
|---|---|---|---|
| As at 1 January 2019 | 114,129 | - | 114,129 |
| Charged to profit or loss | 4,592 | 750 | 5,342 |
| Payments | - | (750) | (750) |
| At 31 December 2019 | **118,721** | **-** | **118,721** |
| As at 1 January 2018 | 109,742 | - | 109,742 |
| Charged to profit or loss | 4,387 | 750 | 5,137 |
| Payments | - | (750) | (750) |
| At 31 December 2018 | **114,129** | **-** | **114,129** |

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 27(n). The purpose of this fund is to stimulate growth of farming activities involving upstream and downstream activities. This fund has benefited 4,132 customers (2018: 4,117 customers) with accumulated disbursement amounting to RM145.99 million (2018: RM141.58 million).

## 24. 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 2019 | 20,764 | - | 20,764 |
| Charged to profit or loss | 808 | 175 | 983 |
| Payments | - | (175) | (175) |
| At 31 December 2019 | **21,572** | **-** | **21,572** |
| As at 1 January 2018 | 19,993 | - | 19,993 |
| Charged to profit or loss | 771 | 175 | 946 |
| Payments | - | (175) | (175) |
| At 31 December 2018 | **20,764** | **-** | **20,764** |

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 27(o). The purpose of this fund is to stimulate growth of farming activities involving upstream and downstream activities. This fund has benefited 43 customers (2018: 43 customers) with accumulated disbursement amounting to RM29.22 million (2018: RM25.36 million).

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

| | Principal RM'000 | Profit RM'000 | Total RM'000 |
|---|---|---|---|
| As at 1 January 2019 | 28,677 | - | 28,677 |
| Charged to profit or loss | 1,110 | 250 | 1,360 |
| Payments | - | (250) | (250) |
| At 31 December 2019 | **29,787** | **-** | **29,787** |
| As at 1 January 2018 | 27,617 | - | 27,617 |
| Charged to profit or loss | 1,060 | 250 | 1,310 |
| Payments | - | (250) | (250) |
| At 31 December 2018 | **28,677** | **-** | **28,677** |

## 24. 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 27(p). The purpose of this fund is to stimulate growth of farming activities involving upstream and downstream activities. This fund has benefited 72 customers (2018: 70 customers) with accumulated disbursement amounting to RM36.38 million (2018: RM32.02 million).

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

| | Principal RM'000 | Profit RM'000 | Total RM'000 |
|---|---|---|---|
| As at 1 January 2019 | 50,000 | - | 50,000 |
| Transfer to Government Grants-Funds (Note 27 (q)) | (837) | - | (837) |
| Charged to profit or loss | 130 | 2,110 | 2,240 |
| Payments | - | (2,110) | (2,110) |
| At 31 December 2019 | **49,293** | **-** | **49,293** |
| 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 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 27(q). The purpose of this fund is to stimulate growth of farming activities involving upstream and downstream activities. This fund has benefited 2,687 customers (2018: nil) with accumulated disbursement amounting to RM24.50 million (2018: nil).

## 24. FINANCING SCHEME FUNDS (cont'd)

### (k) Agriculture Entrepreneur Financing Fund 7 ("DPUP 7")

| | Principal RM'000 | Profit RM'000 | Total RM'000 |
|---|---|---|---|
| As at 1 January 2019 | - | - | - |
| Fund received | 60,000 | - | 60,000 |
| Transfer to Government Grants-Funds (Note 27 (r)) | (9,614) | - | (9,614) |
| At 31 December 2019 | **50,386** | **-** | **50,386** |

The fund amounting RM60 million was received from the Government on 16 December 2019. The tenure of this financing is 20 years (10 years grace period) at a profit rate of 2.50% 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 27(r). The purpose of this fund is to stimulate growth of farming activities involving upstream and downstream activities.

### (l) Special Relief Facility

| | Principal RM'000 | Profit RM'000 | Total RM'000 |
|---|---|---|---|
| As at 1 January 2019 | 4,128 | 923 | 5,051 |
| Charged to profit or loss | - | 110 | 110 |
| Payments | (2,389) | - | (2,389) |
| At 31 December 2019 | **1,739** | **1,033** | **2,772** |
| | | | |
| As at 1 January 2018 | 7,361 | 712 | 8,073 |
| Fund received | 41 | - | 41 |
| Charged to profit or loss | - | 211 | 211 |
| Payments | (3,274) | - | (3,274) |
| At 31 December 2018 | **4,128** | **923** | **5,051** |

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 27(s). This fund has benefited 288 customers (2018: 288 customers) with accumulated disbursement amounting to RM13.39 million (2018: RM13.39 million).

## 24. FINANCING SCHEME FUNDS (cont'd)

### (m) Fund for Small and Medium Size Industries ("TIKS")

| | Principal RM'000 | Profit RM'000 | Total RM'000 |
|---|---|---|---|
| As at 1 January 2019 | 4,812 | (1) | 4,811 |
| Fund received | 11,326 | - | 11,326 |
| Charged to profit or loss | - | 183 | 183 |
| Payments | (19) | (183) | (202) |
| At 31 December 2019 | **16,119** | **(1)** | **16,118** |
| As at 1 January 2018 | 154 | - | 154 |
| Fund received | 4,658 | - | 4,658 |
| Charged to profit or loss | - | 15 | 15 |
| Payments | - | (16) | (16) |
| At 31 December 2018 | **4,812** | **(1)** | **4,811** |

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 33 customers (2018: 8 customers) with accumulated disbursement amounting to RM16.31 million (2018: RM4.98 million).

### (n) Disaster Relief Facility

| | Principal RM'000 | Profit RM'000 | Total RM'000 |
|---|---|---|---|
| As at 1 January 2019 | 4,710 | 15 | 4,725 |
| Fund received | 45 | - | 45 |
| Charged to profit or loss | - | 158 | 158 |
| Payments | (1,268) | - | (1,268) |
| At 31 December 2019 | **3,487** | **173** | **3,660** |
| As at 1 January 2018 | - | - | - |
| Fund received | 4,710 | - | 4,710 |
| Charged to profit or loss | - | 15 | 15 |
| At 31 December 2018 | **4,710** | **15** | **4,725** |

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 27(t). This fund has benefited 23 customers (2018: 23 customers) with accumulated disbursement amounting to RM5.17 million (2018: RM5.13 million).

## 25. GOVERNMENT GRANT - OPERATING

| | Capital Expenditure RM'000 | Development Expenditure RM'000 | Total RM'000 |
|---|---|---|---|
| As at 1 January 2019 | 23,233 | 77 | 23,310 |
| Amortisation during the year | (302) | - | (302) |
| At 31 December 2019 | **22,931** | **77** | **23,008** |
| 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** |

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 18(i).

## 26. GOVERNMENT GRANT - LAUNCHING

| | Capital Expenditure RM'000 | Development Expenditure RM'000 | Total RM'000 |
|---|---|---|---|
| As at 1 January 2019 | 1,478 | 1,442 | 2,920 |
| Utilisation during the year | - | (9) | (9) |
| Amortisation during the year | (420) | - | (420) |
| At 31 December 2019 | **1,058** | **1,433** | **2,491** |
| 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** |

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 18(ii).

## 27. GOVERNMENT GRANTS - FUNDS

Summary of government grant funds is as follows:

| | Note | 2019 RM'000 | 2018 RM'000 |
|---|---|---|---|
| Entrepreneur Scheme for Graduates | (a) | 1,140 | 1,137 |
| Special Fund For Terengganu Fishery | (b) | 36 | 37 |
| Development Programme for Hard-core Poor | (c) | 2,485 | 2,494 |
| Fund for Ministry of Youth and Sports | (d) | 9,022 | 8,745 |
| Bumiputera Commercial and Industrial Community Scheme HUB | (e) | 35,380 | 35,325 |
| National Key Economic Area | (f) | 54,524 | 54,036 |
| Micro Economic Stimulation Package | (g) | 160,036 | 158,493 |
| Micro ESP Flood Relief | (h) | 2,887 | 2,869 |
| Agriculture Mechanism and Automation Scheme | (i) | 5,792 | 5,792 |
| Oil Palm Replanting for Small Holders | (j) | 19,800 | - |
| Commercial Agriculture Fund | (k) | 99,181 | 107,500 |
| Agriculture Entrepreneur Financing Fund 1 | (l) | 203,893 | 244,356 |
| Agriculture Entrepreneur Financing Fund 2 | (m) | 25,130 | 29,717 |
| Agriculture Entrepreneur Financing Fund 3 | (n) | 31,280 | 35,872 |
| Agriculture Entrepreneur Financing Fund 4 | (o) | 13,428 | 14,236 |
| Agriculture Entrepreneur Financing Fund 5 | (p) | 20,213 | 21,323 |
| Agriculture Entrepreneur Financing Fund 6 | (q) | 707 | - |
| Agriculture Entrepreneur Financing Fund 7 | (r) | 9,614 | - |
| Special Relief Facility | (s) | 16 | 125 |
| Disaster Relief Facility | (t) | 246 | 404 |
| | | **694,810** | **722,461** |

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

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| At beginning of the year | 1,137 | 1,135 |
| Writeback (Note 5) | 3 | 2 |
| At end of the year | **1,140** | **1,137** |

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 (2018: 203 graduates) with accumulated disbursement amounting to RM8.35 million (2018: RM8.35 million).

## 27. GOVERNMENT GRANTS - FUNDS (cont'd)

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

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| At beginning of the year | 37 | 33 |
| (Utilisation) / writeback (Note 5) | (1) | 4 |
| At end of the year | **36** | **37** |

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 (2018: 877 customers) with accumulated disbursement amounting to RM29.90 million (2018: RM29.90 million).

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

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| At beginning of the year | 2,494 | 2,497 |
| Utilisation (Note 5) | (9) | (3) |
| At end of the year | **2,485** | **2,494** |

This program represents profit-free financing from the Government to the hard-core poor. The grant has benefited 92 customers (2018: 92 customers) with accumulated disbursement amounting to RM0.66 million (2018: RM0.66 million).

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

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| At beginning of the year | 8,745 | 8,579 |
| Writeback (Note 5) | 277 | 166 |
| At end of the year | **9,022** | **8,745** |

The purpose of this fund is to encourage youth involvement in the agricultural industry under *Skim Belia Tani.* The grant has benefited 524 customers (2018: 524 customers) with accumulated disbursement amounting to RM15.73 million (2018: RM15.73 million).

## 27. GOVERNMENT GRANTS - FUNDS (cont'd)

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

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| At beginning of the year | 35,325 | 35,673 |
| Writeback / (utilisation) (Note 5) | 55 | (348) |
| At end of the year | **35,380** | **35,325** |

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 (2018: 512 customers) with accumulated disbursement amounting to RM41.67 million (2018: RM41.67 million).

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

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| At beginning of the year | 54,036 | 54,244 |
| Writeback / (utilisation) (Note 5) | 488 | (208) |
| At end of the year | **54,524** | **54,036** |

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 (2018: 997 customers) with accumulated disbursement amounting to RM124.18 million (2018: RM124.18 million).

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

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| At beginning of the year | 158,493 | 156,482 |
| Writeback (Note 5) | 1,543 | 2,011 |
| At end of the year | **160,036** | **158,493** |

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 (2018: 17,286 customers) with accumulated disbursement amounting to RM334.73 million (2018: RM334.73 million).

## 27. GOVERNMENT GRANTS - FUNDS (cont'd)

### (h) Micro ESP Flood Relief

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| At beginning of the year | 2,869 | 2,891 |
| Writeback / (utilisation) (Note 5) | 18 | (22) |
| At end of the year | **2,887** | **2,869** |

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 2018 and 31 December 2019 | **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.

### (j) Oil Palm Replanting for Small Holders ("TSPKS")

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| At beginning of the year | - | - |
| Fund received | 20,000 | - |
| Management fees | (200) | - |
| At end of the year | **19,800** | **-** |

The fund amounting RM20.0 million was received from the Government on 14 November 2019. The purpose of this fund is to support oil palm replanting for small holders. The fund is channelled from the Government as a grant for 2019 and as a financing without profit for the subsequent years. In addition, the liability risk borne between Government and Bank is 50:50 (at uncollected portion). Financing is offered to farmers up to 12 years with 4 years moratorium at a profit rate of 2.0% per annum. The Government has agreed to contribute 1% per annum as management fees to the Bank during the moratorium period (4 years).

## 27. GOVERNMENT GRANTS - FUNDS (cont'd)

### (k) Commercial Agriculture Fund ("DPK-GLC")

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| At beginning of the year | 107,500 | 115,425 |
| Amortisation (Note 10) | (8,319) | (7,925) |
| At end of the year | **99,181** | **107,500** |

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 24 (d).

### (l) Agriculture Entrepreneur Financing Fund 1 ("DPUP 1")

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| At beginning of the year | 244,356 | 283,831 |
| Amortisation (Note 10) | (40,463) | (39,475) |
| At end of the year | **203,893** | **244,356** |

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 24 (e).

### (m) Agriculture Entrepreneur Financing Fund 2 ("DPUP 2")

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| At beginning of the year | 29,717 | 34,109 |
| Amortisation (Note 10) | (4,587) | (4,392) |
| At end of the year | **25,130** | **29,717** |

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 24 (f).

## 27. GOVERNMENT GRANTS - FUNDS (cont'd)

### (n) Agriculture Entrepreneur Financing Fund 3 ("DPUP 3")

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| At beginning of the year | 35,872 | 40,259 |
| Amortisation (Note 10) | (4,592) | (4,387) |
| At end of the year | **31,280** | **35,872** |

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 24 (g).

### (o) Agriculture Entrepreneur Financing Fund 4 ("DPUP 4")

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| At beginning of the year | 14,236 | 15,007 |
| Amortisation (Note 10) | (808) | (771) |
| At end of the year | **13,428** | **14,236** |

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 24 (h).

### (p) Agriculture Entrepreneur Financing Fund 5 ("DPUP 5")

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| At beginning of the year | 21,323 | 22,383 |
| Amortisation (Note 10) | (1,110) | (1,060) |
| At end of the year | **20,213** | **21,323** |

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 24 (i).

**27. GOVERNMENT GRANTS - FUNDS (cont'd)**

**(q) Agriculture Entrepreneur Financing Fund 6 ("DPUP 6")**

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| At beginning of the year | - | - |
| Transfer from Financing Scheme Funds (Note 24 (j)) | 837 | - |
| Amortisation (Note 10) | (130) | - |
| At end of the year | **707** | **-** |

The benefit of this below market rate financing scheme fund amounting to RM50.0 million, received from the Government on 12 December 2018 at a profit rate of 4.0% per annum, is recognised as a Government Grant as disclosed in Note 24 (j).

**(r) Agriculture Entrepreneur Financing Fund 7 ("DPUP 7")**

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| At beginning of the year | - | - |
| Transfer from Financing Scheme Funds (Note 24 (k)) | 9,614 | - |
| At end of the year | **9,614** | **-** |

The benefit of this below market rate financing scheme fund amounting to RM60.0 million, received from the Government on 16 December 2019 at a profit rate of 2.50% per annum, is recognised as a Government Grant as disclosed in Note 24 (k).

**(s) Special Relief Facility**

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| At beginning of the year | 125 | 336 |
| Amortisation (Note 10) | (109) | (211) |
| At end of the year | **16** | **125** |

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 24 (l).

## 27. GOVERNMENT GRANTS - FUNDS (cont'd)

### (t) Disaster Relief Facility

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| At beginning of the year | 404 | - |
| Funds received | - | 419 |
| Amortisation (Note 10) | (158) | (15) |
| At end of the year | **246** | **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 24 (n).

## 28. SHARE CAPITAL

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| Issued and fully paid | **1,000,000** | **1,000,000** |

## 29. RESERVES

| | Note | 2019 RM'000 | 2018 RM'000 |
|---|---|---|---|
| **Non-distributable reserve:** | | | |
| Statutory reserves | (a) | 487,109 | 487,109 |
| FVOCI reserve/(deficit) | (b) | 85,182 | (4,056) |
| Regulatory reserve | (c) | 34,951 | 34,951 |
| **Distributable reserve:** | | | |
| Retained earnings | | 1,532,866 | 1,404,381 |
| | | **2,140,108** | **1,922,385** |

### (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) FVOCI reserve/(deficit)

The FVOCI reserve/(deficit) is in respect of unrealised fair value gain/(loss) on financial assets at FVOCI.

### (c) 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 in 2018.

## 30. DIVIDENDS

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| 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 2018 | 20,000 | - |
| 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 |
| | **20,000** | **25,500** |

At the forthcoming Annual General Meeting, a final single tier dividend in respect of the current financial year ended 31 December 2019 of 3.00 sen on 1,000,000,000 ordinary shares of RM1.00 each, amounting to dividend payable of RM30,000,000 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 2020.

## 31. COMMITMENTS AND CONTINGENCIES

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| **Credit related exposures** | | |
| Transaction related contingencies | 47,092 | 42,781 |
| Trade related contingencies | 23,954 | 10,927 |
| Financing commitments | 941,574 | 959,740 |
| | **1,012,620** | **1,013,448** |
| **Capital commitment** | | |
| Approved and contracted for: | | |
| Capital expenditure | **3,444** | **3,306** |
| **Contingent liabilities** | | |
| Certain legal actions taken against the Bank with compensation claims | **41,622** | **42,729** |
| **Total Commitments and Contingencies** | **1,057,686** | **1,059,483** |

## 31. 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, amongst others, failure of the Bank to discharge its obligations in accordance with the financing documents. 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, 5 & 6 September 2019, 22-23 October 2019, 11-13 December 2019, 13 & 16 April 2020 and 12 & 14 May 2020.

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.

The banking facility granted in the above case, is treated as off balance sheet, was 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 borne by the Bank.

**Case 2**

The customer filed an application to the Court on 4 June 2018, against the Bank seeking declarations inter alia, that (a) the charge created by the Bank for a financing facility of RM48 million is defective, null and void because the charge was only registered on 3 October 2011 after the termination of the financing facility by the Bank on 25 April 2011; (b) by reason of illegality under Section 214A of the National Land Code whereby any disposal of the estate land needs to obtain approval from the Estate Land Board, and (c) restitution of all proceeds, benefits, payments and monies amounting to RM18.3 million. The application was fixed for decision on 13 March 2019 whereby the High Court had dismissed the same with costs of RM10,000. The customer appealed to the decision of the High Court and the first case management was on 22 January 2020. On 22 January 2020, the court further fixed on 28 February 2020 as a hearing date but it was deferred to 13 March 2020. The Court of Appeal had on 13 March 2020 dismissed the customer's appeal with costs of RM20,000 to be paid to the Bank. However, the customer had on 16 March 2020 served the Bank with unsealed copy of application for leave to appeal to the Federal Court against the decision made by the Court of Appeal. The application for leave to appeal is now pending for the Federal Court to fix for its hearing or case management date.

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

## 32. 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, Non-Executive Directors, Shariah Committee members 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 and Shariah Committee members; and
iii) Other emoluments include Employee Provident Fund ("EPF") contributions, retirement compensation and benefit in kind.

## 32. RELATED PARTY DISCLOSURES (cont'd)

### (b) Key management personnel compensation (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 |
|---|---|---|---|---|
| **2019** | | | | |
| **President/ Chief Executive Officer** | | | | |
| Tuan Syed Alwi Bin Mohamed Sultan (resigned on 28 June 2019) | 908 | - | 154 | 1,062 |
| | 908 | - | 154 | 1,062 |
| **Non Executive Directors** | | | | |
| Y. Bhg Tan Sri Mohamad Zabidi bin Zainal | - | 169 | 8 | 177 |
| Y. Bhg Dato' Dr. Mohamad Hashim bin Ahmad Tajudin | - | 194 | - | 194 |
| Y. Bhg Datin Setia Shahariah binti Hashim | - | 220 | 5 | 225 |
| Y. Bhg Dato' Mohd Sallehhuddin bin Hassan | - | 62 | - | 62 |
| Y. Bhg Dato' Dr. Yusof bin Ismail | - | 52 | 2 | 54 |
| Puan Azizah binti Abdul Rahman | - | 206 | 5 | 211 |
| Tuan Haji Ibrahim bin Hassan | - | 228 | - | 228 |
| Puan Faizah binti Abdullah | - | 220 | - | 220 |
| Encik Abdul Rahim bin Abd Hadi | - | 204 | 5 | 209 |
| Encik Jit Singh A/L Santok Singh | - | 170 | 5 | 175 |
| | - | 1,725 | 30 | 1,755 |
| **Shariah Committee members** | | | | |
| Assoc. Prof. Dr. Mohamed Fairooz bin Abdul Khir | - | 82 | - | 82 |
| Dr. Mohamad Sabri Bin Zakaria | - | 54 | - | 54 |
| Dr. Ahmad Dahlan Bin Salleh | - | 40 | - | 40 |
| Engku Ahmad Fadzil Bin Engku Ali | - | 60 | - | 60 |
| Tuan Haji Azizi Bin Che Seman | - | 58 | - | 58 |
| Encik Jahaidi @ Jahoidi Bin Harun | - | 54 | - | 54 |
| | - | 348 | - | 348 |
| **Other senior management** | 4,386 | - | 1,276 | 5,662 |
| | **5,294** | **2,073** | **1,460** | **8,827** |

## 32. RELATED PARTY DISCLOSURES (cont'd)

### (b) Key management personnel compensation (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 |
|---|---|---|---|---|
| **2018** | | | | |
| **Executive Director/ President/ Chief Executive Officer** | | | | |
| Tuan Syed Alwi Bin Mohamed Sultan (Executive Director from 2 April 2018 to 6 September 2018) | 493 | - | 85 | 578 |
| | 493 | - | 85 | 578 |
| **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 |
| **Shariah Committee members** | | | | |
| Assoc. Prof. Dr. Mohamed Fairooz bin Abdul Khir | - | 70 | - | 70 |
| Prof. Madya Dr. Atikullah Bin Hj. Abdullah | - | 54 | - | 54 |
| Dr. Mohamad Sabri Bin Zakaria | - | 54 | - | 54 |
| Engku Ahmad Fadzil Bin Engku Ali | - | 54 | - | 54 |
| Tuan Haji Azizi Bin Che Seman | - | 56 | - | 56 |
| Encik Jahaidi @ Jahoidi Bin Harun | - | 55 | - | 55 |
| | - | 343 | - | 343 |
| **Other senior management** | 3,783 | - | 1,243 | 5,026 |
| | **4,276** | **2,435** | **1,340** | **8,051** |

## 32. 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 ("KMP") for the relevant financial year.

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| Financing | 86 | - |
| Deposits | 1,737 | 1,031 |

No financing has been granted to the directors, Shariah Committee members and senior management of the Bank in the financial year ended 31 December 2018.

### (d) Transactions with related parties

| | Note | 2019 RM'000 | 2018 RM'000 |
|---|---|---|---|
| **Income** | | | |
| GLC service fees | (i) | 10,488 | 10,671 |
| Commission | (ii) | 4,150 | 3,593 |
| Profit income on deposits placed with Government-Linked Corporations | | 18,130 | 14,507 |
| Profit income from FVOCI | | 132,752 | 125,079 |
| Profit income from financing from key management personnel and related parties | | 308 | 505 |
| **Expense** | | | |
| Profit expense on deposits placed by key management personnel and Government-Linked Corporations | | 6,010 | 5,795 |
| Profit expense on financing scheme funds paid and payable to the Ministry of Finance and BNM | | 12,248 | 10,112 |
| Contributions to: | | | |
| Employee Provident Fund ("EPF") | | 31,376 | 28,646 |
| Social Security Organisation ("SOCSO") | | 2,569 | 2,417 |

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## 32. RELATED PARTY DISCLOSURES (cont'd)

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

Description for income with related parties are as follows:

(i) Fees earned for managing the government funds for financing disbursement paid by Ministry of Finance, as disclosed in Note 5(b).

(ii) Commission earned as bills collection agent from Government of Malaysia's controlled entities.

### (e) Outstanding balances arising from transactions with related parties

(i) Included in Assets

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| Financing to related parties | 5,841 | 8,750 |
| Short term deposits/placements with related parties | 401,804 | 341,054 |
| GLC fees receivable | 32,081 | 21,593 |
| FVOCI | 3,124,529 | 3,640,378 |

(ii) Included in Liabilities

| | 2019 RM'000 | 2018 RM'000 |
|---|---|---|
| Government Grant - Operating | 23,008 | 23,310 |
| Government Grant - Launching | 2,491 | 2,920 |
| Government Grant - Funds | 694,810 | 722,461 |
| Financing scheme funds | 1,973,320 | 1,825,308 |
| Deposits from related entities | 3,806,517 | 4,285,559 |

### (f) Terms and conditions

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

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## 33. FINANCING FACILITIES WITH CONNECTED PARTIES

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| Outstanding exposures with connected parties | 1,594,750 | 1,770,807 |
| % of outstanding exposures to connected parties as a proportion of total exposure | 9.81% | 11.08% |
| % of outstanding financing exposures with connected parties which is non-performing or in default | 0.00% | 0.00% |

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.

## 34. 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 Board empowers and delegates its authority to various committees to ensure execution of business strategies and operations are adhered to the approved policies and limits set by the Board/Board Risk Management Committee (BRMC). At senior management level, the Board empowers the Management Risk Committee (MRC) and Asset Liability Committee (ALCO) to monitor, evaluate, strategise and deliberate risk management activities within the respective areas.

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.

**34. 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 bonds, other marketable securities and 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.

**34. 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.

## 34. 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* % |
|---|---|---|---|---|
| **2019** | | | | |
| Neither past due nor impaired | 4,215,546 | 6,843,970 | 11,059,516 | 38.1 |
| Past due but not impaired | 197,292 | 65,341 | 262,633 | 75.1 |
| Impaired | 382,551 | 129,238 | 511,789 | 74.7 |
| | **4,795,389** | **7,038,549** | **11,833,938** | **40.5** |
| **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** |

* 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.

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## 34. 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 | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| **Credit exposure for on-balance sheet items** | | |
| Cash and short term funds | 1,409,555 | 1,131,489 |
| Financial assets at FVOCI | 3,637,413 | 4,380,635 |
| Financing and advances | 11,467,252 | 10,431,162 |
| Other advances | 6,869 | 9,548 |
| Other financial assets | 141,945 | 106,322 |
| | **16,663,034** | **16,059,156** |
| **Credit exposure for off-balance sheet items** | | |
| Transaction related contingencies | 47,092 | 42,781 |
| Trade related contingencies | 23,954 | 10,927 |
| Financing commitments | 941,574 | 959,740 |
| | **1,012,620** | **1,013,448** |
| Total maximum credit risk exposure | **17,675,654** | **17,072,604** |

**34. 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, as summarised below:

*Financing and advances and financing commitments and financial guarantee*

| Rating classification | Credit grades |
|---|---|
| Performing | Stage 1 |
| Under performing | 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 |

## 34. 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 and debt 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

**34. 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**

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.

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 | 2,371,083 | 65 |
| Government Investment Issues ("GII") | 1,266,330 | 35 |
| **Carrying amount at 31 December 2019** | **3,637,413** | **100** |
| Corporate sukuk | 2,695,696 | 62 |
| Government Investment Issues ("GII") | 1,684,939 | 38 |
| **Carrying amount at 31 December 2018** | **4,380,635** | **100** |

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## 34. 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**

| | 2019<br>RM'000 | 2018<br>RM'000 |
|---|---|---|
| **Corporate sukuk** | | |
| **Financial assets at FVOCI** | | |
| Government-Guaranteed ("GG") | 1,226,338 | 1,227,846 |
| Quasi-Govt | 76,698 | 90,310 |
| AAA | 753,040 | 745,254 |
| AA | 261,325 | 597,298 |
| A | 35,709 | 20,221 |
| BBB | 17,973 | 14,767 |
| **TOTAL** | **2,371,083** | **2,695,696** |

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## 34. 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 |
|---|---|---|---|---|
| **2019** | | | | |
| Cash and short term funds | 1,409,555 | - | - | 1,409,555 |
| Financial assets at FVOCI | 3,637,413 | - | - | 3,637,413 |
| Financing and advances | 11,059,516 | 262,633 | 511,789 | 11,833,938 |
| Other advances | 5,013 | 569 | 6,332 | 11,914 |
| | **16,111,497** | **263,202** | **518,121** | **16,892,820** |
| As a percentage of gross balance | **95.37%** | **1.56%** | **3.07%** | **100%** |
| **2018** | | | | |
| Cash and short term funds | 1,131,489 | - | - | 1,131,489 |
| Financial assets at FVOCI | 4,380,635 | - | - | 4,380,635 |
| Financing and advances | 10,087,476 | 248,921 | 439,340 | 10,775,737 |
| Other advances | 7,711 | 1,135 | 8,181 | 17,027 |
| | **15,607,311** | **250,056** | **447,521** | **16,304,888** |
| As a percentage of gross balance | **95.72%** | **1.53%** | **2.74%** | **100%** |

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**34. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(b) Credit risk (cont'd)**

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

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

| | Past due but not impaired | | | |
|---|---|---|---|---|
| | Past due within 30 days RM'000 | Past due within 31 to 60 days RM'000 | Past due within 61 to 90 days RM'000 | Total RM'000 |
| **2019** | | | | |
| Financing and advances | 134,625 | 78,105 | 49,903 | 262,633 |
| Other advances | 209 | 230 | 130 | 569 |
| **2018** | | | | |
| Financing and advances | 123,549 | 75,687 | 49,685 | 248,921 |
| Other advances | 350 | 575 | 210 | 1,135 |

**(vi) Macro-economic factors in credit risk**

The macro-economic factors and their impact are regularly monitored as part of the normal process of the bank in tracking credit risk and measuring ECL, including the on-going COVID-19 Development and impacts.

## 34. 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 ('Market Risk Management Department"). BRMC also oversees the effectiveness and compliance of those policies on a regular basis.

## 34. 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 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.

**34. 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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## 34. 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 |
|---|---|---|---|---|---|---|---|
| **2019** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and short term funds | 1,409,555 | - | - | - | - | - | 1,409,555 |
| Financial assets at FVOCI | 240,518 | 105,640 | 1,151,271 | 691,842 | 1,448,142 | 144 | 3,637,557 |
| Financing and advances * | 2,001,475 | 232,913 | 205,105 | 733,983 | 8,660,462 | - | 11,833,938 |
| Other advances * | 5,299 | 302 | 1,080 | 1,279 | 3,954 | - | 11,914 |
| Property, plant and equipment | - | - | - | - | - | 142,446 | 142,446 |
| Intangible assets | - | - | - | - | - | 25,719 | 25,719 |
| Right-of-use assets | - | - | - | - | - | 49,797 | 49,797 |
| Other assets | 64,812 | 31,820 | 42,575 | 2,738 | - | 6,095 | 148,040 |
| **Total assets** | **3,721,659** | **370,675** | **1,400,031** | **1,429,842** | **10,112,558** | **224,201** | **17,258,966** |

* Gross before allowance for impairment

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**34. 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 |
|---|---|---|---|---|---|---|---|
| **2019 (cont'd)** | | | | | | | |
| **Liabilities** | | | | | | | |
| Deposit from customers | 6,211,981 | 1,223,076 | 74,841 | 47,738 | - | - | 7,557,636 |
| Deposit and placement of banks and other financial institutions | 3,277,170 | 3,002 | - | - | - | - | 3,280,172 |
| Financing scheme funds | 101,455 | 100,150 | 409,817 | 371,981 | 989,917 | - | 1,973,320 |
| Government grant | - | - | - | - | - | 720,309 | 720,309 |
| Deferred tax liabilities | - | - | - | - | - | 12,702 | 12,702 |
| Lease liabilities | 4,459 | 4,459 | 17,837 | 13,379 | - | - | 40,134 |
| Other liabilities | 118,386 | 21,363 | 11,415 | 1,376 | 1,857 | 8,457 | 162,854 |
| **Total liabilities** | **9,713,451** | **1,352,050** | **513,910** | **434,474** | **991,774** | **741,468** | **13,747,127** |
| **Net maturity mismatch** | **(5,991,792)** | **(981,375)** | **886,121** | **995,368** | **9,120,784** | **(517,267)** | **3,511,839** |

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**34. 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** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and short term funds | 1,131,489 | - | - | - | - | - | 1,131,489 |
| Financial assets at 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

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## 34. 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 grants | - | - | - | - | - | 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** |

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## 34. 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 | Total RM'000 |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| **Liabilities** | | | | | | |
| Deposit from customers | 6,371,629 | 1,254,509 | 80,761 | 54,196 | - | 7,761,095 |
| Deposit and placement of banks and other financial institutions | 3,391,543 | 3,107 | - | - | - | 3,394,650 |
| Financing scheme funds | 101,694 | 100,625 | 416,953 | 384,349 | 1,025,209 | 2,028,830 |
| Lease liabilities | 4,628 | 4,628 | 19,937 | 16,106 | - | 45,299 |
| Other financial liabilities | 57,483 | 3,010 | 1,450 | - | - | 61,943 |
| **Total liabilities** | **9,926,977** | **1,365,879** | **519,101** | **454,651** | **1,025,209** | **13,291,817** |
| Transaction related contingencies | 22,879 | 10,565 | 11,045 | 2,426 | 177 | 47,092 |
| Trade related contingencies | 23,954 | - | - | - | - | 23,954 |
| Financing commitments | 30,330 | 68,524 | 128,049 | 354,423 | 665,330 | 1,246,656 |
| **Commitment and Contingencies** | **77,163** | **79,089** | **139,094** | **356,849** | **665,507** | **1,317,702** |

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**34. 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 | Total RM'000 |
|---|---|---|---|---|---|---|
| **2018 (cont'd)** | | | | | | |
| **Liabilities** | | | | | | |
| Deposit from customers | 6,312,732 | 1,389,823 | 81,772 | 34,476 | - | 7,818,803 |
| Deposit and placement of banks and other financial institutions | 3,096,022 | - | - | - | - | 3,096,022 |
| Financing scheme funds | 48,120 | 109,514 | 319,213 | 337,393 | 1,517,757 | 2,331,997 |
| Other financial liabilities | - | 119,495 | 11,683 | - | - | 131,178 |
| **Total liabilities** | **9,456,874** | **1,618,832** | **412,668** | **371,869** | **1,517,757** | **13,378,000** |
| Transaction related contingencies | 18,347 | 13,041 | 10,533 | 504 | 356 | 42,781 |
| Trade related contingencies | 10,927 | - | - | - | - | 10,927 |
| Financing commitments | 10,940 | 10,309 | 61,054 | 293,089 | 932,400 | 1,307,792 |
| **Commitment and Contingencies** | **40,214** | **23,350** | **71,587** | **293,593** | **932,756** | **1,361,500** |

**34. 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.

## 34. 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's 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.

## 34. 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.

**34. 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.

## 34. FINANCIAL INSTRUMENTS (cont'd)

### A. FINANCIAL RISK MANAGEMENT (cont'd)

### (d) Market Risk (cont'd)

### (v) Profit Rate Risk

The following tables 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 | 6 - 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 |
|---|---|---|---|---|---|---|---|---|
| **2019** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and short term funds | 1,126,814 | - | - | - | - | 282,741 | 1,409,555 | 3.03% |
| Financial assets at FVOCI | 240,518 | 105,640 | 1,151,271 | 691,842 | 1,448,142 | 144 | 3,637,557 | 3.75% |
| Financing and advances* | 10,126,655 | 42,872 | 201,133 | 304,704 | 646,785 | 511,789 | 11,833,938 | 6.54% |
| Other advances* | - | - | - | - | - | 11,914 | 11,914 | |
| Property, plant and equipment | - | - | - | - | - | 142,446 | 142,446 | |
| Intangible assets | - | - | - | - | - | 25,719 | 25,719 | |
| Other assets | - | - | - | - | - | 148,040 | 148,040 | |
| **Total assets** | **11,493,987** | **148,512** | **1,352,404** | **996,546** | **2,094,927** | **1,122,793** | **17,209,169** | |

* Gross before allowance for impairment

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**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(d) Market Risk (cont'd)**

**(v) Profit Rate Risk (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-profit sensitive RM '000 | Total RM '000 | Effective Profit Rate |
|---|---|---|---|---|---|---|---|---|
| **2019 (cont'd)** | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Deposits from customers | 6,211,981 | 1,223,076 | 74,841 | 47,738 | - | - | 7,557,636 | 2.57% |
| Deposit and placement of banks and other financial institutions | 3,277,170 | 3,002 | - | - | - | - | 3,280,172 | 3.49% |
| Financing scheme funds | 101,455 | 100,150 | 409,817 | 371,981 | 989,917 | - | 1,973,320 | 0.58% |
| Government grant | - | - | - | - | - | 720,309 | 720,309 | |
| Deferred tax liabilities | - | - | - | - | - | 12,702 | 12,702 | |
| Lease liabilities | - | - | - | - | - | 40,134 | 40,134 | |
| Other liabilities | - | - | - | - | - | 162,854 | 162,854 | |
| **Total liabilities** | **9,590,606** | **1,326,228** | **484,658** | **419,719** | **989,917** | **935,999** | **13,747,127** | |

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## 34. 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 | 6 - 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% |
| Financial assets at 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

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## 34. 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 | 6 - 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 | 2.51% |
| Deposit and placement of banks and other financial institutions | 2,990,170 | - | - | - | - | - | 2,990,170 | 3.54% |
| Financing scheme funds | 48,038 | 109,043 | 314,513 | 329,151 | 1,024,563 | - | 1,825,308 | 0.45% |
| Government grants | - | - | - | - | - | 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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## 34. 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:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | +100bp | -100bp | +100bp | -100bp |
| | RM '000 | RM '000 | RM '000 | RM '000 |
| Impact on profit before tax | 104,920 | (104,920) | 94,350 | (94,350) |
| Impact on equity | (139,741) | 149,132 | (200,966) | 213,043 |

## 34. 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.

**34. 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

**34. 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.

**34. 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.

## 34. 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 follows:

| | **2019** | **2018** |
|---|---|---|
| | **%** | **%** |
| Before deducting proposed dividend: | | |
| Core capital ratio | **22.66** | **23.13** |
| Risk-weighted capital ratio | **26.10** | **26.46** |
| After deducting proposed dividend: | | |
| Core capital ratio | **22.44** | **22.97** |
| Risk-weighted capital ratio | **25.88** | **26.30** |

## 34. 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 2019 has incorporated the market risk pursuant to the BNM Market Risk Capital Adequacy Framework which became effective on 1 April 2005.

| | 2019<br>RM'000 | 2018<br>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 | 1,532,866 | 1,404,381 |
| Less: Deferred tax assets | - | (11,391) |
| **Total Tier I capital** | **3,019,975** | **2,880,099** |
| **Tier II capital** | | |
| ECL allowance [1] | 106,773 | 83,984 |
| Regulatory reserve | 34,951 | 34,951 |
| Government Grants - Operating | 23,008 | 23,310 |
| Government Grants - Launching | 2,491 | 2,920 |
| Government Grants - Funds [2] | 291,102 | 268,928 |
| **Total Tier II capital** | **458,325** | **414,093** |
| **Total capital base** | **3,478,300** | **3,294,192** |

[1] The eligible amount for Tier II capital is limited to only ECL 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 RM403.71 million (2018: RM453.13 million).

## 34. 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% | 2,775,408 | - |
| 20% | 1,527,072 | 305,414 |
| 50% | 32,271 | 16,136 |
| 100% | 12,552,484 | 12,552,484 |
| Off balance sheet risk-weighted assets | - | 452,218 |
| **Total risk-weighted assets at 31 December 2019** | **16,887,235** | **13,326,252** |
| 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** |

## 34. 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.

**Fair value hierarchy**

**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 |
|---|---|---|---|---|
| **2019** | | | | |
| **Financial assets** | | | | |
| FVOCI | 144 | 3,637,413 | - | 3,637,557 |
| **2018** | | | | |
| **Financial assets** | | | | |
| FVOCI | 101 | 4,380,635 | - | 4,380,736 |

## 34. FINANCIAL INSTRUMENTS (cont'd)

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

#### (ii) Financial assets and financial liabilities at carrying amount

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Carrying amount RM'000 | Fair value RM'000 | Carrying amount RM'000 | Fair value RM'000 |
| **Financial assets** | | | | |
| Financing and advances | 11,467,252 | 11,767,587 | 10,431,162 | 10,731,945 |
| | **11,467,252** | **11,767,587** | **10,431,162** | **10,731,945** |
| **Financial liabilities** | | | | |
| Deposits from customers | 7,557,636 | 7,568,011 | 7,620,323 | 7,617,244 |
| Deposit and placement of banks and other financial institutions | 3,280,172 | 3,273,529 | 2,990,170 | 2,977,231 |
| | **10,837,808** | **10,841,540** | **10,610,493** | **10,594,475** |

The fair value of financing and advances, deposits from customers and deposit and placement of banks and other financial institutions are at Level 2 (2018: 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.

## 34. 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 |
|---|---|---|---|
| **2019** | | | |
| **Financial assets** | | | |
| Cash and short term funds | - | 1,409,555 | 1,409,555 |
| Financial assets at FVOCI | 3,637,557 | - | 3,637,557 |
| Financing and advances | - | 11,467,252 | 11,467,252 |
| Other financial assets | - | 141,945 | 141,945 |
| | **3,637,557** | **13,018,752** | **16,656,309** |
| **Financial liabilities** | | | |
| Deposits from customers | - | 7,557,636 | 7,557,636 |
| Deposit and placement of banks and other financial institutions | - | 3,280,172 | 3,280,172 |
| Financing scheme funds | - | 1,973,320 | 1,973,320 |
| Other financial liabilities | - | 48,682 | 48,682 |
| | **-** | **12,859,810** | **12,859,810** |

**34. FINANCIAL INSTRUMENTS (cont'd)**

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

| | 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 |
| 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** |

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## 35. 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 and the Shariah Committee. Any transactions that are suspected to be Shariah non-compliant are reported to the Shariah Committee for their deliberation and conclusion as to whether any Shariah requirements have been breached.

For the financial year ended 31 December 2019, the nature of Shariah non-compliance deliberated by the Shariah Commitee was as follows:

**Deposit product**

(i) Lapses in marketing materials for Qard deposit product i.e. Hibah (gift) are promised for Qard saving account opening.

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

Throughout the year 2019, there was one (1) SNC event involving five (5) accounts that has been resolved and reported to BNM. There is no financial impact on the SNC event.

## 36. 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** | | | |
| **31.12.2018** | | | |
| Income derived from investment of shareholder's funds | 216,262 | 7,261 | 223,523 |
| (Allowance for)/writeback of impairment | (16,789) | (7,261) | (24,050) |

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## 37. SUBSEQUENT EVENT

Since early January 2020, the COVID-19 outbreak has spread across Malaysia, causing disruption to business operations and economic activities. The occurrence of the COVID-19 outbreak is not an adjusting post balance sheet event. The Bank will monitor the developments of COVID-19 situation closely, assess and react actively to its impact on the financial position and operating results of the Bank.

Up the date of the report, the assessment is still in progress and expected to be reflected in the Bank's 2020 interim and annual financial statements.