RHB ISLAMIC BANK BERHAD

STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

STATUTORY FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

REGISTERED OFFICE:

LEVEL 10
TOWER ONE
RHB CENTRE
JALAN TUN RAZAK
50420 KUALA LUMPUR
MALAYSIA

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

DIRECTORS' REPORT

The Directors submit herewith their report together with the audited financial statements of RHB Islamic Bank Berhad ('the Bank') for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in the Islamic banking business and is committed to offer customers a comprehensive range of products and services in accordance with its Constitution and Shariah principles.

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

FINANCIAL RESULTS

	RM'000
Profit before zakat and taxation	**579,166**
Zakat and taxation	**(144,333)**
Net profit for the financial year	**434,833**

DIVIDENDS

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

The Directors do not propose any final dividend in respect of the current financial year at the forthcoming Annual General Meeting.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are disclosed in the financial statements.

ISSUE OF SHARES

During the financial year, the Bank increased its issued and paid up share capital from RM1,273,424,002 to RM1,673,424,002 via the issuance of 400,000,000 new ordinary shares of RM1.00 each to RHB Bank Berhad ('RHB Bank'), its holding company.

The new shares issued during the financial year rank *pari passu* in all respects with the existing shares of the Bank.

BAD AND DOUBTFUL FINANCING AND ADVANCES

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

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

DIRECTORS' REPORT (CONTINUED)

CURRENT ASSETS

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

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

VALUATION METHOD

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

CONTINGENT AND OTHER LIABILITIES

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

(a) 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

(b) any contingent liability of the Bank which has arisen since the end of the financial year other than in the ordinary course of business.

No contingent or other liability of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Bank to meet its obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

DIRECTORS' REPORT (CONTINUED)

DIRECTORS OF THE BANK

The Directors of the Bank in office during the financial year and during the period from the end of the financial year to the date of the report are:

Abdul Aziz Peru Mohamed	(appointed on 1 October 2018)
Dato' Abd Rahman Dato' Md Khalid	
Dato' Foong Chee Meng	
Ong Ai Lin	
Dato' Adissadikin Ali	
Datuk Nozirah Bahari	(appointed on 1 September 2018, resigned on 12 February 2019)
Datuk Haji Faisal Siraj	(resigned on 1 September 2018)

In accordance with Article 75 of the Bank's Constitution, Dato' Adissadikin Ali retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 80 of the Bank's Constitution, Abdul Aziz Peru Mohamed retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

DIRECTORS' INTERESTS

None of the Directors holding office at the end of the financial year held any interest in the securities of the Bank or its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than Directors' remuneration and benefits-in-kind 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 the Director is a member, or with a company in which the Director has a substantial financial interest.

During and at the end of the financial year, no arrangements subsisted to which the Bank is a party, being arrangements with the object or objects of enabling the Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 31 to the financial statements.

HOLDING COMPANY

The Directors regard RHB Bank Berhad, a company incorporated in Malaysia and listed on Bursa Malaysia Securities Berhad, as the holding company.

ZAKAT OBLIGATION

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

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014421-LCA & AF 1146), have expressed their willingness to continue in office.

This report was approved by the Board of Directors on 27 February 2019. Signed on behalf of the Board of Directors:

ABDUL AZIZ PERU MOHAMED
DIRECTOR

DATO' ADISSADIKIN ALI
CHIEF EXECUTIVE OFFICER/
MANAGING DIRECTOR

Kuala Lumpur

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

REPORT OF THE SHARIAH COMMITTEE

In the name of Allah, The Most Gracious, The Most Merciful

In compliance with the Shariah Governance Framework, Financial Reporting for Islamic Banking Institutions and other relevant guidelines issued by Bank Negara Malaysia, we, Dr. Ghazali Jaapar, Assoc. Prof. Dr. Amir Shaharuddin, Dr. Ahmad Basri Ibrahim, Wan Abdul Rahim Kamil Wan Mohamed Ali, Mohd Fadhly Md. Yusoff and Shabnam Mohamad Mokhtar, being six members of the Shariah Committee of RHB Islamic Bank Berhad (the 'Bank'), do hereby confirm the following:

We are responsible to perform an oversight role on Shariah matters related to the Bank's business operations and activities. We have conducted nine (9) meetings to discuss, elaborate and review various product structures and documentations, transactions, services and operations of the Bank during the financial year ended 31 December 2018.

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank during the financial year ended 31 December 2018.

We have also conducted our review to form an opinion as to whether the Bank has complied with Shariah rulings, resolutions and guidelines issued by the Shariah Advisory Council (SAC) of Bank Negara Malaysia and SAC of Securities Commission Malaysia (for capital market related matters), as well as the specific rulings and decisions issued by us.

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

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

We have 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 complied with Shariah rules and principles.

In our opinion:

(a) the main sources of income of the Bank during the financial year ended 31 December 2018 that we have reviewed are in compliance with the Shariah rules and principles;
(b) all investments that have been disclosed to us by the Bank conform to the basis that had been approved by us in accordance with Shariah rules and principles;
(c) all earnings that have been realised from sources or by means prohibited by the Shariah principles have been considered for disposal to charitable causes;
(d) the contracts and legal documents of the products used by the Bank that we reviewed are in compliance with the Shariah rules and principles;
(e) the products proposals including concept used by the Bank which have been reviewed and advised by us are in compliance with the Shariah rules and principles; and
(f) the calculation of zakat is in compliance with Shariah rules and principles.

To the best of our knowledge based on the information provided and disclosed to us during discussions and meetings, we hereby confirm that the operations of the Bank for the financial year ended 31 December 2018 have been conducted in conformity with the Shariah rules and principles.

We pray Allah, The Almighty to grant us success and lead us on the right path.

Wassalamu 'Alaikum Wa Rahmatullahi Wa Barakatuh

Dr. Ghazali Jaapar
Chairman of the Committee

Assoc. Prof. Dr. Amir Shaharuddin
Member of the Committee

Dr. Ahmad Basri Ibrahim
Member of the Committee

Wan Abdul Rahim Kamil Wan Mohamed Ali
Member of the Committee

Mohd Fadhly Md. Yusoff
Member of the Committee

Shabnam Mohamad Mokhtar
Member of the Committee

Kuala Lumpur
27 February 2019

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018	2017
		RM'000	RM'000
ASSETS			
Cash and short-term funds	2	**3,463,278**	2,029,860
Securities purchased under resale agreements	3	**926,125**	1,587,979
Deposits and placements with banks and other financial institutions	4	**-**	447,210
Financial assets at fair value through profit or loss (‘FVTPL’)/held-for-trading ('HFT')	5	**274,226**	172,536
Financial investments available-for-sale ('AFS')	6	**-**	3,394,493
Financial investments held-to-maturity ('HTM')	7	**-**	3,820,734
Financial assets at fair value through other comprehensive income (‘FVOCI’)	8	**4,150,325**	-
Financial investments at amortised cost	9	**2,856,789**	-
Financing and advances	10	**51,813,230**	42,701,794
Other assets	11	**477,535**	90,934
Derivative assets	12	**204,543**	327,978
Statutory deposits with Bank Negara Malaysia ('BNM')	13	**1,420,450**	1,116,200
Deferred tax assets	14	**23,241**	16,513
Property, plant and equipment	15	**4,251**	6,193
Intangible assets	16	**4,529**	5,039
TOTAL ASSETS		**65,618,522**	55,717,463
LIABILITIES AND EQUITY			
Deposits from customers	17	**45,732,352**	37,850,205
Deposits and placements of banks and other financial institutions	18	**4,403,721**	4,394,801
Investment account due to designated financial institutions	19	**7,898,611**	8,102,698
Obligations on securities sold under repurchase agreements		**-**	604,163
Bills and acceptances payable		**9,515**	9,216
Derivative liabilities	12	**211,555**	327,723
Recourse obligation on financing sold to Cagamas Berhad ('Cagamas')	20	**2,270,239**	-
Subordinated obligations	21	**755,326**	755,393
Other liabilities	22	**281,558**	345,792
Provision for tax and zakat		**8,376**	15,623
TOTAL LIABILITIES		**61,571,253**	52,405,614
Share capital	23	**1,673,424**	1,273,424
Reserves	24	**2,373,845**	2,038,425
TOTAL EQUITY		**4,047,269**	3,311,849
TOTAL LIABILITIES AND EQUITY		**65,618,522**	55,717,463
COMMITMENTS AND CONTINGENCIES	37	**23,133,354**	24,280,522

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

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
Income derived from investment of depositors' funds	25	**2,337,426**	1,957,052
Income derived from investment account funds	26	**435,174**	375,939
Income derived from investment of shareholders' funds	27	**209,097**	175,518
Allowance for credit losses on financial assets	28	**(115,520)**	(66,734)
Impairment losses written back on other non-financial assets		**-**	336
Total distributable income		**2,866,177**	2,442,111
Income attributable to depositors	29	**(1,546,024)**	(1,329,395)
Profit distributed to investment account holders		**(357,698)**	(310,185)
		962,455	802,531
Personnel expenses	30	**(30,679)**	(27,082)
Other overheads and expenditures	31	**(352,610)**	(295,599)
Profit before zakat and taxation		**579,166**	479,850
Zakat		**(4,000)**	(3,500)
Profit after zakat before taxation		**575,166**	476,350
Taxation	33	**(140,333)**	(108,958)
Net profit for the financial year		**434,833**	367,392
Earnings per share (sen):			
- basic	34	**27.16**	28.85

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

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

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

	Note	**2018**	2017
		RM'000	RM'000
Net profit for the financial year		**434,833**	367,392
Other comprehensive income/(loss) in respect of:			
Items that will be reclassified subsequently to profit or loss:			
(a) Financial investments AFS:			
- Unrealised net gain on revaluation		-	23,601
- Net transfer to income statement on disposal or impairment		-	(2,529)
(b) Debt instruments measured at FVOCI:			
- Unrealised net gain on revaluation		**21,738**	-
- Net transfer to income statement on disposal		**(5,382)**	-
- Changes in expected credit losses		**218**	-
Income tax relating to components of other comprehensive income	35	**(3,926)**	(5,057)
Other comprehensive income, net of tax for the financial year		**12,648**	16,015
Total comprehensive income for the financial year		**447,481**	383,407

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

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

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

	Note	Share capital	Non distributable FVOCI reserve	Non distributable Regulatory reserve	Distributable Retained profits	Total
		RM'000	RM'000	RM'000	RM'000	RM'000
Balance as at 1 January 2018						
- As previously reported		1,273,424	(15,929)	267,031	1,787,323	3,311,849
- Effect of adoption of MFRS 9	44	-	5,179	54,411	(171,651)	(112,061)
- As restated		1,273,424	(10,750)	321,442	1,615,672	3,199,788
Net profit for the financial year		-	-	-	434,833	434,833
Financial assets measured at FVOCI - debt instruments:						
- Unrealised net gain on revaluation		-	21,738	-	-	21,738
- Net transfer to income statement on disposal		-	(5,382)	-	-	(5,382)
- Changes in expected credit losses		-	218	-	-	218
Income tax relating to components of other comprehensive income	35	-	(3,926)	-	-	(3,926)
Other comprehensive income, net of tax, for the financial year		-	12,648	-	-	12,648
Total comprehensive income for the financial year		-	12,648	-	434,833	447,481
Issuance of shares	23	400,000	-	-	-	400,000
Transfer to regulatory reserve		-	-	36,612	(36,612)	-
Balance as at 31 December 2018		1,673,424	1,898	358,054	2,013,893	4,047,269

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

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

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

			Non distributable			Distributable	
	Note	Share capital	Statutory reserve	AFS reserve	Regulatory reserve	Retained profits	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Balance as at 1 January 2017		1,273,424	762,388	(31,944)	158,516	766,058	2,928,442
Net profit for the financial year		-	-	-	-	367,392	367,392
Financial investments AFS:							
- Unrealised net gain on revaluation		-	-	23,601	-	-	23,601
- Net transfer to income statement on disposal or impairment		-	-	(2,529)	-	-	(2,529)
Income tax relating to components of other comprehensive income	35	-	-	(5,057)	-	-	(5,057)
Other comprehensive income, net of tax, for the financial year		-	-	16,015	-	-	16,015
Total comprehensive income for the financial year		-	-	16,015	-	367,392	383,407
Transfer from statutory reserve		-	(762,388)	-	-	762,388	-
Transfer to regulatory reserve		-	-	-	108,515	(108,515)	-
Balance as at 31 December 2017		1,273,424	-	(15,929)	267,031	1,787,323	3,311,849

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

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

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

	2018	2017
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before zakat and taxation	**579,166**	479,850
Adjustments for:		
Property, plant and equipment		
- Depreciation	**1,738**	2,591
- Written off	**1**	-
Amortisation of computer software license	**1,737**	1,846
Income from:		
- Investment on financial assets at FVTPL/HFT	**(12,200)**	(5,146)
- Investment on financial assets at FVOCI/financial investments AFS	**(145,765)**	(145,448)
- Investment on financial investments at amortised cost/financial investments HTM	**(150,719)**	(123,833)
Net gain on disposal of financial assets at FVOCI/financial investments AFS	**(5,382)**	(2,529)
Net (gain)/loss on disposal of financial assets at FVTPL/HFT	**(669)**	683
Net gain on early redemption of financial investments at amortised cost/ financial investments HTM	**(129)**	(378)
Net loss on fair value hedges	**14,376**	1,078
Net loss on revaluation of derivatives	**4,709**	11,199
Unrealised (gain)/loss from financial assets at FVTPL/HFT	**(959)**	839
Allowance for credit losses on financing and advances	**127,790**	79,077
Net allowance on financial assets at FVOCI, financial investments at amortised cost and other financial assets	**3,317**	-
Impairment losses written back on other non-financial assets	**-**	(336)
Financing expense on subordinated obligations	**36,950**	33,073
Operating profit before working capital changes	**453,961**	332,566
(Increase)/Decrease in operating assets:		
Securities purchased under resale agreements	**661,854**	765,971
Deposits and placements with banks and other financial institutions	**447,210**	89,931
Financing and advances	**(9,399,440)**	(8,940,381)
Financial assets at FVTPL/HFT	**(87,863)**	(158,735)
Other assets	**(386,576)**	80,796
Statutory deposits with BNM	**(304,250)**	(65,150)
	(9,069,065)	(8,227,568)
Increase/(Decrease) in operating liabilities:		
Deposits from customers	**7,882,147**	8,430,277
Deposits and placements of banks and other financial institutions	**8,920**	(2,035,393)
Investment account due to designated financial institutions	**(204,087)**	1,480,227
Obligations on securities sold under repurchase agreements	**(604,163)**	604,163
Bills and acceptances payable	**299**	166
Other liabilities	**(99,011)**	(20,349)
Amount due to holding company	**37,336**	(601,227)
Recourse obligation on financing sold to Cagamas	**2,270,239**	(815,243)
	9,291,680	7,042,621
Cash generated from/(used in) operations	**676,576**	(852,381)
Profit paid	**(37,017)**	(30,867)
Net tax and zakat paid	**(125,211)**	(126,927)
Net cash generated from/(used in) operating activities	**514,348**	(1,010,175)

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

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

	Note	**2018**	2017
		RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from disposal/(purchase) of financial assets at FVOCI and financial investments at amortised cost		**265,385**	(903,231)
Property, plant and equipment			
- Purchases		**(227)**	(2,212)
- Proceeds from disposal		**-**	4
Purchases of intangible assets		**(797)**	(1,799)
Financial assets at FVTPL/HFT and financial assets at FVOCI and financial investments at amortised cost/financial investments AFS and HTM:			
- Profit income received		**142,971**	147,329
- Investment income received		**111,960**	113,705
Net cash generated from/(used) in investing activities		**519,292**	(646,204)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital		**400,000**	-
Proceeds from issuance of subordinated obligations		**-**	250,000
Net cash generated from financing activities		**400,000**	250,000
Net increase/(decrease) in cash and cash equivalents		**1,433,640**	(1,406,379)
Cash and cash equivalents at the beginning of the financial year		**2,029,638**	3,436,239
Cash and cash equivalents at the end of the financial year	2	**3,463,278**	2,029,860

	Cash Changes			**Non-Cash Changes**	
	Balance as at the beginning of the financial year	**Net cash flow from financing activities**	**Net cash flow from operating activities**	**Accrued profit**	**Balance as at the end of the financial year**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2018					
Subordinated obligations	**755,393**	**-**	**(37,017)**	**36,950**	**755,326**
2017					
Subordinated obligations	503,187	250,000	(30,867)	33,073	755,393

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements. These accounting policies have been consistently applied to all the years presented, unless otherwise stated.

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at FVOCI, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires Directors to exercise their judgement in the process of applying the Bank's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Section (B).

(a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank and are effective

The relevant new accounting standards, annual improvements and amendments to published standards and interpretations to existing accounting standards that are effective for the Bank's financial year beginning on or after 1 January 2018 are as follows:

(i) IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'

This Interpretation applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

IC Interpretation 22 provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

The adoption of the IC Interpretation 22 did not have any material financial impact on the financial statements of the Bank.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank and are effective (continued)

The relevant new accounting standards, annual improvements and amendments to published standards and interpretations to existing accounting standards that are effective for the Bank's financial year beginning on or after 1 January 2018 are as follows (continued):

(ii) MFRS 9 'Financial Instruments'

This complete version of MFRS 9 replaces the entire MFRS 139. It amends the requirements on classification and measurement of financial assets and includes an expected credit losses model that replaces the incurred loss impairment model used under MFRS 139. It also includes the new hedging guidance that was issued in February 2014.

MFRS 9 establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ('OCI'). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

MFRS 9 introduces an expected credit loss model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

The Bank has applied MFRS 9 retrospectively with date of initial application of 1 January 2018.

As permitted by the transitional provisions of MFRS 9, the Bank elected not to restate comparative figures and continued to be reported under the previous accounting policies governed under MFRS 139. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained profits and other reserves of the current financial year.

The details and the financial effects of the adoption of MFRS 9 are disclosed in Note 44 to the financial statements.

(iii) MFRS 15 'Revenue from Contracts with Customers'

The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

MFRS 15 is based on the principle that revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank and are effective (continued)

The relevant new accounting standards, annual improvements and amendments to published standards and interpretations to existing accounting standards that are effective for the Bank's financial year beginning on or after 1 January 2018 are as follows (continued):

(iii) MFRS 15 'Revenue from Contracts with Customers' (continued)

A new five-step process must be applied before revenue can be recognised:

- identify contracts with customers
- identify the separate performance obligation
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

When there are multiple goods or services bundled in a single arrangement, MFRS 15 requires an entity to apply the revenue recognition principles separately to each good or service that is distinct. The contract consideration is allocated to each of the distinct good or service based on the price an entity would charge a customer on a stand-alone basis for each good or service. If a stand-alone selling price is not directly observable, an entity will need to estimate by considering all information that is reasonably available to the entity. The point at which revenue is recognised for each distinct good or service may vary depending on when control of each good or service is transferred to the customer.

MFRS 15 requires an estimate of variable consideration to be recognised as revenue when performance obligations are satisfied if it is highly probable that the amount will not result in a significant revenue reversal if estimates change. Transaction price should be adjusted for the time value of money if the contract includes a significant financing component.

MFRS 15 prescribes specific disclosure requirements in the following areas to help entities meet the disclosure objective:

- qualitative and quantitative information about contracts with customers;
- significant judgements made by management in applying MFRS 15; and
- asset recognised on costs incurred to obtain or fulfil a contract with customer.

MFRS 15 permits either a full retrospective or a modified approach for the adoption. The Bank has adopted the modified approach under MFRS 15.

Under the modified retrospective transition method, the Bank applies the new policy retrospectively only to contracts that are not completed at the date of initial application. Accordingly, the 2017 comparative information was not restated as the financial impact is not material to the Bank and cumulative effects of initial application of MFRS 15 were not recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. The comparative information continued to be reported under the previous accounting policies governed under MFRS 118.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective

(i) Annual Improvements to MFRS 2015-2017 Cycle - effective 1 January 2019

- Amendments to MFRS 112 'Income Taxes' clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in income statement, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in income statement when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.

- Amendments to MFRS 123 'Borrowing Costs' clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

(ii) Amendments to MFRS 9 'Prepayment Features with Negative Compensation' - effective 1 January 2019

The amendments allow companies to measure some prepayable financial assets with negative compensation at amortised cost. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than the unpaid amounts of principal and profit. To qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract, and the asset must be held within a 'held to collect' business model.

The amendments will be applied retrospectively.

(iii) MFRS 16 'Leases' - effective 1 January 2019

MFRS 16 supersedes MFRS 117 'Leases' and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a 'right-of-use' of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with profit expense recognised in income statement.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)

(iv) IC Interpretation 23 'Uncertainty over Income Tax Treatments' - effective 1 January 2019

IC Interpretation 23 provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

IC Interpretation 23 will be applied retrospectively.

The adoption of the accounting standards, amendments to published standards and interpretations to existing standards are not expected to give rise to any material financial impact to the Bank, except for the adoption of MFRS 16. The Bank will apply this standard from its mandatory adoption date of 1 January 2019. The Bank intends to apply the simplified transitional approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

As at the reporting date, the Bank has non-cancellable operating lease commitments of RM6,344,000, as disclosed in Note 38 to the financial statements. Of these commitments, short-term leases and low value leases will both be recognised on a straight-line basis as expense in the income statement.

For the remaining lease commitments, the Bank expects to recognise right-of-use assets on 1 January 2019, lease liabilities discounted to its present value after adjustments for prepayments and accrued lease payments as at 31 December 2018 and deferred tax assets.

(c) Changes in regulatory requirements

(i) Capital Adequacy Framework for Islamic Banks

The Capital Adequacy Framework for Islamic Banks in relation to Basel II - Risk-Weighted Assets and Capital Components were updated and reissued by BNM on 2 February 2018 for application with effect from 1 January 2018.

The updates focused mainly on the following changes:

- Revised definition of General Provision and Specific Provision arising from the implementation of MFRS 9 'Financial Instruments';
- Definition of General Provision and its recognition in Tier II capital;
- Alignment of terminologies used under MFRS 9 for the purpose of capital recognition and regulatory adjustments; and
- Clarification on the capital treatment of bargain purchase gains and right-of-use assets.

The updates above mainly address clarification on capital recognition and regulatory adjustment requirements arising from the implementation of MFRS 9.

(ii) Financial Reporting for Islamic Banking Institutions

On 2 February 2018, BNM issued the revised policy document on Financial Reporting for Islamic Banking Institutions which prescribes the regulatory reserves to be maintained by Islamic Banking Institutions.

With effect from 1 January 2018, the Bank must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserve of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures.

In the previous year, the Bank has maintained, in aggregate collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding financing, net of impairment allowances.

The effect of this change is as disclosed in Note 44 to the financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS

(a) Classification and measurement of financial assets

With effect from 1 January 2018, the Bank has applied MFRS 9 and classify its financial assets in the following measurement categories:
- Amortised cost
- Fair value through other comprehensive income (‘FVOCI’)
- Fair value through profit or loss (‘FVTPL’)

At initial recognition, the Bank measures a financial asset at fair value plus transaction costs that are directly attributable to acquisition of the financial asset in the case of a financial asset not FVTPL. Transaction costs of financial assets carried at FVTPL are expensed in the income statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The classification requirements for debt and equity instruments are described as below:

(i) Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer’s perspective, such as financing, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on the following factors:

- The Bank’s business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial assets.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

(1) Financial investments at amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (‘SPPI’), and that are not designated as FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted for any expected credit losses that are recognised into income statement. The profit income is recognised into income statement using the effective profit rate method. Upon derecognition, any gain or loss will be recognised in income statement and presented under ‘other operating income’.

(2) Financial assets at FVOCI

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where those cash flows represent SPPI, are measured at FVOCI. Changes in the fair value of these assets are recognised in other comprehensive income (‘OCI’), except for recognition of profit, foreign exchange gains or losses and expected credit losses which are recognised in income statement.

When these financial assets are derecognised, the cumulative gains or losses previously recognised in OCI is reclassified from equity to income statement and recognised in ‘other operating income’. The profit income is recognised into income statement using the effective profit rate method. Foreign exchange gains or losses are recognised in ‘other operating income’ and impairment credit losses are presented separately under ‘allowance for credit losses’.

(3) Financial assets at FVTPL

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented in the income statement within ‘net gain/(loss) arising from financial assets FVTPL’ in the period in which it arises. The profit income is recognised into income statement using the effective profit rate method.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(a) Classification and measurement of financial assets (continued)

(ii) Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuers' perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual profit in the issuers' net assets.

The Bank subsequently measures all equity instruments at FVTPL, except where the management has elected, at initial recognition, to irrevocably designate an equity instrument at FVOCI. The Bank's policy is to designate equity instruments as FVOCI when those instruments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to income statement, including on disposal. Dividend, when representing a return on such investments, continue to be recognised in income statement as dividend income when the Bank's right to receive payments is established.

Gains and losses on equity instruments at FVTPL are included in the 'net gain/(loss) arising from financial assets FVTPL' in the income statement.

(b) Reclassification policy

Reclassification of financial assets is required when, and only when, the Bank changes its business model for managing the assets. In such cases, the Bank is required to reclassify all affected financial assets.

However, it will be inappropriate to reclassify financial assets that have been designated at fair value through profit or loss, or equity instruments that have been designated as at fair value through other comprehensive income even when there is a change in business model. Such designations are irrevocable.

(c) Recognition, initial measurement and derecognition

Regular purchases and sales of financial assets are recognised on the trade date on which the Bank committed to purchase or sell the assets at trade-date. 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.

(d) Impairment

MFRS 9 introduces a new impairment model that requires the recognition of expected credit loss ('ECL'), replacing the incurred loss methodology model under MFRS 139, for all financial assets, except for financial assets classified or designated as FVTPL and equity securities classified under FVOCI, which are not subject to impairment assessment. Off-balance sheet items that are subject to ECL include financial guarantees and undrawn financing commitments.

General approach

ECL will be assessed using an approach which classifies financial assets into three stages which reflects the change in credit quality of the financial assets since initial recognition:

(i) Stage 1: 12 months ECL – not credit impaired

For credit exposures where there has not been a significant increase in credit risk since initial recognition or which has low credit risk at reporting date and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(d) Impairment (continued)

(ii) Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised.

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

(iii) Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognised.

Generally, all financial assets that are 90 days past due or more are classified under Stage 3.

The Bank considers the following as constituting an event of default:

(1) Quantitative criteria

- The borrower is past due more than 90 days on any material credit obligation to the Bank.

(2) Qualitative criteria

- Legal action has been initiated by the Bank for recovery purposes;
- Borrower is a bankrupt;
- Borrower has been assigned to external collection agency; and
- When there is modification referring to any changes in the contractual cash flow of loan due to credit deterioration reasons.

<u>Significant increase in credit risk ('SICR')</u>

(1) 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.

(2) Among the indicators incorporated in ascertaining SICR are:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increase in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrower in the group and changes in the operating results of the borrower.

Macroeconomic information (such as market profit rates or growth rates) is incorporated as part of the internal rating model.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(d) Impairment (continued)

The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The measurement of ECL is based on the discounted products of the Probability of Default model ('PD'), Loss Given Default model ('LGD') and Exposure at Default model ('EAD'). Certain ECL models are leveraging on the existing Bank's Basel II Internal Ratings-Based ('IRB') model, where feasible or available, with necessary adjustment to meet MFRS 9 requirements. The changes in ECL between two-periods will be recognised in income statement.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Bank's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for doubtful debts for these financial assets is based on a 12-months ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

The Bank leverages on the model/segments/credit related factors implemented under the Basel II IRB framework where feasible or available, with calibration to meet MFRS 9 requirements. For portfolio without Basel model, other relevant historical information, loss experience or proxies will be utilised if deemed feasible.

In determining the ECL, management will evaluate a range of possible outcomes, taking into account past events, current conditions/trends and economic outlooks. Additional considerations that are assessed to have been adequately addressed by the ECL model estimates, a structured management overlay, which is subject to robust review and governance process, will be applied consistently.

Generally, all financial assets are considered to have experienced a significant increase in credit risk if the exposures is more than 30 days past due on its contractual payments.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(e) Accounting policies prior to 1 January 2018

(i) Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, financing, advances and receivables, financial investments AFS and HTM. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition and in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

(1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held-for-trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term. Derivatives are also classified in this category unless they are designated as hedges. Refer to accounting policy Note 4 on hedge accounting.

(2) Financing, advances and receivables

Financing, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financing and receivables consist of Bai' Bithaman Ajil, Ijarah, Murabahah, Musyarakah, and Bai'Inah contracts. These contracts are initially recognised at fair value, including direct and incremental transactions costs, and subsequently measured at amortised cost using the effective profit method. These contracts are stated net of unearned income and any amounts written off and/or impaired.

(3) Financial investments AFS

Financial investments AFS are non-derivatives that are either designated in this category or not classified in any of the other categories.

(4) Financial investments HTM

Financial investments HTM are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank was to sell other than an insignificant amount of financial investments HTM, the whole category would be tainted and reclassified as financial investments AFS.

(ii) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the settlement date on which the Bank purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in income statement.

(iii) Subsequent measurement - gain and loss

Financial investments AFS and financial assets at fair value through profit or loss are subsequently carried at fair value. Financing, advances and receivables and financial investments HTM are subsequently carried at amortised cost using the effective profit method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, profit and dividend income are recognised in other operating income in income statement in the period in which the changes arise.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(e) Accounting policies prior to 1 January 2018 (continued)

(iii) Subsequent measurement - gain and loss (continued)

Changes in the fair value of financial investments AFS are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets are recognised in income statement, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

Profit and dividend income on financial investments AFS are recognised separately in income statement. Profit on financial investments AFS calculated using the effective profit method is recognised in income statement. Dividend income on financial investments AFS is recognised in other operating income in income statement when the Bank's right to receive payment is established.

(iv) Impairment

The Bank assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

<u>Assets carried at amortised cost</u>

For financing, advances and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective profit rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a financing or held-to-maturity investment had a variable profit rate, the discount rate for measuring any impairment loss was the current effective profit rate determined under the contract. As a practical expedient, the Bank could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in income statement.

<u>Assets classified as available-for-sale</u>

If there was objective evidence of impairment for available-for-sale financial assets, the cumulative loss which was measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statement, was removed from equity and recognised in income statement.

Impairment losses on equity instruments that were recognised in income statement were not reversed through income statement in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss was reversed through income statement.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(f) Derecognition

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.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfer substantially all of the risks and rewards. These transactions are accounted for as ‘pass through’ transfers that result in derecognition if the Bank:

(i) Has no obligation to make payments unless they collect equivalent amounts from the assets;
(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Financing, advances and receivables that are factored out to banks and other financial institutions with recourse to the Bank are not derecognised until the recourse period has expired and the risks and rewards of financing, advances and receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

(g) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount will be presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

(3) REPURCHASE AGREEMENTS

Securities purchased under resale agreements are securities which the Bank has purchased with a commitment to resell at future dates. The commitment to resell the securities is reflected as an asset on the statement of financial position.

Conversely, obligations on securities sold under repurchase agreements are securities which the Bank has sold from its portfolio, with a commitment to repurchase at future dates. Such financing and the obligation to repurchase the securities is reflected as a liability on the statement of financial position.

The difference between sale and repurchase price as well as purchase and resale price are amortised as profit income and expense respectively on an effective yield method.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Bank has elected to continue to apply the hedge accounting requirements of MFRS 139 on the adoption of MFRS 9.

Derivatives are initially recognised at fair value on the date on which derivative contracts are entered into and are subsequently remeasured at their fair values. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative. Cash collateral held in relation to derivative transactions are carried at amortised cost.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits on day one.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Bank documents, at the inception of the hedge, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective profit method is used is amortised to the income statement over the period to maturity and recorded as net profit.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

(c) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(5) INTANGIBLE ASSETS - COMPUTER SOFTWARE LICENSES

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software licenses are subsequently carried at cost less accumulated amortisation and impairment losses. The costs are amortised over the estimated useful lives of 5 years to 10 years.

At the end of the reporting period, the Bank assesses whether there is any indication of impairment on computer software licenses. Where an indication of impairment exists, the carrying amount of the asset is written down to its recoverable amount. Refer to accounting policy Note 17 on impairment of non-financial assets.

Gains and losses arising from de-recognition of computer software licenses are measured as the difference between net disposal proceeds and the carrying amount of the computer software licenses and are recognised in income statement when the asset is de-recognised.

(6) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are recognised as expense in income statement during the financial period in which they are incurred.

Renovations in progress are not depreciated. Other property, plant and equipment are depreciated on a straight-line basis to write down their costs to their residual values over their estimated useful lives. The principal annual depreciation rates are as follows:

Renovations	10%
Office equipment and furniture	20%
Computer equipment	14⅓% to 33⅓%
Motor vehicles	20%

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. There are no material adjustments arising from the review that would require disclosure in the financial statements.

Gains or losses on disposals are determined by comparing proceeds with carrying amounts and are included in other operating income in income statement.

At the end of the reporting period, the Bank assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is written down to its recoverable amount. Refer to accounting policy Note 17 on impairment of non-financial assets.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(7) FINANCIAL LIABILITIES

Financial liabilities are measured at amortised cost, except for trading liabilities designated at fair value, which are held at fair value through profit or loss. Financial liabilities are initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in income statement. Financial liabilities are de-recognised when extinguished.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities as held-for-trading, and financial liabilities designated at fair value through profit or loss upon initial recognition.

A financial liability is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking. Derivatives are also categorised as held-for-trading unless they are designated as hedges. Refer to accounting policy Note 4 on hedge accounting.

(b) Other financial liabilities measured at amortised cost

Other financial liabilities are initially recognised at fair value plus transaction costs. Subsequently, other financial liabilities are remeasured at amortised cost using the effective profit rate.

Other financial liabilities measured at amortised cost are deposits from customers, deposits and placements of banks and other financial institutions, investment account due to designated financial institutions, obligations on securities sold under repurchase agreements, bills and acceptances payable, recourse obligation on financing sold to Cagamas and other financial liabilities.

(c) Borrowings measured at amortised cost

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost, any difference between initial recognised amount and the redemption value is recognised in income statement over the period of the borrowings using the effective profit method.

All other borrowing costs are recognised in income statement in the period in which they are incurred.

Borrowings measured at amortised cost are subordinated obligations.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(8) INVESTMENT ACCOUNT ('IA')

IA is defined by the application of Shariah contracts as investment with non-principal guarantee feature. Under the Islamic Financial Services Act, 2013, the priority payment for IA upon liquidation of Islamic Financial Institution ('IFI') is treated separately from Islamic deposit, in accordance with the rights and obligations accrued to the investment account holders. IA is further categorised to Restricted Investment Account (‘RIA’) and Unrestricted Investment Account (‘URIA’).

RIA refers to a type of investment account where the Investment Account Holder ('IAH') provides a specific investment mandate to the IFI such as purpose, asset class, economic sector and period for investment while URIA refers to a type of investment account where the IAH provides the IFI with the mandate to make the ultimate investment decision without specifying any particular restrictions or conditions.

IA are contracts based on the Shariah concept below:

(a) Mudharabah between two parties, customer and the Bank, to finance a business venture where the customer provides capital and the business venture is managed solely by the Bank. The profit of the business venture will be shared based on pre-agreed ratios with the Bank as Mudharib (manager or manager of funds), and losses shall be borne solely by customers.

(b) Wakalah, a trust-based contract in which a party (muwakkil) appoints another party as his agent (wakil) to perform a particular task, in matters that may be delegated, either voluntarily or with imposition of a fee. The fee shall be recognised based on agreement.

(c) Details of the IA are as disclosed in Note 19 to the financial statements.

(9) RECOURSE OBLIGATION ON FINANCING SOLD TO CAGAMAS

In the normal course of banking operations, the Bank sells financing to Cagamas but undertake to administer the financing on behalf of Cagamas and to buy back any financing which are regarded as defective. Such financing transactions and the obligation to buy back the financing are reflected as a liability on the statement of financial position and accounted for in accordance with accounting policy Note 7(b).

(10) OPERATING LEASE

(a) Operating lease

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to income statement on a straight-line basis over the period of the lease.

The up-front payments made for leasehold land represent prepaid lease rentals and are amortised on straight-line basis over the lease term.

Where an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period when termination takes place.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(11) PROVISIONS

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

Where the Bank expects a provision to be reimbursed (for example, under an insurance contract), the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

(12) FINANCIAL GUARANTEE CONTRACTS

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

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The fair value of a financial guarantee at the time of issuance is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premium is recognised.

The fair value of financial guarantee is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

<u>Accounting policy from 1 January 2018</u>

Financial guarantee contracts are subsequently measured at the higher of the amount determined in accordance with the expected credit loss model under MFRS 9 'Financial Instruments' (refer to accounting policy Note 2(d)) and the amount initially recognised less cumulative amount of income recognised in accordance with the principles of MFRS 15 'Revenue from Contracts with Customers', where appropriate.

<u>Accounting policy from 1 January 2018</u>

Financial guarantee contracts are subsequently measured at the highest of the amount determined in accordance with MFRS 137 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised less cumulative amortisation, where applicable.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(13) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

Subsequent to the initial recognition, the Bank measures the contingent liabilities that are recognised separately at the date of acquisition at the higher of the amount that would be recognised in accordance with the provision of MFRS 137 ‘Provisions, Contingent Liabilities and Contingent Assets’ and the amount initially recognised less when appropriate, cumulative amortisation recognised in accordance with MFRS 15 ‘Revenue from Contracts with Customers’.

(14) SHARE CAPITAL

(a) Classification

Ordinary shares are classified as equity. Other shares, if issued, are classified as equity and/or liability according to the economic substance of the particular instrument.

(b) Share issue cost

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(c) Dividend distribution

Distributions to holders of an equity instrument are debited directly to equity, and the corresponding liability is recognised in the period in which the shareholders’ right to receive the dividends are established or the dividends are approved.

(15) CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of one month or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(16) REVENUE RECOGNITION

(a) Profit income is recognised using the effective profit method. The effective profit rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to its carrying amount. The calculation includes significant fees and transaction costs that are integral to the effective profit rate, as well as premiums or discounts. Profit income is calculated by applying the effective profit rate to the gross carrying amount of a financial asset except for financial asset that subsequently becomes credit-impaired. For credit-impaired financial asset, the effective profit rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Bai' Bithaman Ajil
A contract of sale of an asset in which the payment of price is deferred either be paid in lump-sum or instalment basis within an agreed period of time. Income is recognised on effective profit rate basis over the expected life of the contract based on outstanding financing amount.

Ijarah
A contract that transfers ownership of a permitted usufruct and/or service for a specified period in exchange for a specified consideration.

Murabahah
A contract of sale where the assets cost and profit margin shall be made transparent and agreed upon between buyer and seller. Income is recognised on effective profit rate basis over the expected life of the contract based on outstanding financing amounts.

Musyarakah
Partnership between two or more parties, which may take effect through contractual relationship or by operation of Islamic law, whereby all contracting parties will share the profit and bear loss from the partnership.

Bai'Inah
An arrangement that involves sale of an asset to the purchaser on a deferred basis and subsequent purchase of the asset at a cash price lower than the deferred sale price or vice versa, and which complies with the specific requirements of Bai'Inah.

(b) Fees and commissions are recognised as income when all conditions precedent are fulfilled. Commitment fees and guarantee fees for financing and advances that are likely to be drawdown are deferred (together with related direct costs) and income which forms an integral part of the effective profit rate of a financial instrument is recognised as an adjustment to the effective profit rate of the financial instrument.

(c) Corporate advisory fees are recognised as income based on fulfilment of the performance obligation.

(d) Dividends are recognised when the shareholders' right to receive payment is established. Dividend income received from financial assets at FVTPL and FVOCI are recognised as other operating income in the income statement.

(e) Income from bancatakaful agreement is recognised based on time apportionment method throughout the exclusive service agreement period.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(17) IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the non-financial assets exceeds its recoverable amount.

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

(18) EMPLOYEE BENEFITS

(a) Short term employee benefits

The Bank recognises a liability and an expense for bonuses. The Bank recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

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

(b) Defined contribution plans

A defined contribution plan is a pension plan under which the Bank pays fixed contributions to the national pension scheme, the Employees' Provident Fund. The Bank's contributions to defined contribution plans are charged to income statement in the period to which they relate. Once the contributions have been paid, the Bank has no further legal or constructive obligations.

(c) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits.

(19) CURRENT AND DEFERRED INCOME TAXES

The tax expense for the period comprises current and deferred tax. Tax is recognised in income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax expense is determined according to the tax laws of each jurisdiction in which the Bank operates and include all taxes based upon the taxable profits.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the date of statement of financial position and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(20) CURRENCY CONVERSION AND TRANSLATION

(a) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia, which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges. Foreign exchange gains and losses are presented in income statement within other operating income.

Changes in the fair value of monetary securities denominated in foreign currency classified as debt instruments under fair value through other comprehensive income (2017: available for sale) are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in income statement, and other changes in carrying amount are recognised in other comprehensive income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as at fair value through other comprehensive income (2017: available for sale), are included in other comprehensive income.

(21) SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources to and assessing performance of the operating segments of an entity. The Bank has determined RHB Bank's Group Management Committee as its chief operating decision-maker.

(22) ZAKAT

This represents business zakat which is an obligatory amount 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 shareholders. Zakat provision is calculated based on the "Working Capital Method", at 2.5% on the adjusted net assets of the Bank.

(B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets within the next financial year are outlined below:

(1) Fair value measurement

A significant portion of financial instruments are carried on the balance sheet at fair value.

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.

Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Bank has immediate access. An adjustment for credit risk is also incorporated into the fair value as appropriate.

Fair value for a net open position that is a financial liability quoted in an active market is the current offer price, and for a financial asset the bid price, multiplied by the number of units of the instrument held or issued.

Where no active market exists for a particular asset or liability, the Bank uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

The valuation techniques are further disclosed in Note 42(g)(i) to the financial statements.

(2) Allowance for expected credit losses ('ECL')

The measurement of the ECL 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.

MFRS 9 introduces the use of macroeconomic factors which include, but is not limited to, unemployment, profit rates, gross domestic product, private consumption, inflation and commercial property prices, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are

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

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

The sensitivity effect on the macroeconomic factor is further disclosed in Note 42(f)(viii) to the financial statements.

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

1 GENERAL INFORMATION

RHB Islamic Bank Berhad, is a licensed Islamic Bank under the Islamic Financial Services Act, 2013, a limited liability company domiciled in Malaysia, and is principally engaged in the Islamic banking business and is committed to offer customers a comprehensive range of products and services in accordance with its Constitution and Shariah principles.

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

The address of the registered office of the Bank is Level 10, Tower One, RHB Centre, Jalan Tun Razak, 50420 Kuala Lumpur, Malaysia.

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 27 February 2019.

2 CASH AND SHORT-TERM FUNDS

	2018	2017
	RM'000	RM'000
Cash and balances with banks and other financial institutions	**517,495**	90,792
Money at call and deposit placements maturing within one month	**2,945,783**	1,939,068
	3,463,278	2,029,860

3 SECURITIES PURCHASED UNDER RESALE AGREEMENTS

	2018	2017
	RM'000	RM'000
Malaysian Government Investment Issues	**926,125**	1,587,979

4 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018	2017
	RM'000	RM'000
Licensed bank	**-**	14,641
Licensed Islamic banks	**-**	432,569
	-	447,210

5 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ('FVTPL')/HELD-FOR-TRADING ('HFT')

	2018	2017
	RM'000	RM'000
Mandatory measured at fair value		
Money market instruments:		
Malaysian Government Investment Issues	**274,226**	172,536

6 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE ('AFS')

	2017
	RM'000
At fair value	
Money market instruments:	
Malaysian Government Investment Issues	648,592
Khazanah bonds	9,403
Cagamas bonds	30,485
Unquoted securities:	
In Malaysia	
Corporate sukuk	2,505,393
Perpetual sukuk	200,620
	3,394,493
At cost	
Unquoted securities:	
In Malaysia	
Shares in Islamic Bank and Financial Institutions of Malaysia ('IBFIM')	549
	3,395,042
Accumulated impairment losses	(549)
	3,394,493

7 FINANCIAL INVESTMENTS HELD-TO-MATURITY ('HTM')

	2017
	RM'000
At amortised cost	
Money market instruments:	
Malaysian Government Investment Issues	335,325
Sukuk Perumahan Kerajaan	9,985
Khazanah bonds	21,799
Negotiable Islamic debt certificates	1,838,090
Unquoted securities:	
In Malaysia	
Corporate sukuk	1,615,535
	3,820,734

Included in financial investments HTM was securities acquired and funded via the RIA, as part of arrangement between the Bank and RHB Bank, its holding company. Gross exposure to RIA financing as at 31 December 2017 was RM790,275,000.

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (‘FVOCI’)

	2018 RM'000
At fair value	
Debt instruments	4,150,325
Money market instruments:	
Malaysian Government Investment Issues	1,032,474
Khazanah bonds	9,762
Cagamas bonds	10,144
Negotiable Islamic debt certificates	198,834
Unquoted securities:	
In Malaysia	
Corporate sukuk	2,873,629
Outside Malaysia	
Corporate sukuk	25,482
	4,150,325

Movement in allowance for credit losses recognised in FVOCI reserve

2018	12-month ECL (Stage 1) RM’000	Lifetime ECL not Credit Impaired (Stage 2) RM’000	Lifetime ECL Credit Impaired (Stage 3) RM’000	Total RM’000
Balance as at the beginning of the financial year				
- As previously reported	-	-	-	-
- Effect of adoption of MFRS 9	5,179	-	-	5,179
- As restated	5,179	-	-	5,179
Allowance made/(written back) during the financial year	(89)	307	-	218
Balance as at the end of the financial year	5,090	307	-	5,397

9 FINANCIAL INVESTMENTS AT AMORTISED COST

	2018 RM'000
At amortised cost	
Money market instruments:	
Malaysian Government Investment Issues	**188,059**
Sukuk Perumahan Kerajaan	**10,000**
Khazanah bonds	**22,770**
Cagamas bonds	**218,325**
Unquoted securities:	
In Malaysia	
Corporate sukuk	**2,423,785**
	2,862,939
Allowance for credit losses	**(6,150)**
	2,856,789

Included in financial investments at amortised cost are securities acquired and funded via the RIA, as part of arrangement between the Bank and RHB Bank, its holding company. Gross exposure to RIA financing as at 31 December 2018 is RM693,775,000.

Movement in allowance for credit losses

2018	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
Balance as at the beginning of the financial year				
- As previously reported	**-**	**-**	**-**	**-**
- Effect of adoption of MFRS 9	**1,708**	**1,318**	**-**	**3,026**
- As restated	**1,708**	**1,318**	**-**	**3,026**
Allowance made during the financial year	**2,189**	**935**	**-**	**3,124**
Balance as at the end of the financial year	**3,897**	**2,253**	**-**	**6,150**

10 FINANCING AND ADVANCES

	Bai' Bithaman Ajil ('BBA')	Ijarah	Murabahah	Musyarakah	Bai'Inah	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2018							
At amortised cost							
Cashline	-	-	642,459	-	-	46,474	688,933
Term financing:							
- Housing financing	389,062	-	2,734,472	12,223,037	-	470	15,347,041
- Syndicated term financing	-	69,044	2,042,604	-	-	18,551	2,130,199
- Hire purchase receivables	-	7,192,178	-	-	-	53,901	7,246,079
- Other term financing	782	187,024	19,734,078	-	1,509,993	3,572	21,435,449
Bills receivables	-	-	1,037,358	-	-	3,056	1,040,414
Trust receipts	-	-	22,368	-	-	254	22,622
Staff financing	2,291	-	-	-	-	-	2,291
Credit/charge card receivables	-	-	-	-	-	284,170	284,170
Revolving financing	-	-	4,056,999	-	-	-	4,056,999
Gross financing and advances	392,135	7,448,246	30,270,338	12,223,037	1,509,993	410,448	52,254,197
Fair value changes arising from fair value hedge							(17,879)
							52,236,318
Allowance for credit losses on financing and advances							(423,088)
Net financing and advances							51,813,230

10 FINANCING AND ADVANCES (CONTINUED)

	Bai' Bithaman Ajil ('BBA')	Ijarah	Murabahah	Musyarakah	Bai'Inah	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017							
At amortised cost							
Cashline	-	-	532,334	-	-	3,442	535,776
Term financing:							
- Housing financing	448,118	-	823,499	10,575,089	-	400	11,847,106
- Syndicated term financing	-	76,405	1,713,643	-	-	18,899	1,808,947
- Hire purchase receivables	-	6,145,221	-	-	-	40,503	6,185,724
- Other term financing	1,791	490,417	16,156,732	-	1,509,993	3,778	18,162,711
Bills receivables	-	-	1,041,682	-	-	3,428	1,045,110
Trust receipts	-	-	15,558	-	-	-	15,558
Staff financing	2,592	-	-	-	-	-	2,592
Credit/charge card receivables	-	-	-	-	-	267,577	267,577
Revolving financing	-	-	3,104,581	-	-	-	3,104,581
Gross financing and advances	452,501	6,712,043	23,388,029	10,575,089	1,509,993	338,027	42,975,682
Fair value changes arising from fair value hedge							(1,231)
							42,974,451
Allowance for impaired financing and advances:							
- Individual impairment allowance							(42,612)
- Collective impairment allowance							(230,045)
Net financing and advances							42,701,794

10 FINANCING AND ADVANCES (CONTINUED)

(a) Included in financing and advances are exposures to RIA as part of arrangement between the Bank and its holding company, RHB Bank.

As at 31 December 2018, the gross exposures to RIA financing are RM7,122,927,000 (2017: RM7,030,030,000) and the portfolio expected credit losses for financing and advances relating to RIA amounting to RM143,813,000 (2017: RM45,287,000) is recognised in the financial statements of RHB Bank. There is no stage 3 expected credit losses being made for such RIA financing.

(b) Included in term financing are housing financing sold to Cagamas amounting to RM2,203,000,000 (2017: Nil).

	2018	2017
	RM'000	RM'000
(i) By type of customer		
Domestic non-bank financial institutions:		
- Others	**2,244,410**	1,287,745
Domestic business enterprises:		
- Small medium enterprises	**4,177,511**	3,085,019
- Others	**12,365,324**	12,985,826
Government and statutory bodies	**5,024,919**	4,005,023
Individuals	**27,963,814**	21,173,536
Other domestic entities	**129,993**	100,176
Foreign entities	**348,226**	338,357
	52,254,197	42,975,682
(ii) By profit rate sensitivity		
Fixed rate:		
- Housing financing	**389,190**	448,398
- Hire purchase receivables	**3,269,651**	4,452,465
- Other fixed rate financing	**6,968,025**	8,238,412
Variable rate:		
- Base financing rate-plus	**39,100,659**	27,774,276
- Cost-plus	**2,526,672**	2,062,131
	52,254,197	42,975,682
(iii) By economic sector		
Agriculture, hunting, forestry and fishing	**1,073,247**	1,122,652
Mining and quarrying	**243,067**	245,208
Manufacturing	**1,281,161**	1,215,270
Electricity, gas and water	**173,961**	187,516
Construction	**4,091,139**	2,994,392
Wholesale and retail trade and restaurant and hotel	**1,516,641**	1,294,069
Transport, storage and communication	**4,715,600**	4,870,770
Real estate	**992,581**	1,274,802
Finance, insurance and business services	**4,444,028**	3,791,815
Government and government agencies	**3,514,858**	2,354,165
Education, health and others	**1,935,475**	2,118,510
Household sector	**28,084,205**	21,232,290
Others	**188,234**	274,223
	52,254,197	42,975,682

10 FINANCING AND ADVANCES (CONTINUED)

	2018 RM'000	2017 RM'000
(iv) By purpose		
Purchase of securities	**2,884,807**	1,758,308
Purchase of transport vehicles	**7,217,259**	6,156,435
Purchase of landed property:		
- Residential	**14,489,096**	11,272,138
- Non-residential	**3,587,570**	3,208,523
Purchase of property, plant and equipment other than land and building	**521,325**	661,901
Personal use	**3,540,743**	2,798,313
Credit card	**284,170**	267,577
Construction	**1,240,741**	980,050
Working capital	**11,763,783**	9,309,504
Merger and acquisition	**1,252,698**	1,319,919
Other purposes	**5,472,005**	5,243,014
	52,254,197	42,975,682
(v) By geographical distribution		
Malaysia	**52,254,197**	42,975,682
(vi) By remaining contractual maturities		
Maturing within one year	**6,519,750**	7,861,965
One to three years	**3,717,980**	5,113,144
Three to five years	**5,912,468**	3,599,350
Over five years	**36,103,999**	26,401,223
	52,254,197	42,975,682

(vii) By stages

2018	**12-month ECL (Stage 1) RM'000**	**Lifetime ECL not credit impaired (Stage 2) RM'000**	**Lifetime ECL credit impaired (Stage 3) RM'000**	**Total RM'000**
Balance as at the beginning of the financial year				
- As previously reported	**-**	**-**	**-**	**-**
- Effect of adoption of MFRS 9	**38,378,730**	**4,089,762**	**464,974**	**42,933,466**
- As restated	**38,378,730**	**4,089,762**	**464,974**	**42,933,466**
Transfer to 12-month ECL (Stage 1)	**736,788**	**(683,304)**	**(53,484)**	**-**
Transfer to Lifetime ECL not credit impaired (Stage 2)	**(1,183,569)**	**1,218,968**	**(35,399)**	**-**
Transfer to Lifetime ECL credit impaired (Stage 3)	**(81,731)**	**(122,432)**	**204,163**	**-**
Purchases and origination	**20,850,883**	**670,378**	**54,516**	**21,575,777**
Derecognition	**(10,106,155)**	**(2,023,304)**	**(57,374)**	**(12,186,833)**
Amount written off	**-**	**-**	**(68,213)**	**(68,213)**
Balance as at the end of the financial year	**48,594,946**	**3,150,068**	**509,183**	**52,254,197**

10 FINANCING AND ADVANCES (CONTINUED)

(viii) Impaired financing and advances

(a) Movement in impaired financing and advances

	2017
	RM'000
Balance as at the beginning of the financial year	393,096
Classified as impaired	472,890
Reclassified as non-impaired	(385,958)
Amount recovered	(77,000)
Amount written off	(59,067)
Balance as at the end of the financial year	343,961

	2018	2017
	RM'000	RM'000
(b) By economic sector		
Agriculture, hunting, forestry and fishing	**356**	304
Mining and quarrying	**1,588**	530
Manufacturing	**31,550**	22,380
Electricity, gas and water	**57,120**	29,822
Construction	**83,903**	40,724
Wholesale and retail trade and restaurant and hotel	**63,362**	54,481
Transport, storage and communication	**9,799**	9,391
Real estate	**6,693**	2,903
Finance, insurance and business services	**20,336**	7,169
Education, health and others	**8,452**	3,800
Household sector	**226,024**	172,457
	509,183	343,961
(c) By geographical distribution		
Malaysia	**509,183**	343,961

10 FINANCING AND ADVANCES (CONTINUED)

(viii) Impaired financing and advances (continued)

(d) Movement in allowance for credit losses

2018	**12-month ECL (Stage 1) RM'000**	**Lifetime ECL not credit impaired (Stage 2) RM'000**	**Lifetime ECL credit impaired (Stage 3) RM'000**	**Total RM'000**
Balance as at the beginning of the financial year				
- As previously reported	**-**	**-**	**-**	**-**
- Effect of adoption of MFRS 9	**53,225**	**105,450**	**217,603**	**376,278**
- As restated	**53,225**	**105,450**	**217,603**	**376,278**
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to 12-month ECL (Stage 1)	**34,882**	**(22,784)**	**(12,098)**	**-**
- Transferred to Lifetime ECL not credit impaired (Stage 2)	**(13,222)**	**20,844**	**(7,622)**	**-**
- Transferred to Lifetime ECL credit impaired (Stage 3)	**(679)**	**(5,966)**	**6,645**	**-**
	20,981	**(7,906)**	**(13,075)**	**-**
Allowance made during the financial year	**10,513**	**31,760**	**122,537**	**164,810**
Bad debts written off	**-**	**-**	**(59,852)**	**(59,852)**
Derecognised	**(11,104)**	**(13,050)**	**(33,994)**	**(58,148)**
Balance as at the end of the financial year	**73,615**	**116,254**	**233,219**	**423,088**

Included in allowance for credit losses for the Bank as at 31 December 2018 is expected credit losses for loan commitments and financial guarantee contracts amounting to RM10,863,000.

(e) Movement in allowance for impaired financing and advances

	2017 RM'000
Individual impairment allowance	
Balance as at the beginning of the financial year	15,864
Net allowance made	29,204
Amount written off	(2,456)
Balance as at end of the financial year	42,612
Collective impairment allowance	
Balance as at the beginning of the financial year	236,525
Net allowance made	37,562
Amount written off	(44,042)
Balance as at the end of the financial year	230,045

11 OTHER ASSETS

	2018	2017
	RM'000	RM'000
Prepayments	**23,288**	15,998
Deposits	**1,591**	1,732
Other receivables	**452,656**	73,204
	477,535	90,934

12 DERIVATIVE ASSETS/(LIABILITIES)

Derivative financial instruments are financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, profit rates and security prices) of the underlying instruments. These instruments are used by the Bank for economic hedges and for proprietary trading purposes. The default classification for derivative financial instruments is trading, unless designated in a hedge relationship and are in compliance with the stringent requirements of hedge accounting mentioned in the Bank’s accounting policies.

The table below shows the Bank’s derivative financial instruments as at the date of statement of financial position. The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative assets) and gross negative (derivative liabilities) fair values at the date of statement of financial position are analysed below.

	2018	2017
	RM'000	RM'000
Derivative assets:		
- Trading derivatives	**204,543**	327,948
- Fair value hedging derivatives	**-**	30
	204,543	327,978
Derivative liabilities:		
- Trading derivatives	**(207,117)**	(323,235)
- Fair value hedging derivatives	**(4,438)**	(4,488)
	(211,555)	(327,723)

12 DERIVATIVE ASSETS/(LIABILITIES) (CONTINUED)

	Contract or underlying principal amount RM'000	Year-end positive fair value RM'000	Year-end negative fair value RM'000
2018			
Trading derivatives:			
Foreign exchange related contracts:			
- Forwards	**8,667,085**	**102,969**	**(106,065)**
- Cross currency profit rate swaps	**2,616,837**	**97,518**	**(96,753)**
Profit rate related contracts:			
- Swaps	**704,596**	**4,056**	**(4,299)**
Fair value hedging derivatives:			
Profit rate related contracts:			
- Swaps	**1,255,000**	**-**	**(4,438)**
		204,543	**(211,555)**
2017			
Trading derivatives:			
Foreign exchange related contracts:			
- Forwards	7,906,671	240,620	(236,924)
- Cross currency profit rate swaps	2,665,997	84,008	(82,908)
Profit rate related contracts:			
- Swaps	917,338	3,320	(3,403)
Fair value hedging derivatives:			
Profit rate related contracts:			
- Swaps	1,325,000	30	(4,488)
		327,978	(327,723)

Fair value hedging is used by the Bank for protection against the changes in fair value of financial assets and financial liabilities due to movements in market profit rates. The Bank uses profit rate swaps to hedge against profit rate risk of specific identified fixed rate long term as well as portfolio homogenous pools of financing and advances. Included in other operating income as disclosed in Note 27 is the net gains and losses arising from fair value hedges for the financial year as follows:

	2018 RM'000	2017 RM'000
Gain on hedging instruments	**216**	6,916
Loss on hedged items attributable to the hedged risk	**(14,592)**	(7,994)
	(14,376)	(1,078)

13 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA ('BNM')

The non-profit bearing statutory deposits are maintained with BNM in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009. The amount is determined at a set percentage of total eligible liabilities.

14 DEFERRED TAX ASSETS

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when the deferred taxes relate to the same authority. The following amounts determined after appropriate set-off, are shown in the statement of financial position:

	2018	2017
	RM'000	RM'000
Deferred tax assets	**23,241**	16,513
Deferred tax assets:		
- Settled more than twelve months	**14,484**	5,532
- Settled within twelve months	**9,015**	11,608
Deferred tax liabilities:		
- Settled within twelve months	**(258)**	(627)
	23,241	16,513

14 DEFERRED TAX ASSETS (CONTINUED)

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

	Note	Intangible assets - computer software license RM'000	Property, plant and equipment RM'000	Financial assets at FVOCI/financial investments AFS RM'000	Expected credit losses RM'000	Provisions RM'000	Total RM'000
2018							
Balance as at the beginning of the financial year		**(627)**	**630**	**5,028**	**-**	**11,482**	**16,513**
Transfer from/(to) income statement	33	**369**	**(240)**	**-**	**13,070**	**(2,545)**	**10,654**
Transfer to equity		**-**	**-**	**(3,926)**	**-**	**-**	**(3,926)**
Balance as at the end of the financial year		**(258)**	**390**	**1,102**	**13,070**	**8,937**	**23,241**
2017							
Balance as at the beginning of the financial year		(4,819)	666	10,085	-	14,997	20,929
Transfer from/(to) income statement	33	4,192	(36)	-	-	(3,515)	641
Transfer to equity		-	-	(5,057)	-	-	(5,057)
Balance as at the end of the financial year		(627)	630	5,028	-	11,482	16,513

15 PROPERTY, PLANT AND EQUIPMENT

2018	Note	Renovations	Office equipment and furniture	Computer equipment	Motor vehicles	Total
		RM'000	RM'000	RM'000	RM'000	RM'000
Cost						
Balance as at the beginning of the financial year		17,463	8,476	11,873	1,149	38,961
Additions		41	109	77	-	227
Written off		(1)	(10)	(630)	-	(641)
Reclassifications		(164)	6	158	-	-
Reclassification to intangible assets	16	(430)	-	-	-	(430)
Balance as at the end of the financial year		16,909	8,581	11,478	1,149	38,117
Less: Accumulated depreciation						
Balance as at the beginning of the financial year		12,583	7,865	11,290	1,030	32,768
Charge for the financial year	31	1,090	163	411	74	1,738
Written off		(1)	(10)	(629)	-	(640)
Balance as at the end of the financial year		13,672	8,018	11,072	1,104	33,866
Net book value as at the end of the financial year		3,237	563	406	45	4,251

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

2017	Note	Renovations	Office equipment and furniture	Computer equipment	Motor vehicles	Total
		RM'000	RM'000	RM'000	RM'000	RM'000
Cost						
Balance as at the beginning of the financial year		15,691	8,327	12,300	1,157	37,475
Additions		1,772	237	203	-	2,212
Disposals		-	(27)	(256)	(4)	(287)
Written off		-	(61)	(374)	(4)	(439)
Balance as at the end of the financial year		17,463	8,476	11,873	1,149	38,961
Less: Accumulated depreciation						
Balance as at the beginning of the financial year		10,973	7,576	11,424	926	30,899
Charge for the financial year	31	1,610	373	496	112	2,591
Disposals		-	(23)	(256)	(4)	(283)
Written off		-	(61)	(374)	(4)	(439)
Balance as at the end of the financial year		12,583	7,865	11,290	1,030	32,768
Net book value as at the end of the financial year		4,880	611	583	119	6,193

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above property, plant and equipment includes the following assets under construction:

	2018	2017
	RM'000	RM'000
Cost		
Renovations	**-**	671

16 INTANGIBLE ASSETS

	Note	**2018**	2017
		RM'000	RM'000
Computer software license			
Cost			
Balance as at the beginning of the financial year		**16,389**	15,453
Additions		**797**	1,799
Written off		**(220)**	(863)
Reclassification from property, plant and equipment	15	**430**	-
Balance as at the end of the financial year		**17,396**	16,389
Less: Accumulated amortisation			
Balance as at the beginning of the financial year		**11,350**	9,504
Charge for the financial year	31	**1,737**	1,846
Written off		**(220)**	-
Balance as at the end of the financial year		**12,867**	11,350
Less: Accumulated impairment loss			
Balance as at the beginning of the financial year		**-**	1,199
Reversal for the financial year		**-**	(336)
Written off		**-**	(863)
Balance as at the end of the financial year		**-**	-
Net book value as at the end of the financial year		**4,529**	5,039

17 DEPOSITS FROM CUSTOMERS

	2018 RM'000	2017 RM'000
Savings Deposits:		
- Wadiah	**1,451,012**	1,353,675
Demand Deposits:		
- Wadiah	**5,161,736**	6,392,228
- Commodity Murabahah	**231,130**	55,952
Term Deposits:		
- Commodity Murabahah	**29,045,477**	24,813,727
Specific Investment Account:		
- Commodity Murabahah	**9,730,411**	5,098,668
General Investment Account:		
- Mudharabah	**112,586**	135,955
	45,732,352	37,850,205

(a) The maturity structure of investment accounts and term deposits are as follows:

	2018 RM'000	2017 RM'000
Due within six months	**28,151,327**	22,074,985
Six months to one year	**10,463,407**	7,966,481
One year to three years	**182,817**	4,814
Three years to five years	**90,923**	2,070
	38,888,474	30,048,350

(b) By type of customer

	2018 RM'000	2017 RM'000
Government and statutory bodies	**6,451,380**	4,313,279
Business enterprises	**26,158,852**	23,926,425
Individuals	**12,717,486**	9,224,592
Others	**404,634**	385,909
	45,732,352	37,850,205

18 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018 RM'000	2017 RM'000
Non-Mudharabah Funds:		
- Licensed Islamic banks	**1,598,865**	2,945,973
- Licensed banks	**2,764,399**	1,115,096
- Licensed investments banks	**-**	298,349
- Bank Negara Malaysia	**40,457**	20,689
	4,403,721	4,380,107
Mudharabah Funds:		
- Other financial institutions	**-**	14,694
	4,403,721	4,394,801

19 INVESTMENT ACCOUNT DUE TO DESIGNATED FINANCIAL INSTITUTIONS

	2018	2017
	RM'000	RM'000
Mudharabah Restricted Investment Account		
Funding inflows/(outflows) - Principal (Note a):		
Balance as at the beginning of the financial year	**7,820,305**	6,337,446
New placement during the financial year	**2,348,027**	3,746,999
Redemption during the financial year	**(2,351,630)**	(2,264,140)
Balance as at the end of the financial year	**7,816,702**	7,820,305
Profit attributable to investment account holders - Total profit payable:		
Balance as at the beginning of the financial year	**282,393**	285,025
Profit distributed to investment account holders during the financial year	**357,697**	310,130
Profit paid to investment account holders during the financial year	**(558,181)**	(312,762)
Balance as at the end of the financial year	**81,909**	282,393
Net balance as at the end of the financial year	**7,898,611**	8,102,698

(a) Investment asset (principal):

	2018 RM'000	2017 RM'000
- Personal financing	**700,000**	-
- Housing financing	**-**	300,000
- Hire purchase receivables	**-**	700,000
- Other term financing	**6,422,927**	6,030,030
- Unquoted securities (Notes 7 and 9)	**693,775**	790,275
- Total investment	**7,816,702**	7,820,305

The entire restricted investment account is placed by the holding company, RHB Bank.

(b) By type of counterparty

	2018 RM'000	2017 RM'000
- Licensed banks	**7,898,611**	8,102,698
	7,898,611	8,102,698

	Average profit sharing ratio %	Average rate of return %
2018		
- Below 1 year	**81**	**4.28**
- Between 1 to 2 years	**83**	**5.49**
- Between 2 to 5 years	**84**	**4.29**
- More than 5 years	**86**	**4.63**
2017		
- Below 1 year	88	4.56
- Between 1 to 2 years	81	4.35
- Between 2 to 5 years	85	4.29
- More than 5 years	83	4.44

20 RECOURSE OBLIGATION ON FINANCING SOLD TO CAGAMAS BERHAD ('CAGAMAS')

Recourse obligation on financing sold to Cagamas represents those acquired from the originators and sold to Cagamas with recourse. Under the agreement, the Bank undertakes to administer the financing on behalf of Cagamas and to buy back any financing which are regarded as defective based on pre-determined and agreed-upon prudential criteria with recourse against the originators. Such financing transactions and the obligation to buy back the financing are reflected as a liability on the statement of financial position. The financing are not derecognised and are analysed in Note 10.

21 SUBORDINATED OBLIGATIONS

	2018	2017
	RM'000	RM'000
4.95% RM500 million Tier II Subordinated Sukuk Murabahah 2014/2024	**503,187**	503,187
4.88% RM250 million Tier II Subordinated Sukuk Murabahah 2017/2027	**252,139**	252,206
	755,326	755,393

On 15 May 2014, the Bank issued RM500 million nominal value of Subordinated Sukuk Murabahah, being part of RM1 billion Subordinated Sukuk Murabahah Programme.

On 27 April 2017, the Bank has further issued RM250 million nominal value of Subordinated Sukuk Murabahah under the same RM1 billion Subordinated Sukuk Murabahah Programme.

On 25 July 2018, the Subordinated Sukuk programme has been upsized from RM1 billion to RM5 billion.

Tranche	**Principal RM'million**	**Maturity date**	**Profit rate**	**Profit payment**
2014/2024	500	15 May 2024 (Callable on 2019)	4.95% per annum chargeable to 15 May 2024	Accrued and payable semi-annually in arrears
2017/2027	250	27 April 2027 (Callable on 2022)	4.88% per annum chargeable to 27 April 2027	Accrued and payable semi-annually in arrears

The Bank did not have any defaults of principal and profit or other breaches with respect to its subordinated obligations during the financial years ended 31 December 2018 and 2017.

22 OTHER LIABILITIES

	Note	**2018**	2017
		RM'000	RM'000
Sundry creditors		**4,996**	4,691
Amount due to holding company	(a)	**205,700**	168,364
Amounts due to other related companies	(a)	**111**	259
Contract liability	(b)	**19,418**	31,682
Short term employee benefits		**5,830**	5,391
Accrual for operational expenses		**11,476**	10,206
Other accruals and payables	(c)	**34,027**	125,199
		281,558	345,792

(a) The amounts due to holding company and other related companies are unsecured, non-profit bearing and repayable within the normal credit period.

(b) Contract liability was reduced by RM12,264,000 for the Bank as a result of recognition of the bancatakaful fee.

(c) Included in the other accruals and payables is undistributed charity funds amounting to RM88,000 (2017: RM88,000). The funds are sourced from ta'widh (late payment charges).

Movement of sources and uses of charity funds are as follows:

	2018	2017
	RM'000	RM'000
Undistributed funds as at the beginning of the financial year	**88**	93
Funds collected/received during the year	**-**	-
Uses of funds during the year	**-**	(5)
Contribution to non-profit organisation	**-**	(5)
Undistributed funds as at the end of the financial year	**88**	88

23 SHARE CAPITAL

	2018	2017
	RM'000	RM'000
Issued and fully paid:		
Balance as at the beginning of financial year	**1,273,424**	1,273,424
Issued during the financial year	**400,000**	-
Balance as at the end of financial year	**1,673,424**	1,273,424

During the financial year, the Bank increased its issued and paid up share capital from RM1,273,424,002 to RM1,673,424,002 via the issuance of 400,000,000 new ordinary shares of RM1.00 each to RHB Bank, its holding company.

The new ordinary shares issued during the financial year rank *pari passu* in all aspects with the existing ordinary shares of the Bank.

24 RESERVES

	Note	**2018**	2017
		RM'000	RM'000
FVOCI/AFS reserve	(a)	**1,898**	(15,929)
Regulatory reserve	(b)	**358,054**	267,031
Retained profits		**2,013,893**	1,787,323
		2,373,845	2,038,425

(a) FVOCI reserve represents the cumulative gains and losses arising on the revaluation of investment in equity instruments designated as at FVOCI, net of cumulative gain/loss transferred to retained earnings upon disposal and investments in debt instruments classified as FVOCI, net of cumulative loss allowance recognised on these investments and cumulative gain/loss reclassified to income statement upon disposal or reclassification of these investments.

AFS reserve arises from a change in the fair value of financial investments classified as AFS. The unrealised gains or losses are transferred to the income statement upon disposal, derecognition or impairment of such securities.

(b) Regulatory reserve represents the Bank's compliance with BNM's Revised Policy Documents on Financial Reporting for Islamic Banking Institutions with effect from 1 January 2018, whereby the Bank must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserve of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures.

Prior to 1 January 2018, the Bank complies with BNM's Policy on Classification and Impairment Provisions for Loans/Financing, to maintain, in aggregate, the collective impairment allowances and regulatory reserve of no less than 1.2% of total outstanding loans/financing, net of individual impairment allowances.

25 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	2018	2017
	RM'000	RM'000
Income derived from investment of:		
(i) General investment deposits	**5,916**	7,019
(ii) Other deposits	**2,331,510**	1,950,033
	2,337,426	1,957,052

(i) Income derived from investment of general investment deposits:

	2018	2017
	RM'000	RM'000
Financing and advances	**4,956**	5,430
Securities purchased under resale agreements	**44**	176
Financial assets at FVTPL/HFT	**30**	18
Financial assets at FVOCI	**357**	-
Financial investments at amortised cost	**235**	-
Financial investments AFS	**-**	505
Financial investments HTM	**-**	248
Money at call and deposits with banks and other financial institutions	**246**	600
Total finance income and hibah	**5,868**	6,977
Other operating income (Note a)	**48**	42
	5,916	7,019
Of which:		
Financing income earned on impaired financing	**29**	38

(a) Other operating income comprise of:

	2018	2017
Commission	**22**	28
Guarantee fees	**9**	9
Net gain/(loss) on revaluation of financial assets at FVTPL/HFT	**1**	(3)
Net gain/(loss) on disposal of financial assets at FVTPL/HFT	**2**	(2)
Net gain on disposal of debt instruments of financial assets at FVOCI	**14**	-
Net gain on disposal of financial investments AFS	**-**	9
Net gain on early redemption of financial investments HTM	**-**	1
	48	42

25 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS (CONTINUED)

	2018	2017
	RM'000	RM'000
(ii) Income derived from investment of other deposits:		
Financing and advances	**1,953,056**	1,508,577
Securities purchased under resale agreements	**17,279**	48,946
Financial assets at FVTPL/HFT	**11,780**	4,967
Financial assets at FVOCI	**140,754**	-
Financial investments at amortised cost	**92,546**	-
Financial investments AFS	**-**	140,384
Financial investments HTM	**-**	68,827
Money at call and deposits with banks and other financial institutions	**96,898**	166,803
Total finance income and hibah	**2,312,313**	1,938,504
Other operating income (Note a)	**19,197**	11,529
	2,331,510	1,950,033
Of which:		
Financing income earned on impaired financing	**11,172**	10,507

	2018	2017
(a) Other operating income comprise of:		
Commission	**8,779**	7,700
Guarantee fees	**3,524**	2,493
Net gain/(loss) on revaluation of financial assets at FVTPL/HFT	**927**	(810)
Net gain/(loss) on disposal of financial assets at FVTPL/HFT	**646**	(660)
Net gain on disposal of debt instruments of financial assets at FVOCI	**5,196**	-
Net gain arising from derecognition of financial investments at amortised cost	**125**	-
Net gain on disposal of financial investments AFS	**-**	2,441
Net gain on early redemption of financial investments HTM	**-**	365
	19,197	11,529

26 INCOME DERIVED FROM INVESTMENT ACCOUNT FUNDS

	2018	2017
	RM'000	RM'000
Financing and advances	**380,293**	318,824
Financial investments at amortised cost	**54,878**	-
Financial investments HTM	**-**	52,523
Money at call and deposits with banks and other financial institutions	**3**	4,592
Total finance income and hibah	**435,174**	375,939

27 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	2018	2017
	RM'000	RM'000
Financing and advances	**64,583**	48,990
Securities purchased under resale agreements	**571**	1,591
Financial assets at FVTPL/HFT	**390**	161
Financial assets at FVOCI	**4,654**	-
Financial investments at amortised costs	**3,060**	-
Financial investments AFS	**-**	4,559
Financial investments HTM	**-**	2,235
Money at call and deposits with banks and other financial institutions	**3,204**	5,417
Total finance income and hibah	**76,462**	62,953
Other operating income (Note a)	**132,635**	112,565
	209,097	175,518
Of which:		
Financing income earned on impaired financing	**369**	341

(a) Other operating income comprise of:

	2018	2017
Commission	**36,030**	22,690
Service charges and fees	**64,281**	63,534
Guarantee fees and underwriting fees	**117**	81
Foreign exchange profit	**51,026**	38,471
Net gain/(loss) on revaluation of financial assets at FVTPL/HFT	**31**	(26)
Net gain/(loss) on disposal of financial assets at FVTPL/HFT	**21**	(21)
Net gain on disposal of debt instruments of financial assets at FVOCI	**172**	-
Net gain arising from derecognition of financial investments at amortised cost	**4**	-
Net gain on disposal of financial investments AFS	**-**	79
Net gain on early redemption of financial investments HTM	**-**	12
Net loss on fair value hedges (Note 12)	**(14,376)**	(1,078)
Net loss on revaluation of derivatives	**(4,709)**	(11,199)
Other income	**38**	22
	132,635	112,565

28 ALLOWANCE FOR CREDIT LOSSES ON FINANCIAL ASSETS

	2018	2017
	RM'000	RM'000
Charge/(Writeback)		
Financing and advances:		
- Net charge	**106,662**	66,766
- Bad debts recovered	**(15,587)**	(12,343)
- Bad debts written off	**21,128**	12,311
	112,203	66,734
Financial assets at FVOCI	**218**	-
Financial investments at amortised cost	**3,124**	-
Other financial assets	**(25)**	-
	115,520	66,734

29 INCOME ATTRIBUTABLE TO DEPOSITORS

	2018	2017
	RM'000	RM'000
Deposits from customers:		
- Mudharabah funds	**4,842**	4,621
- Non-Mudharabah funds	**1,358,130**	1,097,763
Deposits and placements of banks and other financial institutions:		
- Non-Mudharabah funds	**103,630**	172,012
Subordinated obligations	**36,950**	33,073
Recourse obligation on financing sold to Cagamas	**42,089**	21,672
Obligations on securities sold under repurchase agreements	**383**	254
	1,546,024	1,329,395

30 PERSONNEL EXPENSES

	2018	2017
	RM'000	RM'000
Salaries, allowances and bonuses	**24,352**	21,597
Contributions to Employees' Provident Fund	**3,913**	3,053
Other staff related costs	**2,414**	2,432
	30,679	27,082

Included in the personnel expenses is the Managing Director's remuneration as disclosed in Note 32.

31 OTHER OVERHEADS AND EXPENDITURES

	2018	2017
	RM'000	RM'000
Establishment costs		
Property, plant and equipment:		
- Depreciation	**1,738**	2,591
- Written off	**1**	-
Computer software license		
- Amortisation	**1,737**	1,846
Information technology expenses	**2,853**	3,123
Repair and maintenance	**1,117**	733
Rental of premises	**4,304**	4,704
Water and electricity	**782**	569
Rental of equipment	**3**	2
Printing and stationeries	**2,787**	3,477
Insurance	**4,671**	3,633
Others	**3,164**	3,757
	23,157	24,435
Marketing expenses		
Advertisement and publicity	**885**	2,135
Sales commission	**9,342**	8,898
Travelling expenses	**334**	297
Motor vehicle expenses	**210**	191
Others	**2,370**	2,353
	13,141	13,874
Administration and general expenses		
Auditors' remuneration:		
Audit		
- Statutory audit	**199**	174
- Limited review	**57**	57
Other audit related	**100**	100
Communication expenses	**5,189**	4,306
Legal and professional fee	**2,232**	1,960
Management fee	**295,564**	239,036
Others	**12,971**	11,657
	316,312	257,290
	352,610	295,599

Included in the administration and general expenses of the Bank are other Director’s remuneration as disclosed in Note 32.

32 REMUNERATION OF MANAGING DIRECTOR ('MD'), NON-EXECUTIVE DIRECTORS AND SHARIAH COMMITTEE MEMBERS

2018

	Salary and other remuneration RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Bonus RM'000	Total RM'000
Managing Director				
Dato' Adissadikin Ali	1,174	7	560	1,741
	1,174	7	560	1,741

	Fees RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Other remuneration RM'000	Total RM'000
Non-executive Directors				
Abdul Aziz Peru Mohamed (appointed on 1 October 2018)	43	2	3	48
Dato' Abd Rahman Dato' Md Khalid	168	-	97	265
Dato' Foong Chee Meng	135	-	40	175
Ong Ai Lin	135	-	112	247
Datuk Nozirah Bahari (appointed on 1 September 2018, resigned on 12 February 2019)	45	-	6	51
Datuk Haji Faisal Siraj (resigned on 1 September 2018)	90	-	12	102
	616	2	270	888

	Fees RM'000
Shariah Committee	
Dr. Ghazali Jaapar (Chairman)	93
Assoc. Prof. Dr. Amir Shaharuddin	79
Dr. Ahmad Basri Ibrahim (appointed on 2 February 2018)	67
Wan Abdul Rahim Kamil Wan Mohamed Ali	81
Mohd Fadhly Md. Yusoff	80
Shabnam Mohamad Mokhtar	81
	481

32 REMUNERATION OF MANAGING DIRECTOR ('MD'), NON-EXECUTIVE DIRECTORS AND SHARIAH COMMITTEE MEMBERS (CONTINUED)

2017

	Salary and other remuneration	Benefits-in-kind (based on an estimated monetary value)	Bonus	Total
	RM'000	RM'000	RM'000	RM'000
Managing Director				
Dato' Adissadikin Ali	1,143	7	700	1,850
	1,143	7	700	1,850

	Fees	Benefits-in-kind (based on an estimated monetary value)	Other remuneration	Total
	RM'000	RM'000	RM'000	RM'000
Non-executive Directors				
Dato' Abd Rahman Dato' Md Khalid	135	-	133	268
Datuk Haji Faisal Siraj	135	-	79	214
Dato' Foong Chee Meng (appointed on 1 August 2017)	57	-	24	81
Ong Ai Lin (appointed on 1 September 2017)	45	-	29	74
Haji Md Ja'far Abdul Carrim (deceased on 19 October 2017)	136	17	253	406
Dato' Mohd Ali Mohd Tahir (resigned on 28 February 2017)	21	-	42	63
Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir (resigned on 1 August 2017)	78	-	79	157
	607	17	639	1,263

	Fees
	RM'000
Shariah Committee	
Dr. Ghazali Jaapar	95
Assoc. Prof. Dr. Amir Shaharuddin	82
Wan Abdul Rahim Kamil Wan Mohamed Ali	81
Mohd Fadhly Md. Yusoff	82
Shabnam Mohamad Mokhtar	82
Prof. Dr. Joni Tamkin Borhan (deceased on 19 May 2017)	34
	456

Note:
During the financial year, Directors of the Bank are covered under the Directors' Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors of the Bank subject to the term of the policy. The total amount of Directors' Liability Insurance effected for the Directors of the Bank was RM200.0 million (2017:RM100.0 million). The total amount of premium paid for the Directors' Liability Insurance by the Bank was RM382,000 (2017: RM280,000).

33 TAXATION

	2018	2017
	RM'000	RM'000
Malaysian income tax:		
- Current tax	**148,538**	110,354
- Under/(Over) provision in respect of prior financial years	**2,449**	(755)
Deferred tax (Note 14)	**(10,654)**	(641)
	140,333	108,958

The numerical reconciliation between the effective tax rate and the applicable statutory income tax rate are as follows:

	2018	2017
	%	%
Tax at Malaysian statutory income tax rate	**24.0**	24.0
Tax effects in respect of:		
Expenses not deductible for tax purposes	**0.1**	0.1
Under/(Over) provision in respect of prior financial years	**0.4**	(0.2)
Temporary differences not recognised in prior financial years	**(0.2)**	(0.8)
Non-taxable income	**(0.1)**	(0.4)
Effective tax rate	**24.2**	22.7

34 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the financial year by the weighted average number of ordinary shares in issue during the financial year.

	2018	2017
Net profit for the financial year (RM'000)	**434,833**	367,392
Weighted average number of ordinary shares in issue ('000)	**1,601,095**	1,273,424
Basic earnings per share (sen)	**27.16**	28.85

35 INCOME TAX EFFECTS RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

			2018
	Before tax	**Tax effects**	**Net of tax**
	RM'000	**RM'000**	**RM'000**
Financial assets at FVOCI:			
- Net fair value gain, net amount transfer to income statement and changes in expected credit losses	**16,574**	**(3,926)**	**12,648**

			2017
	Before tax	Tax effects	Net of tax
	RM'000	RM'000	RM'000
Financial investments AFS:			
- Net fair value gain and net amount transfer to income statement	21,072	(5,057)	16,015

36 RELATED PARTY TRANSACTIONS

(a) Related parties and relationships

The related parties of, and their relationship with the Bank are as follows:

<u>Related parties</u>	<u>Relationship</u>
RHB Bank Berhad	Holding company
Employees' Provident Fund ('EPF')	Holding company's substantial shareholder, a fund body that is significantly influenced by government
Subsidiaries of RHB Bank Berhad as disclosed in its financial statements	Subsidiaries of the holding company
Subsidiaries, associates and joint ventures of EPF as disclosed in its financial statements	Reporting entities that EPF has control or significant influence
Key management personnel	The key management personnel of the Bank consists of: - All Directors of the Bank and - Members of the Group Management Committee ('GMC')
Related parties of key management personnel (deemed as related to the Bank)	(i) Close family members and dependents of key management personnel; and (ii) Entities that are controlled, jointly controlled or significantly influenced, by or for which voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

(b) Significant related party balances and transactions

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances.

Other related parties of the Bank comprise of transactions or balances with the companies in the RHB Bank Berhad Group.

All related party transactions are entered into in the normal course of business at agreed terms between the related parties.

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant related party balances and transactions (continued)

	Holding company RM'000	EPF and EPF Group of companies RM'000	Key management personnel RM'000	Other related companies RM'000
2018				
Income				
Commission	-	-	-	138
Income derived from investment of depositors' funds	17,894	43,232	-	-
Other income	27,714	-	-	67
	45,608	43,232	-	205
Expenditure				
Profit expense on deposits and placements	17,148	124	32	1,196
Profit expense on investment account	357,697	-	-	-
Reimbursement of operating expenses to holding company	295,564	-	-	-
Other expenses	414	-	-	1,229
	670,823	124	32	2,425
Amounts due from				
Cash and short-term funds	2,032	-	-	-
Securities purchased under resale agreements	926,125	-	-	-
Financial assets at FVOCI	-	10,060	-	-
Financing and advances	-	136,226	-	-
Derivative assets	114,159	-	-	-
	1,042,316	146,286	-	-
Amounts due to				
Derivative liabilities	105,173	-	-	-
Demand and investment deposits	-	124,550	1,610	29,623
Deposits and placements of banks and other financial institutions	1,978,023	-	-	-
Investment account due to designated financial institutions	7,898,611	-	-	-
Other liabilities	205,700	-	-	111
	10,187,507	124,550	1,610	29,734

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant related party balances and transactions (continued)

	Holding company	EPF and EPF Group of companies	Key management personnel	Other related companies
	RM'000	RM'000	RM'000	RM'000
2017				
Income				
Commission	-	-	-	146
Income derived from investment of depositors' funds	50,727	19,746	-	-
Other income	77,693	4	-	-
	128,420	19,750	-	146
Expenditure				
Profit expense on deposits and placements	26,816	108	4,971	1,251
Profit expense on investment account	310,130	-	-	-
Reimbursement of operating expenses to holding company	239,036	-	-	-
Other expenses	435	-	-	1,584
	576,417	108	4,971	2,835
Amounts due from				
Cash and short-term funds	10,403	-	-	-
Deposits and placements with banks and other financial institutions	14,613	-	-	-
Securities purchased under resale agreements	1,587,979	-	-	-
Financial investments AFS	-	45,214	-	-
Financing and advances	-	792,394	-	-
Derivative assets	321,607	-	-	-
	1,934,602	837,608	-	-
Amounts due to				
Derivative liabilities	14,588	-	-	-
Demand and investment deposits	-	101,668	755	25,861
Deposits and placements of banks and other financial institutions	211,477	-	-	-
Investment account due to designated financial institutions	8,102,698	-	-	-
Other liabilities	168,364	-	-	259
	8,497,127	101,668	755	26,120

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management personnel

The remuneration of Directors and other members of key management are as follows:

	2018	2017
	RM'000	RM'000
Short-term employee benefits:		
- Fees	**616**	607
- Salary and other remuneration	**1,802**	2,264
- Defined contribution plan	**202**	218
- Benefits-in-kind (based on an estimated monetary value)	**9**	24
	2,629	3,113

The above includes Directors' remuneration as disclosed in Note 32.

(d) Credit exposures arising from transactions with connected parties

Credit exposures with connected parties as per BNM's revised Guidelines on Credit Transactions and Exposures with Connected Parties are as follows:

	2018	2017
Outstanding credit exposure with connected parties (RM'000)	**3,125,715**	1,767,706
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures (%)	**5.43**	3.74
Percentage of outstanding credit exposures with connected parties which is non-performing or in default (%)	**0.39**	-

The credit exposures above are derived based on BNM's revised Guidelines on Credit Transactions and Exposures with Connected Parties, which are effective on 1 January 2008.

(e) Intercompany charges

Breakdown of intercompany charges by type of services received and geographical distribution as per BNM's Guidelines on Financial Reporting for Islamic Banking Institutions issued on 2 February 2018 are as follows:

	Profit expense on deposits and placements	**Profit expense on investment account**	**Reimbursement of operating expenses to holding company**	**Other expenses**
2018	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Malaysia	**18,344**	**357,697**	**295,564**	**1,643**
2017				
Malaysia	28,067	310,130	239,036	2,019

37 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to customers.

	2018	2017
	RM'000	RM'000
Transaction-related contingent items	**212,768**	195,298
Short-term self-liquidating trade related contingencies	**65,253**	111,779
Commitment to buy back the Islamic securities arising from the Sell and Buy Back ('SBBA') transaction	**-**	629,085
Irrevocable commitments to extend credit:		
- Maturity less than one year	**11,659**	-
- Maturity more than one year	**6,567,847**	5,800,512
Foreign exchange related contracts*:		
- Less than one year	**8,926,427**	7,910,145
- One year to less than five years	**1,398,451**	1,713,345
- More than five years	**959,044**	949,178
Profit rate related contracts*:		
- Less than one year	**1,265,000**	3,690,000
- One year to less than five years	**939,596**	767,338
- More than five years	**685,000**	-
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	**2,102,309**	2,513,842
	23,133,354	24,280,522

* These derivatives are revalued on gross position basis and the unrealised gains or losses has been reflected in the income statement and statement of financial position as derivative assets and liabilities.

38 OPERATING LEASE COMMITMENTS

The Bank has lease commitments in respect of rented premises which are classified as operating leases. A summary of the non-cancellable long term commitments, net of sub-leases, is as follows:

	2018	2017
	RM'000	RM'000
Rental of premises:		
- Within one year	**3,542**	4,250
- Between one to five years	**2,802**	5,069
	6,344	9,319

39 CAPITAL COMMITMENTS

	2018	2017
	RM'000	RM'000
Capital expenditure for property, plant and equipment:		
- Authorised and contracted for	**577**	6,460

40 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined RHB Bank's Group Management Committee as its chief operating decision-maker.

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

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

(a) Wholesale Banking

(i) Corporate and Investment Banking

Corporate and Investment Banking caters to financing and managing relationship of corporate customers including public listed corporations and its related entities, multinational corporations, financial institutions, government and state owned entities as well as high net worth individual related to the above. The division also generates fee-based income from private debt securities issuances ('PDS'), financing restructuring and syndication as well as general and project advisory services.

(ii) Treasury

Treasury operation is involved in money market operation and securities trading on behalf of the Bank and also for the Bank's customers. The division also provides solutions to serve investment needs of the Bank and the Bank's customers.

(b) Business Banking

Business Banking caters to funding or lending needs of small and medium sized enterprises. The products and services offered to customers include term financing, revolving financing and hire purchase financing.

(c) Retail Banking

Retail Banking focuses on providing products and services to individual customers. The products and services offered to customers include term financing (house and shop house financing), Islamic automobile financing business with concentration on the financing of high demand and popular passenger motor vehicles, deposit portfolios (savings and current account), credit cards, remittance services, investment products (term deposit/investment account) and bancatakaful products.

40 SEGMENT REPORTING (CONTINUED)

2018	Wholesale Banking: Corporate and Investment Banking RM'000	Wholesale Banking: Treasury RM'000	Business Banking RM'000	Retail Banking RM'000	Total RM'000
External revenue	1,026,725	372,227	191,865	1,390,880	2,981,697
Inter-segment revenue	(85,600)	574,031	(14,234)	(474,197)	-
Segment revenue	941,125	946,258	177,631	916,683	2,981,697
Depositors' payout	(644,043)	(752,163)	(49,447)	(458,069)	(1,903,722)
Net income	297,082	194,095	128,184	458,614	1,077,975
Operating overheads	(50,014)	(29,697)	(54,428)	(245,675)	(379,814)
Depreciation of property, plant and equipment	(349)	(13)	(606)	(770)	(1,738)
Amortisation of computer software	(357)	(396)	(251)	(733)	(1,737)
Allowance for credit losses on financial assets	(7,442)	(86)	(46,591)	(61,401)	(115,520)
Profit before zakat and taxation	238,920	163,903	26,308	150,035	579,166
Zakat					(4,000)
Profit after zakat before taxation					575,166
Taxation					(140,333)
Net profit for the financial year					434,833

Note: Total segment revenue comprise of net profit income and other operating income.

40 SEGMENT REPORTING (CONTINUED)

	Wholesale Banking				
2018	Corporate and Investment Banking	Treasury	Business Banking	Retail Banking	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Segment assets	22,438,134	10,290,648	3,626,264	28,787,389	65,142,435
Unallocated assets					452,846
Deferred tax assets					23,241
Total assets					65,618,522
Segment liabilities	19,374,175	25,233,834	3,400,927	13,272,383	61,281,319
Unallocated liabilities					289,934
Total liabilities					61,571,253
Other segment items:					
Capital expenditure	141	-	277	606	1,024

40 SEGMENT REPORTING (CONTINUED)

2017	Wholesale Banking: Corporate and Investment Banking RM'000	Wholesale Banking: Treasury RM'000	Business Banking RM'000	Retail Banking RM'000	Total RM'000
External revenue	894,189	449,995	152,300	1,012,025	2,508,509
Inter-segment revenue	(58,290)	519,730	(474)	(460,966)	-
Segment revenue	835,899	969,725	151,826	551,059	2,508,509
Depositors' payout	(626,735)	(783,539)	(38,767)	(190,539)	(1,639,580)
Net income	209,164	186,186	113,059	360,520	868,929
Operating overheads	(44,353)	(21,394)	(46,104)	(206,393)	(318,244)
Depreciation of property, plant and equipment	(353)	(80)	(814)	(1,344)	(2,591)
Amortisation of computer software	(305)	(427)	(212)	(902)	(1,846)
Allowance for credit losses on financial assets	1,159	-	(53,235)	(14,658)	(66,734)
Segmental results	165,312	164,285	12,694	137,223	479,514
Impairment losses written back on other non-financial assets					336
Profit before zakat and taxation					479,850
Zakat					(3,500)
Profit after zakat before taxation					476,350
Taxation					(108,958)
Net profit for the financial year					367,392

Note: Total segment revenue comprise of net profit income and other operating income.

40 SEGMENT REPORTING (CONTINUED)

2017	Wholesale Banking: Corporate and Investment Banking RM'000	Wholesale Banking: Treasury RM'000	Business Banking RM'000	Retail Banking RM'000	Total RM'000
Segment assets	20,487,482	10,411,651	2,875,102	21,827,440	55,601,675
Unallocated assets					99,275
Deferred tax assets					16,513
Total assets					55,717,463
Segment liabilities	20,392,163	19,268,148	2,758,567	9,625,320	52,044,198
Unallocated liabilities					361,416
Total liabilities					52,405,614
Other segment items:					
Capital expenditure	544	-	599	2,868	4,011

41 CAPITAL ADEQUACY RATIO

BNM guidelines on capital adequacy requires the Bank to maintain an adequate level of capital to withstand any losses which may result from credit and other risks associated with financing operations. The capital adequacy ratio is computed based on the eligible capital in relation to the total risk-weighted assets as determined by BNM.

On 31 May 2018, BNM granted approval for the Bank to adopt Internal Ratings-Based ('IRB') approach for Credit Risk for its regulatory capital reporting and to submit the actual reporting based on IRB approach beginning with its position as at 30 September 2018. Comparative figures are not restated for first time adoption of the IRB approach.

The capital adequacy ratios of the Bank are as follows:

	2018	2017
	RM'000	RM'000
Common Equity Tier-I ('CET-I') Capital/ Tier-I Capital		
Share capital	**1,673,424**	1,273,424
Retained profits	**2,013,893**	1,787,323
FVOCI/AFS reserve	**(3,499)**	(15,929)
	3,683,818	3,044,818
Less:		
Deferred tax assets	**(23,499)**	(17,140)
Intangible assets (include associated deferred tax liabilities)	**(4,271)**	(4,412)
Ageing Reserve and Liquidity Reserve*	**(4,849)**	(4,296)
Total CET-I / Total Tier-I Capital	**3,651,199**	3,018,970
Tier-II Capital		
Subordinated obligations	**750,000**	750,000
Surplus eligible provisions over expected losses	**94,333**	-
Collective impairment allowances^ and regulatory reserve˜	**-**	343,212
General provisionsv˜	**54,330**	-
Total Tier-II Capital	**898,663**	1,093,212
Total Capital	**4,549,862**	4,112,182
Capital ratios		
CET-I capital ratio	**13.222%**	10.376%
Tier-I capital ratio	**13.222%**	10.376%
Total capital ratio	**16.476%**	14.134%

* Pursuant to the Basel II Market Risk para 5.18 and 5.19 – Valuation Adjustments, the Capital Adequacy Framework for Islamic Banks (Basel II - Risk Weighted Assets) calculation shall account for the ageing, liquidity and holding back adjustments/ reserves on its trading portfolio.

^ Excludes collective assessment impairment allowance attributable to advances and financing classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on Classification and Impairment Provisions for Loans/Financing.

v Pursuant to BNM's policy document on Financial Reporting for Islamic Banking Institutions, general provision refers to loss allowance measured at an amount equal to 12-month and lifetime expected credit losses as defined under MFRS 9 'Financial Instruments'; and regulatory reserve, to the extent they are ascribed to non-credit-impaired exposures, determined under standardised approach for credit risk.

˜ Includes the qualifying regulatory reserve of the Bank of RM42,756,000 (2017: RM204,312,000).

41 CAPITAL ADEQUACY RATIO (CONTINUED)

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

	2018	2017
	RM'000	RM'000
Credit risk	**25,943,117**	34,726,152
Credit risk absorbed by PSIA +	**(5,874,587)**	(7,269,199)
Market risk	**268,130**	240,688
Operational risk	**1,679,551**	1,397,487
Additional RWA due to capital floor	**5,599,323**	-
Total risk-weighted assets	**27,615,534**	29,095,128

The total risk-weighted assets of the Bank are computed based on BNM's Capital Adequacy Framework for Islamic Banks ('CAFIB'): IRB and Standardised Approach for Credit (31 December 2018 and 31 December 2017 respectively), Standardised Approach for Market Risk and Basic Indicator Approach for Operational Risk (Basel II).

+ In accordance with BNM's "Guidelines on the Recognition and Measurement of Profit Sharing Investment Account ('PSIA') as Risk Absorbent", the credit and market risks of the assets funded by the Restricted Profit Sharing Investment account ('RPSIA') which qualifies as risk absorbent are excluded from the risk weighted capital ratio (RWCR) calculation. As at 31 December 2018, credit risks relating to RPSIA assets excluded from the RWCR calculation amounted to RM5,874,587,000 (2017: RM7,269,199,000).

42 FINANCIAL RISK MANAGEMENT

(a) Financial risk management objectives and policies

Risk is inherent in the Bank’s activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Bank is exposed to a range of other risk types such as market, liquidity, operational, legal, Shariah, strategic and cross-border, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

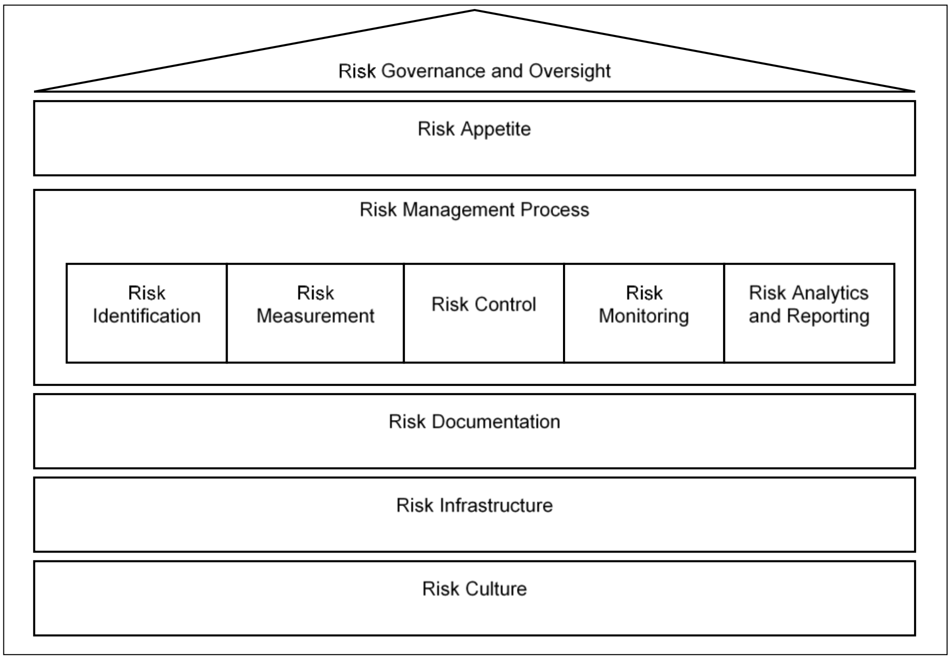
Effective risk management is fundamental to being able to drive sustainable growth and shareholder's value, while maintaining competitive advantage, and is thus a central part of the proactive risk management of the Bank’s operating environment.

The Group Risk Management Framework governs the management of risks in the Group, as follows:

(1) It provides a holistic overview of the risk and control environment of the Group, with risk management aimed towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and controls in the organisation.

(2) It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is realised through building up capabilities and infrastructure in risk management sophistication, and enhanced risk quantification to optimise risk-adjusted returns.

The Group Risk Management Framework is represented in the following diagram:



42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are:

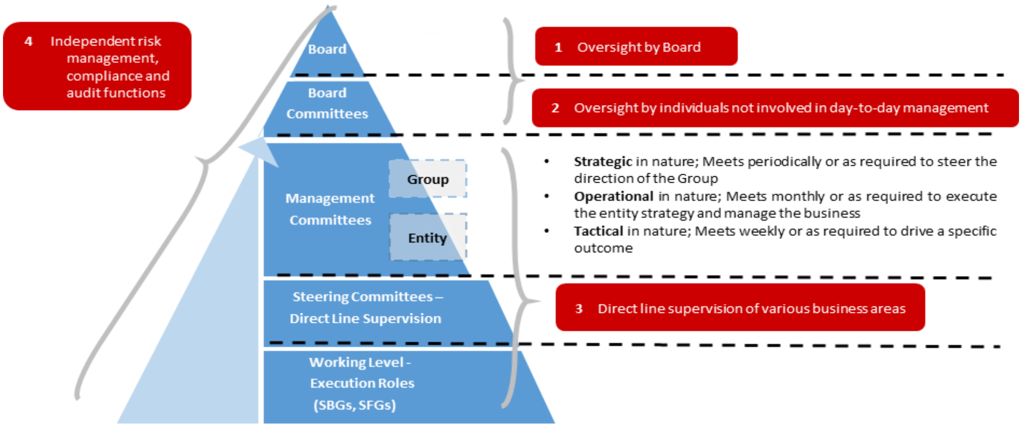
(1) Risk governance from the Board of Directors of various operating entities within the Group

The ultimate responsibility of the Boards of Directors in the Group is to ensure that an effective risk management strategy is in place and uniformly understood across the Group. The Group has a structured framework to support the Board's oversight responsibilities.

<u>Risk Governance and Organisation</u>

The Board Risk Committee ('BRC') is the principal Board Committee that provides oversight over risk management for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, framework, policies and models. The Islamic Risk Management Committee ('IRMC') is responsible for assisting the Board of Directors of the Bank on issues relevant and unique to Islamic finance.

The responsibility for the supervision of the day-to-day management of enterprise risk and capital matters is delegated to the Group Capital and Risk Committee ('GCRC') comprising senior management of the Group and which reports to the BRC/IRMC and the Group Management Committee ('GMC'). The Group Asset and Liability Committee ('Group ALCO') assists the GCRC to oversee market risk, liquidity risk and balance sheet management whilst the Investment Bank Risk Management Committee ('IBRMC') is responsible for oversight of risk management matters relating to RHB Investment Bank Group's business. An overview of this governance framework at Group level is as below:



42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

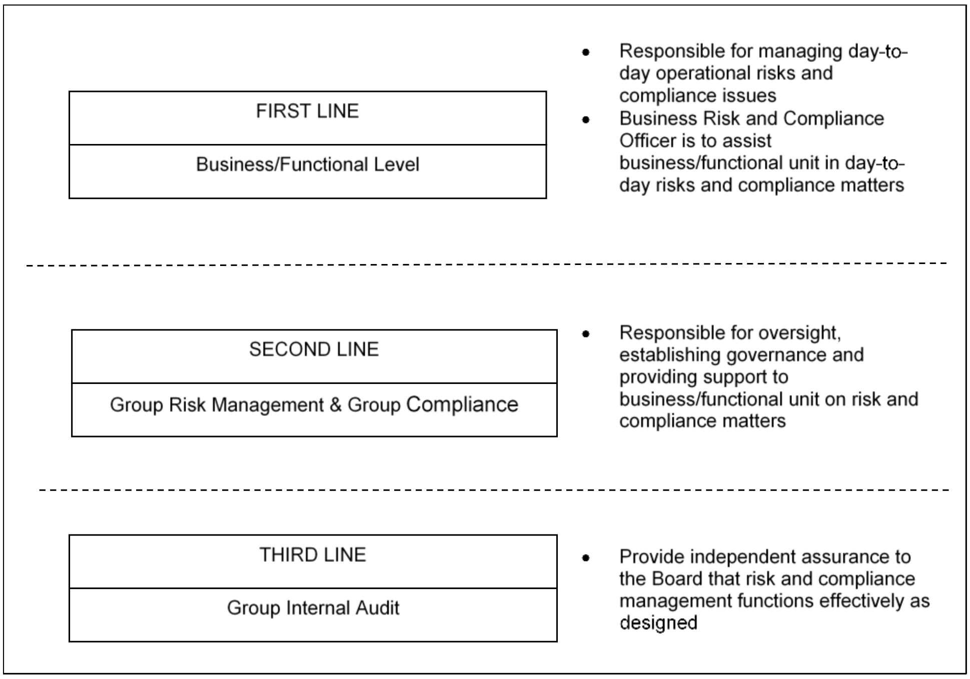
The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are (continued):

<u>Risk Culture</u>

(2) Clear understanding of risk management ownership

Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group. The Group adopts the principle that 'Risk and Compliance is Everyone's Responsibility'.

The Strategic Business Groups ('SBGs') and Strategic Functional Groups ('SFGs') of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risks. The business units manage certain defined risks supported by the services provided by the functional units, including the risk management function. The approach is based on the 'three lines of defence' model as depicted below:



42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are (continued):

Risk Environment and Infrastructure

(3) Institutionalisation of a risk-focused organisation

In addition to risk ownership, a risk-focused culture is promoted throughout the Group through strengthening of the central risk management function and continuous reinforcement of a risk and control environment within the Group.

Group Risk and Credit Management is independent of the business function to ensure that the necessary balance in risk/return decisions is not compromised by short term pressures to generate revenues. The said function is headed by the Group Chief Risk Officer.

The business and functional heads are accountable for risk management in their businesses and functions, and for overseas operations where they have governance responsibilities. The business and functional units have clear segregation of duties to ensure that business processes are functioning effectively. There is accountability delegated to the appropriate authority to enable them to execute their respective authorities in meeting the business strategies without compromising the risk management process.

The primary responsibility for managing risks, therefore, rests with the business managers who are best equipped to ensure that risk management and control are continuously focused on the way business is conducted. Business activities and processes are continuously reviewed for areas of significant risks and for implementation of appropriate control procedures to ensure they operate within established corporate policies and limits.

The risk management process within the Group seeks to identify, measure, monitor and control risk so that risk exposures are adequately managed and the expected returns adequately compensate the risks.

- Identification: The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and ensure that the risks can be managed and controlled within the risk appetite of the Group and the Bank, where necessary.

- Measurement: Risks are measured, assessed and aggregated using comprehensive qualitative and quantitative risk measurement methodologies, and the process also serves as an important tool as it provides an assessment of capital adequacy and solvency.

- Controlling and Monitoring: Controls, triggers and limits are used to manage risk exposures and to facilitate early identification of potential problem on a timely basis.

- Analytics and Reporting: Risk analysis and reports prepared at the respective entities and consolidated level as well as business level are regularly escalated to the senior management and relevant Boards of the Group's entities to ensure that the risks identified remain within the established appetite and to support an informed decision-making process.

The Group recognises that effective implementation of the risk management system and process must be supported by a robust set of documentation and infrastructure. Towards this end, the Group has established frameworks, policies and other relevant control documents to ensure clearly defined practices and processes are effected consistently across the Group.

In terms of risk infrastructure, the Group has organised its resources and talents into specific functions, and invested in technology, including data management to support the Group's risk management activities.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are (continued):

<u>Risk Appetite</u>

(4) Alignment of risk management to business strategies

The Group Risk Management Framework serves to align the Group's business strategy with its risk strategy, and vice-versa. This is articulated through the risk appetite setting and the Group's annual business and financial budgetary plan, which is facilitated by the integration of risk measures in capital management.

Risk appetite describes the types and level of risks the Group is prepared to accept in delivering its business strategies. It is a key component of risk management and is set by the Board, and reported through various metrics that enable the Group to manage capital resources and shareholders' expectations.

(5) Optimisation of risk-adjusted return

One of the objectives of capital management is to reflect a risk-adjusted return assumed by the businesses throughout the Group. By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholder value by facilitating the allocation of capital to the businesses.

The medium to long-term strategy and principle of risk management of the Group is to intensify the integration of capital management within the Group. The Group is progressively implementing a risk-adjusted return based framework for allocation of capital to business units and for performance measurement and management.

Major Areas of Risk

As a banking institution with key activities covering retail, business banking, corporate banking and advisory services, treasury products and services, the Bank is subject to business risks which are inherent in the financial services industry. Generally, these business risks can be broadly classified as follows:

(i) Market risk - the risk of losses arising from adverse movements in market indicators, such as profit rates, credit spreads, equity prices, currency exchange rates and commodity prices within the trading portfolios and certain exposures in the banking book.

(ii) Liquidity risk - the risk of the Bank being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due and transact at a reasonable cost. Liquidity risk also arises from the inability to manage unplanned decreases or changes in funding sources.

(iii) Credit risk - the risk of loss arising from customers' or counterparties' failure to fulfil their financial and contractual obligations in accordance with the agreed terms. It stems primarily from the Bank's lending/financing, trade finance and its funding, investment and trading activities from both on- and off-balance sheet transactions.

(iv) Operational risk - the risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events, which also includes IT, legal and Shariah non-compliance risk but excludes strategic and reputational risk.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Major Areas of Risk (continued)

Market risk

- A framework of risk policies, measurement methodologies and limits, as approved by the Board, which controls the Bank’s financial market activities as well as to identify potential risk areas early in order to mitigate against any adverse effects arising from market volatility.
- The Group Asset and Liability Committee ('Group ALCO') and the GCRC performs a critical role in the oversight of the management of market risk and supports the IRMC and BRC in the overall market risk management.
- The Group Risk Management function forms a centralised function to support senior management to operationalise the processes and methods, to ensure adequate risk control and oversight are in place.
- The Bank applies risk monitoring and assessment tools to measure trading book positions and market risk factors. Statistical and non-statistical risk assessment tools applied include Value-at-Risk ('VaR'), sensitivity analysis and stress testing.
- Market risk is primarily monitored and controlled via a structure of limits and triggers i.e. cut loss, VaR, trading and notional limit set in accordance with the size of positions and risk tolerance appetites.
- Periodic stress testing are applied to ascertain market risk under abnormal market conditions.

Liquidity risk

- The Group ALCO plays a fundamental role in the asset and liability management of the Bank, and establishes strategies to assist in controlling and reducing any potential exposures to liquidity risk.
- The liquidity risk management process involves establishing liquidity risk management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions.
- Limits on the minimum portion of maturing funds available to meet obligations and the minimum level of inter-bank and other borrowing facilities are set to ensure adequate cover for withdrawals arising from unexpected levels of demand.
- Defined liquidity management ratios are maintained and monitored.
- The Bank has established a Liquidity Incident Management Procedure to manage any potential adverse liquidity incidences, and which can be implemented on a timely basis so that appropriate actions can be taken to mitigate against any unexpected market developments.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Major Areas of Risk (continued)

Credit risk

- The Bank abides to the Board approved credit policy which supports the development of a strong credit culture and with the objective of maintaining a well-diversified portfolio that addresses credit risk, and mitigates concern for unexpected losses.

- Industry best practices are incorporated into this policy.

- Group Credit Committee ('GCC') is responsible for ensuring adherence to the Board approved credit risk appetite as well as the effectiveness of credit risk management. GCC is the senior management committee empowered to approve or reject all financial investments, counterparty credit and lending/financing up to the defined threshold limits.

- GCC submits to the Board Credit Committee ('BCC') for affirmation or veto if the financing facilities exceed a pre-defined threshold.

- The Bank also ensures that internal processes and credit underwriting standards are adhered to before credit proposals are approved. All credit proposals are first evaluated by the originating business units before being evaluated prior to submission to the relevant committees for approval. With the exception of credit applications for consumer and approved products under program lending/financing which can be approved by business units' supervisors, all other credit facilities are subject to independent assessment by a team of dedicated and experienced credit evaluators in Head Office. For proper checks and controls, joint approval is required for all discretionary lending between business and independent credit underwriters. Financing which are beyond the delegated lending authority limits will be escalated to the relevant committees for approval.

- Internal credit rating models are an integral part of the Bank's credit risk management, decision-making process, and regulatory capital calculations.

- Clients' accounts are reviewed at regular intervals and weakening credits are transferred to Loan Recovery for more effective management.

- Counterparty, industry and product exposure limits/directions are set and risk reward relationship are mapped with the aim of maintaining a diverse credit profile and track the changing risk concentrations in response to market changes and external events.

- The Bank has obtained BNM's approval to apply the Internal Ratings-Based ('IRB') approach for credit risk, whereby more advanced Basel II approaches and key program components are implemented, which includes (i) enhancing the returns of the Bank using established credit risk framework and methodologies, (ii) implementing and using empirical credit scoring models for consumer financing and credit rating models for business financing, and (iii) designing and implementing modelling of expected and unexpected losses.

- Plans are underway to migrate other material portfolios to the IRB approach for credit risk.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Major Areas of Risk (continued)

Operational risk

- The Group Risk Management function is responsible for the development of group-wide operational risk policies, framework and methodologies, and providing guidance and information to the business units on operational risk areas. The respective business units are primarily responsible for managing operational risk on a day-to-day basis. Some of the operational risk tools used include Risk and Control Self-Assessment, Key Risk Indicators, Incident and Loss Management and Scenario Analysis.

- The Bank's operational risk management system has integrated applications to support the operational risk management process. This system facilitates the Bank' capabilities for the Advanced Measurement Approach of the Basel II Framework in the future.

- The Bank has Business Continuity Planning ('BCP') programmes for the major critical business operations and activities at the Head Office, data centre, and branch locations. The BCP programmes are subject to regular testing to ensure efficacy, reliability and functionality.

- There is continuous refinement of existing policies, procedures and internal control measures; and regular internal review, compliance monitoring, and audits are performed to prevent and/or minimise unexpected losses.

- Regular operational risk reporting is made to senior management, relevant committees and board to facilitate the identification of adverse operational lapses, taking of prompt corrective actions, and ensuring appropriate risk mitigation decision making and action plans.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category

	At amortised cost	At fair value through the profit and loss	At fair value through other comprehensive income	Total
	RM'000	RM'000	RM'000	RM'000
2018				
Assets				
Cash and short-term funds	3,463,278	-	-	3,463,278
Securities purchased under resale agreements	926,125	-	-	926,125
Financial assets at FVTPL	-	274,226	-	274,226
Financial assets at FVOCI				
- Debt instruments	-	-	4,150,325	4,150,325
Financial investments at amortised cost	2,856,789	-	-	2,856,789
Financing and advances	51,813,230	-	-	51,813,230
Derivative assets	-	204,543	-	204,543
Other financial assets	263,470	-	-	263,470
	59,322,892	478,769	4,150,325	63,951,986
Liabilities				
Deposits from customers	45,732,352	-	-	45,732,352
Deposits and placements of banks and other financial institutions	4,403,721	-	-	4,403,721
Investment account due to designated financial institutions	7,898,611	-	-	7,898,611
Bills and acceptances payable	9,515	-	-	9,515
Derivative liabilities	-	211,555	-	211,555
Recourse obligation on financing sold to Cagamas	2,270,239	-	-	2,270,239
Subordinated obligations	755,326	-	-	755,326
Other financial liabilities	261,614	-	-	261,614
	61,331,378	211,555	-	61,542,933

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category (continued)

	Financing and receivables	Assets at fair value through the profit and loss	Financial investments AFS	Financial investments HTM	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2017					
Assets					
Cash and short-term funds	2,029,860	-	-	-	2,029,860
Securities purchased under resale agreements	1,587,979	-	-	-	1,587,979
Deposits and placements with banks and other financial institutions	447,210	-	-	-	447,210
Financial assets HFT	-	172,536	-	-	172,536
Financial investments AFS	-	-	3,394,493	-	3,394,493
Financial investments HTM	-	-	-	3,820,734	3,820,734
Financing and advances	42,701,794	-	-	-	42,701,794
Derivative assets	-	327,978	-	-	327,978
Other financial assets	7,617	-	-	-	7,617
	46,774,460	500,514	3,394,493	3,820,734	54,490,201

	Liabilities at fair value through the profit and loss	Other financial liabilities at amortised cost	Total
	RM'000	RM'000	RM'000
Liabilities			
Deposits from customers	-	37,850,205	37,850,205
Deposits and placements of banks and other financial institutions	-	4,394,801	4,394,801
Investment account due to designated financial institutions	-	8,102,698	8,102,698
Obligations on securities sold under repurchase agreements	-	604,163	604,163
Bills and acceptances payable	-	9,216	9,216
Derivative liabilities	327,723	-	327,723
Subordinated obligations	-	755,393	755,393
Other financial liabilities	-	281,991	281,991
	327,723	51,998,467	52,326,190

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

Market risk sensitivity assessment is based on the changes in key variables, such as profit rates and foreign currency rates, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the assets and liabilities position of the Bank.

The scenarios used are based on the assumption that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables. The Bank seeks to ensure that the profit rate risk profile is managed to minimise losses and optimise net revenues.

(i) Profit rate sensitivity analysis

The profit rate sensitivity results below shows the impact on profit after tax and reserve of financial assets and financial liabilities bearing floating profit rate and fixed rate financial assets and financial liabilities:

	Impact on profit after tax	**Impact on reserve**
	RM'000	**RM'000**
2018		
+100 bps	**36,107**	**(137,440)**
-100 bps	**(34,481)**	**147,469**
2017		
+100 bps	33,212	(102,890)
-100 bps	(32,068)	109,717

The results above represent financial assets and liabilities that have been prepared on the following basis:

(i) Impact on the profit after tax is the sum of valuation changes on fixed income instruments held in the trading portfolio and earnings movement for all short term profit rate sensitive assets and liabilities (with maturity or re-pricing tenure of up to one year) that is not held in the trading portfolio. Earnings movement for the short term profit rate sensitive assets and liabilities uses a set of risk weights with its respective time band to simulate the 100 bps (2017: 100 bps) profit rate change impact. For assets and liabilities with non-fixed maturity e.g. current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of these profit bearing assets and liabilities.

(ii) Impact on reserve represents the changes in fair values of fixed income instruments held in the FVOCI/AFS portfolio arising from the shift in the profit rate.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Foreign currency sensitivity analysis

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

	Impact on profit after tax RM'000
2018	
+10%	**(1,863)**
-10%	**1,863**
2017	
+10%	1,254
-10%	(1,254)

Impact on the profit after tax is estimated on the assumption that foreign exchange move by the same amount and all other variables are held constant and are based on a constant reporting date position.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates:

	Non-trading book								
2018	**Up to 1 month**	**>1 - 3 months**	**>3 - 6 months**	**>6 - 12 months**	**>1 - 3 years**	**Over 3 years**	**Non-profit sensitive**	**Trading book**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
ASSETS									
Cash and short-term funds	2,945,217	-	-	-	-	-	518,061	-	3,463,278
Securities purchased under resale agreements	598,158	323,292	-	-	-	-	4,675	-	926,125
Financial assets at FVTPL	-	-	-	-	-	-	-	274,226	274,226
Financial assets at FVOCI	-	198,834	25,043	119,972	496,188	3,271,245	39,043	-	4,150,325
Financial investments at amortised cost	-	60,016	100,000	145,638	606,384	1,926,079	18,672	-	2,856,789
Financing and advances	36,974,603	961,056	284,393	26,022	281,181	13,033,536	252,439	-	51,813,230
Other assets	-	-	-	-	-	-	477,535	-	477,535
Derivative assets	-	-	-	-	-	-	-	204,543	204,543
Statutory deposits with BNM	-	-	-	-	-	-	1,420,450	-	1,420,450
Deferred tax assets	-	-	-	-	-	-	23,241	-	23,241
Property, plant and equipment	-	-	-	-	-	-	4,251	-	4,251
Intangible assets	-	-	-	-	-	-	4,529	-	4,529
TOTAL ASSETS	40,517,978	1,543,198	409,436	291,632	1,383,753	18,230,860	2,762,896	478,769	65,618,522

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

2018	Non-trading book: Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	>1 - 3 years RM'000	Over 3 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
LIABILITIES									
Deposits from customers	9,566,610	8,533,810	9,703,490	10,301,239	181,648	89,516	7,356,039	-	45,732,352
Deposits and placements of banks and other financial institutions	1,822,418	1,688,589	769,184	10,530	65,244	37,188	10,568	-	4,403,721
Investment account due to designated financial institutions	-	-	87,500	-	1,652,189	6,077,013	81,909	-	7,898,611
Bills and acceptances payable	-	-	-	-	-	-	9,515	-	9,515
Derivative liabilities	-	-	-	-	237	4,201	-	207,117	211,555
Recourse obligation on financing sold to Cagamas	-	-	-	-	2,250,000	-	20,239	-	2,270,239
Subordinated obligations	-	-	500,000	-	-	250,000	5,326	-	755,326
Other liabilities	-	-	-	-	-	-	281,558	-	281,558
Provision for tax and zakat	-	-	-	-	-	-	8,376	-	8,376
TOTAL LIABILITIES	11,389,028	10,222,399	11,060,174	10,311,769	4,149,318	6,457,918	7,773,530	207,117	61,571,253
TOTAL EQUITY	-	-	-	-	-	-	4,047,269	-	4,047,269
TOTAL LIABILITIES AND EQUITY	11,389,028	10,222,399	11,060,174	10,311,769	4,149,318	6,457,918	11,820,799	207,117	65,618,522
On-balance sheet profit sensitivity gap	29,128,950	(8,679,201)	(10,650,738)	(10,020,137)	(2,765,565)	11,772,942			
Off-balance sheet profit sensitivity gap	-	-	(125,000)	(210,000)	(90,000)	(1,185,000)			
TOTAL PROFIT-SENSITIVITY GAP	29,128,950	(8,679,201)	(10,775,738)	(10,230,137)	(2,855,565)	10,587,942			

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

	Non-trading book								
2017	Up to 1 month	>1 - 3 months	>3 - 6 months	>6 - 12 months	>1 - 3 years	Over 3 years	Non-profit sensitive	Trading book	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS									
Cash and short-term funds	1,937,560	-	-	-	-	-	92,300	-	2,029,860
Securities purchased under resale agreements	-	968,712	609,921	-	-	-	9,346	-	1,587,979
Deposits and placements with banks and other financial institutions	-	414,627	30,000	-	-	-	2,583	-	447,210
Financial assets HFT	-	-	-	-	-	-	-	172,536	172,536
Financial investments AFS	200,000	15,004	115,363	120,262	600,774	2,309,485	33,605 #	-	3,394,493
Financial investments HTM	10,000	1,672,002	218,123	223,468	278,465	1,401,427	17,249	-	3,820,734
Financing and advances:	29,557,681	625,940	344,756	57,303	2,478,619	9,384,282	253,213	-	42,701,794
- Performing	29,557,681	625,940	344,756	57,303	2,478,619	9,384,282	181,909	-	42,630,490
- Impaired	-	-	-	-	-	-	71,304 *	-	71,304
Other assets	-	-	-	-	-	-	90,934	-	90,934
Derivative assets	-	-	35	-	-	-	-	327,943	327,978
Statutory deposits with BNM	-	-	-	-	-	-	1,116,200	-	1,116,200
Deferred tax assets	-	-	-	-	-	-	16,513	-	16,513
Property, plant and equipment	-	-	-	-	-	-	6,193	-	6,193
Intangible assets	-	-	-	-	-	-	5,039	-	5,039
TOTAL ASSETS	31,705,241	3,696,285	1,318,198	401,033	3,357,858	13,095,194	1,643,175	500,479	55,717,463

Included impairment loss.
* This represents outstanding impaired financing after deducting individual impairment allowance and collective impairment allowance.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

2017	Non-trading book								
	Up to 1 month	>1 - 3 months	>3 - 6 months	>6 - 12 months	>1 - 3 years	Over 3 years	Non-profit sensitive	Trading book	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
LIABILITIES									
Deposits from customers	8,924,939	4,722,821	10,988,768	7,887,756	4,651	2,061	5,319,209	-	37,850,205
Deposits and placements of banks and other financial institutions	1,446,420	2,768,363	56,652	-	101,859	19,990	1,517	-	4,394,801
Investment account due to designated financial institutions	-	-	-	911,150	2,411,380	4,497,775	282,393	-	8,102,698
Obligations on securities sold under repurchase agreements	603,909	-	-	-	-	-	254	-	604,163
Bills and acceptances payable	-	-	-	-	-	-	9,216	-	9,216
Derivative liabilities	-	-	55	3,217	-	-	-	324,451	327,723
Subordinated obligations	-	-	-	-	500,000	250,000	5,393	-	755,393
Other liabilities	-	-	-	-	-	-	345,792	-	345,792
Provision for tax and zakat	-	-	-	-	-	-	15,623	-	15,623
TOTAL LIABILITIES	10,975,268	7,491,184	11,045,475	8,802,123	3,017,890	4,769,826	5,979,397	324,451	52,405,614
TOTAL EQUITY	-	-	-	-	-	-	3,311,849	-	3,311,849
TOTAL LIABILITIES AND EQUITY	10,975,268	7,491,184	11,045,475	8,802,123	3,017,890	4,769,826	9,291,246	324,451	55,717,463
On-balance sheet profit sensitivity gap	20,729,973	(3,794,899)	(9,727,277)	(8,401,090)	339,968	8,325,368			
Off-balance sheet profit sensitivity gap	-	(220,000)	95,000	(650,000)	(425,000)	-			
TOTAL PROFIT-SENSITIVITY GAP	20,729,973	(4,014,899)	(9,632,277)	(9,051,090)	(85,032)	8,325,368			

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk

Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds upon maturity, extensions of credit and working capital needs.

The Bank has adopted the BNM's liquidity standard on Liquidity Coverage Ratio, to ensure maintenance of adequate stock of unencumbered high-quality liquid assets to survive the liquidity needs for 30 calendar day under liquidity stress condition. The Bank continues to report Net Stable Funding Ratio under the Basel III observation reporting to BNM.

The Bank seeks to project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

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

2018	Up to 1 week	1 week to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	No specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS								
Cash and short-term funds	2,675,738	787,540	-	-	-	-	-	3,463,278
Securities purchased under resale agreements	-	602,711	323,414	-	-	-	-	926,125
Financial assets at FVTPL	-	-	-	-	-	274,226	-	274,226
Financial assets at FVOCI	-	-	198,834	25,187	121,428	3,804,876	-	4,150,325
Financial investments at amortised cost	-	-	60,495	100,067	148,353	2,547,874	-	2,856,789
Financing and advances	1,055,016	3,756,699	1,027,054	463,056	31,844	45,479,561	-	51,813,230
Other assets	412,326	8,522	-	-	-	-	56,687	477,535
Derivative assets	4,741	17,199	26,317	72,764	8,357	75,165	-	204,543
Statutory deposits with BNM	-	-	-	-	-	-	1,420,450	1,420,450
Deferred tax assets	-	-	-	-	-	-	23,241	23,241
Property, plant and equipment	-	-	-	-	-	-	4,251	4,251
Intangible assets	-	-	-	-	-	-	4,529	4,529
TOTAL ASSETS	4,147,821	5,172,671	1,636,114	661,074	309,982	52,181,702	1,509,158	65,618,522

RHB ISLAMIC BANK BERHAD (680329-V)
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity (continued):

2018	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
LIABILITIES								
Deposits from customers	10,721,929	5,751,389	8,654,718	9,867,169	10,463,407	273,740	-	45,732,352
Deposits and placements of banks and other financial institutions	336,890	1,488,602	1,693,458	771,230	10,544	102,997	-	4,403,721
Investment account due to designated financial institutions	-	-	-	88,347	-	7,810,264	-	7,898,611
Bills and acceptances payable	9,515	-	-	-	-	-	-	9,515
Derivative liabilities	987	17,296	31,301	74,630	8,452	78,889	-	211,555
Recourse obligation on financing sold to Cagamas	-	-	-	-	-	2,270,239	-	2,270,239
Subordinated obligations	-	-	-	505,326	-	250,000	-	755,326
Other liabilities	138,884	77,537	8,566	3,066	26,079	7,481	19,945	281,558
Provision for tax and zakat	-	-	-	-	-	-	8,376	8,376
TOTAL LIABILITIES	11,208,205	7,334,824	10,388,043	11,309,768	10,508,482	10,793,610	28,321	61,571,253
TOTAL EQUITY	-	-	-	-	-	-	4,047,269	4,047,269
TOTAL LIABILITIES AND EQUITY	11,208,205	7,334,824	10,388,043	11,309,768	10,508,482	10,793,610	4,075,590	65,618,522

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity (continued):

2017	Up to 1 week	1 week to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	No specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS								
Cash and short-term funds	1,757,412	272,448	-	-	-	-	-	2,029,860
Securities purchased under resale agreements	-	-	975,560	612,419	-	-	-	1,587,979
Deposits and placements with banks and other financial institutions	-	-	417,106	30,104	-	-	-	447,210
Financial assets HFT	-	-	-	-	-	172,536	-	172,536
Financial investments AFS	-	-	15,004	115,581	121,694	2,941,594	200,620	3,394,493
Financial investments HTM	10,000	-	1,672,002	223,053	225,335	1,690,344	-	3,820,734
Financing and advances	698,661	3,239,159	627,124	1,950,488	1,198,708	34,987,654	-	42,701,794
Other assets	1	7,808	-	-	-	-	83,125	90,934
Derivative assets	1,571	15,995	73,762	95,894	54,341	86,415	-	327,978
Statutory deposits with BNM	-	-	-	-	-	-	1,116,200	1,116,200
Deferred tax assets	-	-	-	-	-	-	16,513	16,513
Property, plant and equipment	-	-	-	-	-	-	6,193	6,193
Intangible assets	-	-	-	-	-	-	5,039	5,039
TOTAL ASSETS	2,467,645	3,535,410	3,780,558	3,027,539	1,600,078	39,878,543	1,427,690	55,717,463

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity (continued):

2017	Up to 1 week	1 week to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	No specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
LIABILITIES								
Deposits from customers	9,758,640	4,126,733	4,795,720	11,195,747	7,966,481	6,884	-	37,850,205
Deposits and placements of banks and other financial institutions	98,613	1,348,628	2,768,375	56,760	-	122,425	-	4,394,801
Investment account due to designated financial institutions	-	-	-	-	937,147	7,165,551	-	8,102,698
Obligations on securities sold under repurchase agreements	604,163	-	-	-	-	-	-	604,163
Bills and acceptances payable	9,216	-	-	-	-	-	-	9,216
Derivative liabilities	1,112	14,039	73,648	95,343	57,120	86,461	-	327,723
Subordinated obligations	-	-	-	5,393	-	750,000	-	755,393
Other liabilities	206,792	29,313	26,460	-	19,425	-	63,802	345,792
Provision for tax and zakat	-	-	-	-	-	-	15,623	15,623
TOTAL LIABILITIES	10,678,536	5,518,713	7,664,203	11,353,243	8,980,173	8,131,321	79,425	52,405,614
TOTAL EQUITY	-	-	-	-	-	-	3,311,849	3,311,849
TOTAL LIABILITIES AND EQUITY	10,678,536	5,518,713	7,664,203	11,353,243	8,980,173	8,131,321	3,391,274	55,717,463

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

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

2018	Up to 1 month	1 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
LIABILITIES							
Deposits from customers	16,485,226	18,745,805	10,758,430	192,904	109,490	-	46,291,855
Deposits and placements of banks and other financial institutions	1,827,156	2,475,196	10,895	67,305	37,771	-	4,418,323
Investment account due to designated financial institutions	-	89,402	-	1,663,696	2,422,759	3,830,801	8,006,658
Bills and acceptances payable	9,515	-	-	-	-	-	9,515
Derivative liabilities:							
-Gross settled derivatives:							
- Inflow	(1,016,227)	(2,751,141)	(739,607)	(434,294)	(347,291)	(521,906)	(5,810,466)
- Outflow	1,034,486	2,860,561	752,566	471,124	389,785	554,202	6,062,724
- Net settled derivatives	(743)	1,016	1,382	5,360	5,790	2,373	15,178
Recourse obligation on financing sold to Cagamas	54,362	54,362	54,362	2,242,894	-	-	2,405,980
Subordinated obligations	-	518,475	-	24,400	268,300	-	811,175
Other financial liabilities	216,474	11,580	26,079	7,481	-	-	261,614
TOTAL FINANCIAL LIABILITIES	18,610,249	22,005,256	10,864,107	4,240,870	2,886,604	3,865,470	62,472,556

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

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

2017	Up to 1 month	1 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
LIABILITIES							
Deposits from customers	13,896,522	16,185,088	8,181,978	5,080	2,501	-	38,271,169
Deposits and placements of banks and other financial institutions	1,450,382	2,840,958	-	130,188	19,906	-	4,441,434
Investment account due to designated financial institutions	-	-	970,164	2,870,324	509,259	5,333,370	9,683,117
Obligations on securities sold under repurchase agreements	604,265	-	-	-	-	-	604,265
Bills and acceptances payable	9,216	-	-	-	-	-	9,216
Derivative liabilities:							
- Gross settled derivatives:							
- Inflow	(253,028)	(2,342,420)	(1,060,062)	(389,394)	(345,590)	(527,558)	(4,918,052)
- Outflow	268,389	2,525,659	1,133,357	460,683	406,511	579,548	5,374,147
- Net settled derivatives	61	969	1,675	(3,257)	(597)	-	(1,149)
Subordinated obligations	-	18,475	18,475	536,775	268,300	-	842,025
Other financial liabilities	236,105	26,461	19,425	-	-	-	281,991
TOTAL FINANCIAL LIABILITIES	16,211,912	19,255,190	9,265,012	3,610,399	860,290	5,385,360	54,588,163

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The following table presents the contractual expiry by maturity of the Bank's commitments and contingencies:

	Less than 1 year	**Over 1 year**	**Total**
	RM'000	**RM'000**	**RM'000**
2018			
Transaction-related contingent items	**37,305**	**175,463**	**212,768**
Short-term self-liquidating trade-related contingencies	**6,111**	**59,142**	**65,253**
Irrevocable commitments to extend credit	**11,659**	**6,567,847**	**6,579,506**
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	**19,146**	**2,083,163**	**2,102,309**
TOTAL COMMITMENTS AND CONTINGENCIES	**74,221**	**8,885,615**	**8,959,836**

	Less than 1 year	Over 1 year	Total
	RM'000	RM'000	RM'000
2017			
Transaction-related contingent items	122,516	72,782	195,298
Short-term self-liquidating trade-related contingencies	87,417	24,362	111,779
Commitment to buy back the Islamic securities arising from the Sell and Buy Back ('SBBA') transaction	-	629,085	629,085
Irrevocable commitments to extend credit	-	5,800,512	5,800,512
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	1,405,272	1,108,570	2,513,842
TOTAL COMMITMENTS AND CONTINGENCIES	1,615,205	7,635,311	9,250,516

Undrawn financing and advances commitments are recognised at activation stage and include commitments which are unconditionally cancellable by the Bank. The Bank expects that not all of the contingent liabilities and undrawn financing commitments will be drawn before expiry.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk

(i) Maximum exposure to credit risk

The maximum exposure to credit risk at the statement of financial position is the amounts on the statement of financial position as well as off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For contingent liabilities, 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. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

The table below shows the credit exposure of the Bank that is subject to impairment:

	2018	2017	
	RM'000	RM'000	
Credit risk exposure relating to on-balance sheet assets:			
Short-term funds (exclude cash in hand)	**3,443,876**	2,009,202	
Securities purchased under resale agreements	**926,125**	1,587,979	
Deposits and placements with banks and other financial institutions	**-**	447,210	
Financial investments AFS	**-**	3,193,873	*
Financial investments HTM	**-**	3,820,734	
Financial assets at FVOCI	**4,150,325**	-	
Financial investments at amortised cost	**2,856,789**	-	
Financing and advances	**51,813,230**	42,701,794	
Other financial assets	**263,470**	7,617	
	63,453,815	53,768,409	
Credit risk exposure relating to off-balance sheet assets:			
Commitments and contingencies	**8,959,836**	9,250,516	
Total maximum credit risk exposure that are subject to impairment	**72,413,651**	63,018,925	

The table below shows the credit exposure of the Bank that are not subject to impairment:

	2018	2017
	RM'000	RM'000
Financial assets at FVTPL/HFT	**274,226**	172,536
Financial investments AFS	**-**	200,620
Derivative assets	**204,543**	327,978
	478,769	701,134

* Exclude perpetual sukuk

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(ii) Collaterals

The main types of collateral obtained by the Bank are as follows:

(a) Fixed deposits, Commodity Murabahah Deposit-i, negotiable instrument of deposits, Islamic negotiable instrument of deposits, foreign currency deposits and cash deposits/margins;
(b) Land and/or buildings;
(c) Vessels and automobiles;
(d) Quoted shares, unit trusts, government bonds and securities and private debt securities;
(e) Other tangible business assets, such as inventory and equipment

The Bank also accepts non-tangible securities as support, such as guarantees from individuals, corporates and institutions, bank guarantees, debentures, assignment of contract proceeds, which are subject to internal guidelines on eligibility.

The outstanding balance for financing and advances for which no allowances is recognised because of collateral as at 31 December 2018 amounted to RM55.1 million.

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements mitigate credit risk) held for financing and advances balances as at 31 December 2018 for the Bank is 79.0% (2017: 66.7%). The financial effect of collateral held for the remaining on-balance sheet assets are insignificant.

The following table shows the financing and advances that are credit-impaired and related collateral held:

2018	**Gross outstanding**	**Credit losses**	**Net carrying amount**	**Collateral value over gross outstanding**
	RM'000	**RM'000**	**RM'000**	**%**
Financing and advances	**509,183**	**(233,219)**	**275,964**	**72.5**

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Credit exposure by stage

Financial assets of the Bank is classified into three stages as below:

Stages	Description
Stage 1: 12 months ECL - not credit impaired	For credit exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.
Stage 2: Lifetime ECL - not credit impaired	For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised.
Stage 3: Lifetime ECL - credit impaired	Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognised.

For further details on the stages, refer to accounting policy Note 2(d).

(iv) Credit quality

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

Credit quality description is summarised as follows:

Credit Quality	Description
Good	Exposures exhibit strong capacity to meet financial commitments with no cause of concern to the Bank
Fair	Exposures exhibit fairly acceptable capacity to meet financial commitments and may require varying degrees of concern to the Bank
No Rating	Counterparties which do not satisfy the criteria to be rated based on internal credit grading system
Credit impaired	When one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows have occurred

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

Credit Quality	Ratings
Good	Aaa to A3
Fair	Baa1 to Baa3
No Rating	Unrated
Credit impaired	Default

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iv) Credit quality (continued)

The following table shows an analysis of the credit exposure by stages, together with the ECL allowance provision:

2018	Gross Carrying Amount Good	Fair	No rating	Credit-impaired	Total	Provision for credit loss
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
General Approach						
Short-term funds (exclude cash)	473,211	3,356	2,967,507	-	3,444,074	(198)
Stage 1	473,211	3,356	2,967,507	-	3,444,074	(198)
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Securities purchased under resale agreements	926,125	-	-	-	926,125	-
Stage 1	926,125	-	-	-	926,125	-
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Financial assets at FVOCI	1,070,355	-	3,079,970	-	4,150,325	(5,397)
Stage 1	1,060,240	-	3,079,970	-	4,140,210	(5,090)
Stage 2	10,115	-	-	-	10,115	(307)
Stage 3	-	-	-	-	-	-
Financial investments at amortised cost	329,830	-	2,533,109	-	2,862,939	(6,150)
Stage 1	329,830	-	1,889,977	-	2,219,807	(3,897)
Stage 2	-	-	643,132	-	643,132	(2,253)
Stage 3	-	-	-	-	-	-
Financing and advances	30,613,346	12,181,268	8,950,400	509,183	52,254,197	(423,088)
Stage 1	29,759,060	10,285,164	8,550,722	-	48,594,946	(73,615)
Stage 2	854,286	1,896,104	399,678	-	3,150,068	(116,254)
Stage 3	-	-	-	509,183	509,183	(233,219)
	33,412,867	12,184,624	17,530,986	509,183	63,637,660	(434,833)

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iv) Credit quality (continued)

Credit risk exposure analysed by industry in respect of the Bank's financial assets, including commitments and contingencies, are set out below:

2018	Short-term funds, and deposits and placements with banks and other financial institutions ^	Securities purchased under resale agreements	Financial assets at FVTPL	Financial assets at FVOCI	Financial investments at amortised costs @	Financing and advances #	Other financial assets *	Commitments and contingencies	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture, hunting, forestry and fishing	-	-	-	20,110	105,486	1,073,170	-	233,740	1,432,506
Mining and quarrying	-	-	-	-	-	242,461	-	4,131	246,592
Manufacturing	-	-	-	-	-	1,267,096	570	639,556	1,907,222
Electricity, gas and water	-	-	-	100,283	-	157,655	-	15,278	273,216
Construction	-	-	-	279,314	107,564	4,030,095	-	1,416,250	5,833,223
Real estate	-	-	-	224,074	303,343	989,784	-	-	1,517,201
Wholesale and retail trade and restaurant and hotel	-	-	-	-	-	1,477,370	37	393,178	1,870,585
Transport, storage and communication	-	-	-	541,672	40,651	4,712,367	-	142,753	5,437,443
Finance, insurance and business services	478,495	926,125	-	694,725	1,351,279	4,444,028	203,936	2,015,282	10,113,870
Government and government agencies	2,965,579	-	274,226	2,290,147	954,616	3,507,239	-	-	9,991,807
Consumption credit	-	-	-	-	-	281,562	-	604,619	886,181
Others	-	-	-	-	-	29,838,151	263,470	3,495,049	33,596,670
	3,444,074	926,125	274,226	4,150,325	2,862,939	52,020,978	468,013	8,959,836	73,106,516

^ Excludes stage 1 expected credit losses amounting to RM198,000.
@ Excludes stage 1 and stage 2 expected credit losses amounting to RM6,150,000.
# Excludes stage 1 and stage 2 expected credit losses amounting to RM189,869,000.
* Other financial assets include other assets amounting to RM263,470,000 and derivative assets amounting to RM204,543,000.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iv) Credit quality (continued)

Credit risk exposure analysed by geographical in respect of the Bank's financial assets, including commitments and contingencies, are set out below:

2018	Short-term funds, and deposits and placements with banks and other financial institutions ^	Securities purchased under resale agreements	Financial assets at FVTPL	Financial assets at FVOCI	Financial investments at amortised costs @	Financing and advances #	Other financial assets *	Commitments and contingencies	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Southeast Asia	2,960,118	926,125	274,226	4,124,843	2,862,939	51,829,623	468,013	8,959,836	72,405,723
Malaysia	2,836,896	926,125	274,226	4,124,843	2,862,939	51,745,062	468,013	8,959,836	72,197,940
Other Southeast Asia	123,222	-	-	-	-	84,561	-	-	207,783
Other Asia	460,826	-	-	25,482	-	105,957	-	-	592,265
Europe	4,957	-	-	-	-	77,211	-	-	82,168
America	18,173	-	-	-	-	5,387	-	-	23,560
Africa	-	-	-	-	-	2,800	-	-	2,800
	3,444,074	926,125	274,226	4,150,325	2,862,939	52,020,978	468,013	8,959,836	73,106,516

^ Excludes stage 1 expected credit losses amounting to RM198,000.

@ Excludes stage 1 and stage 2 expected credit losses amounting to RM6,150,000.

Excludes stage 1 and stage 2 expected credit losses amounting to RM189,869,000.

* Other financial assets include other assets amounting to RM263,470,000 and derivative assets amounting to RM204,543,000.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(v) Credit quality (continued)

(a) Financing and advances

Financing and advances are summarised as follows:

	2017
	RM'000
Neither past due nor impaired	39,079,609
Past due but not impaired	3,550,881
Individually impaired	343,961
Gross financing and advances	42,974,451
Less : Individual impairment allowance	(42,612)
: Collective impairment allowance	(230,045)
Net financing and advances	42,701,794

(i) Financing and advances neither past due nor impaired

Analysis of financing and advances that are neither past due nor impaired analysed based on the Bank's internal credit grading system is as follows:

	2017
	RM'000
Good	17,998,549
Fair	792,436
No Rating	20,288,624
Neither past due nor impaired	39,079,609

Financing and advances classified as non-rated mainly comprise financing under the Standardised Approach for credit risk.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(v) Credit quality (continued)

(a) Financing and advances (continued)

(ii) Financing and advances past due but not impaired

Analysis of ageing of financing and advances that are past due but not impaired is as follows:

	2017
	RM'000
Past due up to 30 days	3,072,249
Past due 31 to 60 days	372,076
Past due 61 to 90 days	106,556
Past due but not impaired	3,550,881

(iii) Impaired financing and advances

Financing and advances that are individually determined to be impaired are as follows:

	2017
	RM'000
Individually impaired financing	343,961

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(v) Credit quality (continued)

(b) Short-term funds, deposits and placements with banks and other financial institutions, securities purchased under resale agreements, financial assets and investments portfolios, other financial assets and derivative assets of the Bank are summarised as follows:

	Short-term funds, deposits and placements with banks and other financial institutions	Securities purchased under resale agreements	Financial assets HFT	Financial investments AFS	Financial investments HTM	Other financial assets	Derivative assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017							
Neither past due nor impaired	2,456,412	1,587,979	172,536	3,193,873	3,820,734	7,617	327,978

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(v) Credit quality (continued)

(c) Analysis of short-term funds, deposits and placements with banks and other financial institutions, securities purchased under resale agreements, financial assets and investments portfolios, other financial assets and derivative assets of the Bank that are neither past due nor impaired by rating agency definition are as follows:

2017	Short-term funds, deposits and placements with banks and other financial institutions RM'000	Securities purchased under resale agreements RM'000	Financial assets HFT RM'000	Financial investments AFS @ RM'000	Financial investments HTM RM'000	Other financial assets RM'000	Derivative assets RM'000
AAA to AA3	14,641	1,587,979	-	1,237,955	141,833	-	324,225
A1 to A3	102,717	-	-	20,352	-	-	-
P1 to P3	414,790	-	-	-	-	-	-
Non-rated of which:	1,924,264	-	172,536	1,935,566	3,678,901	7,617	3,753
- Malaysian Government Investment Issues	-	-	172,536	648,592	335,325	-	-
- BNM	1,400,849	-	-	-	-	-	-
- Private debt securities	-	-	-	1,277,571	1,473,702	-	-
- Khazanah bonds	-	-	-	9,403	21,799	-	-
- Negotiable Islamic debt certificates	-	-	-	-	1,838,090	-	-
- Others	523,415	-	-	-	9,985	7,617	3,753
	2,456,412	1,587,979	172,536	3,193,873	3,820,734	7,617	327,978

@ Exclude equity instrument and perpetual sukuk amounting to RM200,620,000.

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(v) Credit quality (continued)

(d) Credit risk exposure analysed by industry in respect of the Bank's financial assets, including commitment and contingencies, are set out below (continued):

2017	Short-term funds, and deposits and placements with banks and other financial institutions	Securities purchased under resale agreements	Financial assets HFT	Financial investments AFS @	Financial investments HTM	Financing and advances #	Other financial assets *	Commitments and contingencies	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture, hunting, forestry and fishing	-	-	-	160,536	120,225	1,122,652	-	289,501	1,692,914
Mining and quarrying	-	-	-	-	-	245,208	426	2,658	248,292
Manufacturing	-	-	-	-	101,157	1,214,436	496	626,629	1,942,718
Electricity, gas and water	-	-	-	352,873	700,029	187,516	-	15,278	1,255,696
Construction	-	-	-	185,917	-	2,981,228	-	1,988,111	5,155,256
Real estate	-	-	-	131,165	126,287	1,274,802	-	-	1,532,254
General commerce	-	-	-	10,016	132,766	1,265,732	2,539	309,342	1,720,395
Transport, storage and communication	-	-	-	724,976	107,137	4,870,770	-	195,491	5,898,374
Finance, insurance and business services	1,055,563	1,587,979	-	730,799	1,914,308	3,768,181	324,517	1,981,074	11,362,421
Government and government agencies	1,400,849	-	172,536	897,591	618,825	3,864,895	-	-	6,954,696
Others	-	-	-	-	-	22,136,419	7,617	3,842,432	25,986,468
	2,456,412	1,587,979	172,536	3,193,873	3,820,734	42,931,839	335,595	9,250,516	63,749,484

@ Exclude equity instrument and perpetual sukuk amounting to RM200,620,000.
# Exclude collective impairment allowance amounting to RM230,045,000.
* Other financial assets include other assets amounting to RM7,617,000 and derivative assets amounting to RM327,978,000.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(vi) 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 (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will be written back as bad debts recovered in the income statement.

The contractual amount outstanding on financing and advances and securities portfolio that were written off during the financial year ended 31 December 2018, and are still subject to enforcement activities was RM8.3 million for the Bank.

(vii) Modification of contractual cash flows

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognised, the resulting modification loss is recognised within impairment in the income statement with a corresponding decrease in the gross carrying value of the asset. If the modification involved a concession that the Bank would not otherwise consider, the instrument is considered to be credit impaired and is considered forborne.

ECL for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk. These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification.

Although financing and advances may be modified for non-credit reasons, a significant increase in credit risk may occur. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from stage 3 or stage 2 to stage 1. This is only the case for assets which have been monitored for consecutive six months observation period or more.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(viii) Sensitivity analysis

The Bank has performed ECL sensitivity assessment on financing and advances based on the changes in key variables, such as GDP growth, unemployment rates, inflation and house prices, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the ECL of the Bank.

The table below outlines the effect of ECL on the changes in key variables used while other variables remain constant:

(a) Retail

		RM'000	RM'000
Private Consumption	+/- 50bps	**(1,061)**	**1,029**
Unemployment rates	+/- 10bps	**1,857**	**(1,803)**
Inflation	+/- 5bps	**68**	**(97)**

(b) Non-retail

		RM'000	RM'000
Private Consumption	+/- 50bps	**(2,342)**	**2,034**
KLIBOR-3M	+/- 25bps	**7,606**	**(7,827)**

Retail comprises substantially household sector as disclosed in Note 10(b)(iii) under financing and advances by economic sector.

Non-retail comprises other than household sector as disclosed in Note 10(b)(iii) under financing and advances by economic sector.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value of financial instruments

The Bank analyses its financial instruments measured at fair value into three categories as described below:

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

Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

The table below analyses financial instruments carried at fair value analysed by level within the fair value hierarchy:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2018				
Financial assets				
Financial assets at FVTPL:				
- money market instruments	**-**	**274,226**	**-**	**274,226**
Financial assets at FVOCI:	**-**	**4,150,325**	**-**	**4,150,325**
- money market instruments	**-**	**1,251,214**	**-**	**1,251,214**
- unquoted securities	**-**	**2,899,111**	**-**	**2,899,111**
Derivative assets	**-**	**204,543**	**-**	**204,543**
	-	**4,629,094**	**-**	**4,629,094**
Financial liabilities				
Derivative liabilities	**-**	**211,555**	**-**	**211,555**
2017				
Financial assets				
Financial assets HFT:				
- money market instruments	-	172,536	-	172,536
Financial investments AFS:	-	3,193,873	200,620	3,394,493
- money market instruments	-	688,480	-	688,480
- unquoted securities	-	2,505,393	200,620	2,706,013
Derivative assets	-	327,978	-	327,978
	-	3,694,387	200,620	3,895,007
Financial liabilities				
Derivative liabilities	-	327,723	-	327,723

There were no transfers between Level 1 and 2 during the financial year.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair Value of Financial Instruments (continued)

(i) Valuation techniques

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

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

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). This category includes unquoted shares held for non-transferable and non-tradable perpetual sukuk and impaired securities.

(ii) Reconciliation of fair value measurements in Level 3:

The following represents the changes in Level 3 instruments for the Bank:

Financial assets at FVOCI/financial investments AFS

	2018	2017
	RM'000	RM'000
Balance as at the beginning of the financial year	**200,620**	200,619
Profit recognised	**9,455**	11,900
Payment received	**(10,075)**	(11,899)
Disposal	**(200,000)**	-
Balance as at the end of the financial year	**-**	200,620

43 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of each financial assets and liabilities presented on the statement of financial position of the Bank approximates the carrying amount as at the reporting date, except for the following:

	Carrying value	Fair value
2018	**RM'000**	**RM'000**
Financial assets		
Financial investments at amortised cost	**2,856,789**	**2,873,160**
Financing and advances	**51,813,230**	**51,814,792**
Financial liabilities		
Deposits from customers	**45,732,352**	**45,836,669**
Deposits and placements of banks and other financial institutions	**4,403,721**	**4,397,304**
Investment account due to designated financial institutions	**7,898,611**	**7,754,917**
Recourse obligation on financing sold to Cagamas	**2,270,239**	**2,357,620**
Subordinated obligations	**755,326**	**760,229**
2017		
Financial assets		
Financial investments HTM	3,820,734	3,822,095
Financing and advances	42,701,794	42,707,274
Financial liabilities		
Deposits from customers	37,850,205	37,894,547
Deposits and placements of banks and other financial institutions	4,394,801	4,384,542
Investment account due to designated financial institutions	8,102,698	7,873,600
Subordinated obligations	755,393	759,318

43 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The following table analyses within the fair value hierarchy of the Bank's assets and liabilities not measured at fair value but for which fair value is disclosed:

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
2018				
Financial assets				
Financial investments at amortised cost	**-**	**1,374,150**	**1,499,010**	**2,873,160**
Financing and advances	**-**	**51,814,792**	**-**	**51,814,792**
Financial liabilities				
Deposits from customers	**-**	**45,836,669**	**-**	**45,836,669**
Deposits and placements of banks and other financial institutions	**-**	**4,397,304**	**-**	**4,397,304**
Investment account due to designated financial institutions	**-**	**7,754,917**	**-**	**7,754,917**
Recourse obligation on financing sold to Cagamas	**-**	**2,357,620**	**-**	**2,357,620**
Subordinated obligations	**-**	**760,229**	**-**	**760,229**
2017				
Financial assets				
Financial investments HTM	-	2,657,421	1,164,674	3,822,095
Financing and advances	-	42,707,274	-	42,707,274
Financial liabilities				
Deposits from customers	-	37,894,547	-	37,894,547
Deposits and placements of banks and other financial institutions	-	4,384,542	-	4,384,542
Investment account due to designated financial institutions	-	7,873,600	-	7,873,600
Subordinated obligations	-	759,318	-	759,318

43 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The fair values are based on the following methodologies and assumptions:

(i) Cash and short-term funds and deposits and placements with financial institutions

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

(ii) Securities purchased under resale agreements

The fair values of securities purchased under resale agreements with maturities of less than six months approximate the carrying values. For securities purchased under resale agreements with maturities of six months and above, the estimated fair values are based on discounted cash flows using prevailing market rates for the remaining term to maturity.

(iii) Financial assets FVTPL/HFT, financial assets at FVOCI, financial investments at amortised cost and financial investments HTM and AFS

The estimated fair value for financial assets FVTPL/HFT, financial assets at FVOCI, financial investments at amortised cost and financial investments HTM and AFS is based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been assessed by reference to market indicative yield or net tangible asset backing of the investee. Where discounted cash flow technique is used, the estimated future cash flows are discounted using the prevailing market rates for a similar instrument at the date of statement of financial position.

(iv) Financing and advances

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

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

The fair values of impaired financing are represented by their carrying value, net of impairment allowance.

(v) Other assets and liabilities

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

(vi) Deposits from customers

For deposits from customers with maturities of less than six months, the carrying amounts are reasonable estimates of their fair values. For deposits with maturities of six months and above, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

(vii) Deposits and placements of banks and other financial institutions, investment account due to designated financial institutions, obligations on securities sold under repurchase agreements and bills and acceptances payable.

The estimated fair values of deposits and placements of banks and other financial institutions, investment account due to designated financial institutions, obligations on securities sold under repurchase agreements and bills and acceptances payable with maturities of less than six months approximate the carrying values. For the items with maturities of six months and above, the fair values are estimated based on discounted cash flows using prevailing money market profit rates with similar remaining period to maturity.

43 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The fair values are based on the following methodologies and assumptions (continued):

(viii) Recourse obligation on financing sold to Cagamas

For amounts due to Cagamas with maturities of less than one year, the carrying amounts are a reasonable estimate of their fair values. For amounts due to Cagamas with maturities of more than one year, fair value is estimated based on discounted cash flows using prevailing money market profit rates with similar remaining period to maturity.

(ix) Subordinated obligations

The estimated fair value of subordinated obligations is generally based on quoted and observable market prices at the date of statement of financial position.

(x) Credit related commitments and contingencies

The net fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risks and attract fees in line with market prices for similar arrangements. They are not presently sold nor traded. The fair value may be represented by the present value of fees expected to be received, less associated costs.

(xi) Foreign exchange and profit rate related contracts

The fair values of foreign exchange and profit rate related contracts are the estimated amounts the Bank would receive to sell or pay to transfer the contracts at the date of statement of financial position.

44 CHANGE IN ACCOUNTING POLICIES

(1) Adoption of MFRS 9 'Financial Instruments'

The Bank has adopted MFRS 9 ‘Financial Instruments’, issued by the MASB with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

As permitted by the transitional provisions of MFRS 9, the Bank elected not to restate comparatives figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained profits and other reserves of the current year.

MFRS 9 also significantly amends other standards dealing with financial instruments such as MFRS 7 ‘Financial Instruments: Disclosures’. Consequently, the amendments to MFRS 7 disclosures have only been applied to the current financial year, and comparative year’s disclosures have not been restated as shown in Note 42.

The adoption of MFRS 9 has resulted in changes in the Bank’s accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

Set out below are disclosures relating to the impact of the adoption of MFRS 9 on the Bank:

(a) Classification and measurement of financial assets

From 1 January 2018, the Bank has applied MFRS 9 and classifies its financial assets in the following measurement categories:

- Amortised cost
- Fair value through other comprehensive income ('FVOCI')
- Fair value through profit or loss ('FVTPL')

Financial assets are measured at amortised cost if the assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows which represent solely payments of principal and interest. Financial assets are measured at FVOCI if the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual cash flows represent solely payments of principal and interest. All other financial assets are classified and measured at FVTPL.

Upon adoption of MFRS 9, the following is noted:

(i) All of the Bank’s debt instruments that were classified as HTM and measured at amortised cost meet the condition for classification as amortised cost under MFRS 9; and
(ii) All the Bank’s debts and equity instruments that were classified as financial instruments AFS satisfy the conditions for classification as FVOCI and hence there will be no change to the accounting for these assets.

(b) Classification and measurement of financial liabilities

The Bank’s financial liabilities continue to be measured at amortised cost.

There will be no impact on the Bank’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Bank does not have any such liabilities as at the balance sheet date.

(c) Hedge accounting

The Bank has elected to continue to apply the hedge accounting requirements of MFRS 139 on the adoption of MFRS 9.

(d) Impairment of financial assets

As a result of the changes in basis of determining the level of allowances for credit losses as explained under the accounting policies, the total ECL allowances computed under MFRS 9 is higher by RM85,156,000 (net of tax) for the Bank, than the total allowance for impairment on financial assets under MFRS 139.

The financial effects of the adoption of MFRS 9 are presented in Note 44(3).

44 CHANGE IN ACCOUNTING POLICIES

(2) BNM's Revised Policy Documents on Financial Reporting for Islamic Banking Institutions

With effect from 1 January 2018, the Bank must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserve of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures, in accordance with the revised policy documents on Financial Reporting for Islamic Banking Institutions issued by BNM.

The financial effects of the adoption of the revised policy are presented in Note 44(3).

44 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(3) Financial effects

Summary of the impact on classification and measurement, and a reconciliation of the financial position of the Bank upon adoption of MFRS 9 as at 1 January 2018 are as follows:

	MFRS 139 measurement category	MFRS 9 measurement category	MFRS 139 carrying amount as at 31 December 2017	Reclassification/ remeasurement	MFRS 9 expected credit losses	MFRS 9 carrying amount as at 1 January 2018
			RM'000	RM'000	RM'000	RM'000
ASSETS						
Cash and short term funds	Loans and receivables	Amortised cost	2,029,860	-	(222)	2,029,638
Securities purchased under resale agreements	Loans and receivables	Amortised cost	1,587,979	-	-	1,587,979
Deposits and placements with banks and other financial institutions	Loans and receivables	Amortised cost	447,210	-	-	447,210
Financial assets at FVTPL	FVTPL	FVTPL	172,536	-	-	172,536
Financial investments AFS	Financial investments AFS	NA	3,394,493	(3,394,493)	-	-
Financial investments HTM	Financial investments HTM	NA	3,820,734	(3,820,734)	-	-
Financial assets at FVOCI - debt instruments	NA	FVOCI	-	3,394,493	-	3,394,493
Financial investments at amortised cost	NA	Amortised cost	-	3,820,734	(3,026)	3,817,708
Loans, advances and financing	Loans and receivables	Amortised cost	42,701,794	(42,216)	(103,621)	42,555,957
Other assets	Loans and receivables	Amortised cost	90,934	-	-	90,934
Derivative assets	FVTPL	FVTPL	327,978	-	-	327,978
Statutory deposits	Loans and receivables	Amortised cost	1,116,200	-	-	1,116,200
Tax recoverable	NA	NA	-	10,132	11,269	21,401
Deferred tax assets	NA	NA	16,513	-	-	16,513
Property, plant and equipment	NA	NA	6,193	-	-	6,193
Intangible assets	NA	NA	5,039	-	-	5,039
TOTAL ASSETS			55,717,463	(32,084)	(95,600)	55,589,779

44 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(3) Financial effects (continued)

Summary of the impact on classification and measurement, and a reconciliation of the financial position of the Bank upon adoption of MFRS 9 as at 1 January 2018 are as follows (continued):

	MFRS 139 measurement category	MFRS 9 measurement category	MFRS 139 carrying amount as at 31 December 2017	Reclassification/ remeasurement	MFRS 9 expected credit losses	MFRS 9 carrying amount as at 1 January 2018
			RM'000	RM'000	RM'000	RM'000
LIABILITIES						
Deposits from customers	Amortised cost	Amortised cost	37,850,205	-	-	37,850,205
Deposits and placements of banks and other financial institutions	Amortised cost	Amortised cost	4,394,801	-	-	4,394,801
Investment account due to designated financial institutions	Amortised cost	Amortised cost	8,102,698	-	-	8,102,698
Obligations on securities sold under repurchase agreements	Amortised cost	Amortised cost	604,163	-	-	604,163
Bills and acceptances payable	Amortised cost	Amortised cost	9,216	-	-	9,216
Derivative liabilities	FVTPL	FVTPL	327,723	-	-	327,723
Subordinated obligations	Amortised cost	Amortised cost	755,393	-	-	755,393
Other liabilities	Amortised cost	Amortised cost	345,792	-	-	345,792
Provision for tax and zakat	NA	NA	15,623	-	(15,623)	-
TOTAL LIABILITIES			52,405,614	-	(15,623)	52,389,991
EQUITY						
Share capital			1,273,424	-	-	1,273,424
Reserves			2,038,425	(32,084)	(79,977)	1,926,364
TOTAL EQUITY			3,311,849	(32,084)	(79,977)	3,199,788
TOTAL LIABILITIES AND EQUITY			55,717,463	(32,084)	(95,600)	55,589,779

44 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(3) Financial effects (continued)

The following table shows the effects on FVOCI/AFS reserve, regulatory reserve and retained profits as at 31 December 2017 and 1 January 2018:

	RM'000
FVOCI/AFS reserve	
Closing balance under MFRS 139 as at 31 December 2017	(15,929)
Recognition of expected credit losses	5,179
Opening balance under MFRS 9 as at 1 January 2018	(10,750)
Regulatory reserve	
Closing balance under MFRS 139 as at 31 December 2017	267,031
Transfer from retained profits	54,411
Opening balance under MFRS 9 as at 1 January 2018	321,442
Retained profits	
Closing balance under MFRS 139 as at 31 December 2017	1,787,323
Effect of reclassification and remeasurement of financial assets, net of tax	(32,084)
Effect of ECL adjustments, net of tax	(85,156)
Transfer to regulatory reserve	(54,411)
	(171,651)
Opening balance under MFRS 9 as at 1 January 2018	1,615,672

The following table reconciles the prior year's closing impairment allowance measured in accordance with MFRS 139 incurred loss model to the new impairment allowance measured in accordance with MFRS 9 ECL model as at 1 January 2018:

	MFRS 139 Allowance as at 31 December 2017	Remeasurement	MFRS 9 Allowance as at 1 January 2018
	RM'000	RM'000	RM'000
Cash and short term funds	-	222	222
Financial assets at FVOCI/FVOCI reserve	-	5,179	5,179
Financial investments at amortised cost	-	3,026	3,026
Financing and advances	272,657	103,621	376,278
	272,657	112,048	384,705

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

We, Abdul Aziz Peru Mohamed and Dato' Adissadikin Ali, being two of the Directors of RHB Islamic Bank Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 6 to 123 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2018 and financial performance of the Bank for the financial year ended on 31 December 2018 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 27 February 2019.

ABDUL AZIZ PERU MOHAMED
DIRECTOR

DATO' ADISSADIKIN ALI
CHIEF EXECUTIVE OFFICER/
MANAGING DIRECTOR

Kuala Lumpur
27 February 2019

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

I, Khairul Hakeem Mohamed Sahari, the Officer primarily responsible for the financial management of RHB Islamic Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 6 to 123 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declaration Act, 1960.

KHAIRUL HAKEEM MOHAMED SAHARI
(MIA Membership No: 44413)

Subscribed and solemnly declared by the abovenamed Khairul Hakeem Mohamed Sahari at Kuala Lumpur in Malaysia on 27 February 2019.

Before me:

COMMISSIONER FOR OATHS
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF RHB ISLAMIC BANK BERHAD

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

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

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 December 2018 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 6 to 123.

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 opinion.

Independence and other ethical responsibilities

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

Information other than the financial statements and auditors' report thereon

The Directors of the Bank are responsible for the other information. The other information comprises the Directors' Report which we obtained prior to the date of this auditors' report, and the 2018 Annual Report, which is expected to be made available to us after that date. Other information does not include the financial statements of the Bank and our auditors' report thereon.

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

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.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

(a) 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.

(b) 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.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(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.

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

OTHER MATTERS

This report is made solely to the 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.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

SOO HOO KHOON YEAN
02682/10/2019 J
Chartered Accountant

Kuala Lumpur
27 February 2019