RHB ISLAMIC BANK BERHAD

(Incorporated in Malaysia)
Registration No. 200501003283 (680329-V)

STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

RHB ISLAMIC BANK BERHAD
(Incorporated in Malaysia)
Registration No. 200501003283 (680329-V)

STATUTORY FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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50420 KUALA LUMPUR
MALAYSIA

RHB ISLAMIC BANK BERHAD
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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 2020.

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	450,519
Zakat	(4,091)
Taxation	(106,089)
Net profit for the financial year	340,339

DIVIDENDS

During the financial year ended 31 December 2020, the Bank has paid a single-tier dividend of 5.37 sen per share in respect of the financial year ended 31 December 2019, amounting to RM89,863,000 on 24 March 2020.

The Directors proposed a single-tier interim dividend of 3.00 sen per share amounting to RM50,203,000 in respect of the financial year ended 31 December 2020.

The financial statements for the current financial year do not reflect this single-tier interim dividend. This dividend payment will be accounted for in the shareholder's equity as an appropriation of retained profits in the financial year ending 31 December 2021.

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

There were no issue of shares in the Bank during the financial year.

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.

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.

DIRECTORS' REPORT (CONTINUED)

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, other than the impact of COVID-19 and net modification loss as disclosed in Note 29 to the financial statements.

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.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

The World Health Organisation declared the outbreak of Coronavirus disease (COVID-19) as a global pandemic in March 2020. The direct and indirect effects of the COVID-19 outbreak have impacted the global economy, markets and the Bank’s counterparties and clients.

The COVID-19 effects have a material negative impact on the Bank's results of operations. In particular, the process to determine expected credit losses (‘ECL’) requires numerous estimates and assumptions, some of which require a high degree of judgement. Changes in the estimates and assumptions can result in significant changes in ECL. The Bank is not able to predict the COVID-19’s potential future direct or indirect effects. However, the Bank is taking actions to mitigate the impacts, and will continue to closely monitor the impact and the related risks as they evolve.

Other than as mentioned above, other significant events during the financial year are disclosed in Note 46 to the financial statements.

EVENT SUBSEQUENT TO THE FINANCIAL YEAR END

Event subsequent to the financial year end is disclosed in Note 47 to the financial statements.

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:

Dato' Mohamad Nasir Ab Latif (appointed as Director on 2 May 2020 and re-designated as Chairman on 28 May 2020)
Dato' Abd Rahman Dato' Md Khalid
Dato' Foong Chee Meng
Ong Ai Lin
Dato' Adissadikin Ali
Abdul Aziz Peru Mohamed (retired on 28 May 2020)

In accordance with Article 75 of the Bank's Constitution, Ong Ai Lin and Dato' Adissadikin Ali retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings required to be kept under Section 59 of the Companies Act 2016, the Directors in office at the end of the financial year holding securities of the Bank and its related corporations are as follows:

	Number of ordinary shares			
	As at 1.1.2020	**Bought**	**Sold**	**As at 31.12.2020**
Holding company				
RHB Bank Berhad				
Ong Ai Lin	**25,000**	**-**	**-**	**25,000**

Other than the above, none of the other 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 34 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 33 to the financial statements.

HOLDING COMPANY

The Directors regard RHB Bank Berhad ('RHB Bank'), 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.

RHB ISLAMIC BANK BERHAD
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DIRECTORS' REPORT (CONTINUED)

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 24 February 2021. Signed on behalf of the Board of Directors:

DATO' MOHAMAD NASIR AB LATIF
CHAIRMAN

DATO' ADISSADIKIN ALI
CHIEF EXECUTIVE OFFICER/
MANAGING DIRECTOR

Kuala Lumpur

RHB ISLAMIC BANK BERHAD
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REPORT OF THE SHARIAH COMMITTEE

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

In compliance with the Shariah Governance policy document, Financial Reporting for Islamic Banking Institutions and other relevant guidelines issued by Bank Negara Malaysia, we, the members of the Shariah Committee of RHB Islamic Bank Berhad (the 'Bank'), do hereby confirm the following:

We are responsible to provide objective and sound advice to the Bank to ensure its aims and operations, business, affairs and activities are in compliance with Shariah. We have conducted twelve (12) 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 2020.

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 2020.

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 2020 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;
(f) the calculation of zakat is in compliance with Shariah rules and principles; and
(g) nothing has come to our attention that causes us to believe that the operations, business, affairs, and activities of the Bank involves any material Shariah non-compliances.

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 2020 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

On behalf of the Shariah Committee.

Dr. Ahmad Basri Ibrahim
Chairman of the Committee

Mohd Fadhly Md. Yusoff
Member of the Committee

Kuala Lumpur
24 February 2021

RHB ISLAMIC BANK BERHAD
(Incorporated in Malaysia)
Registration No. 200501003283 (680329-V)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	2020	2019
		RM'000	RM'000
ASSETS			
Cash and short-term funds	2	**2,262,454**	4,052,396
Securities purchased under resale agreements	3	**3,767,531**	1,724,107
Deposits and placements with banks and other financial institutions	4	**2,410,219**	36,886
Financial assets at fair value through profit or loss (‘FVTPL’)	5	**107,678**	207,145
Financial assets at fair value through other comprehensive income (‘FVOCI’)	6	**6,409,937**	5,118,305
Financial investments at amortised cost	7	**4,577,078**	3,407,470
Financing and advances	8	**66,788,344**	60,263,546
Other assets	9	**320,985**	268,960
Derivative assets	10	**215,979**	130,688
Statutory deposits with Bank Negara Malaysia ('BNM')	11	**12,000**	1,517,000
Deferred tax assets	12	**6,794**	-
Right of use assets	13	**4,750**	2,924
Property, plant and equipment	14	**3,944**	3,979
Intangible assets	15	**3,133**	3,633
TOTAL ASSETS		**86,890,826**	76,737,039
LIABILITIES AND EQUITY			
Deposits from customers	16	**60,830,175**	54,416,970
Deposits and placements of banks and other financial institutions	17	**7,124,095**	5,109,861
Investment account due to designated financial institutions	18	**8,840,858**	8,229,334
Bills and acceptances payable		**12,182**	12,460
Other liabilities	19	**785,816**	928,842
Derivative liabilities	10	**337,929**	183,468
Recourse obligation on financing sold to Cagamas Berhad ('Cagamas')	20	**3,023,760**	2,270,239
Provision for taxation and zakat	21	**52,548**	36,025
Deferred tax liabilities	12	**-**	25,421
Lease liabilities	22	**4,840**	3,040
Subordinated obligations	23	**754,514**	754,565
TOTAL LIABILITIES		**81,766,717**	71,970,225
Share capital	24	**1,673,424**	1,673,424
Reserves	25	**3,450,685**	3,093,390
TOTAL EQUITY		**5,124,109**	4,766,814
TOTAL LIABILITIES AND EQUITY		**86,890,826**	76,737,039
COMMITMENTS AND CONTINGENCIES	40	**34,732,978**	25,540,822

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

RHB ISLAMIC BANK BERHAD
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INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	Note	2020	2019
		RM'000	RM'000
Income derived from investment of depositors' funds	26	**2,818,747**	2,860,241
Income derived from investment account funds	27	**364,011**	439,805
Income derived from investment of shareholders' funds	28	**183,584**	213,932
Net modification loss	29	**(259,233)**	-
Allowance for credit losses on financial assets	30	**(234,976)**	(6,200)
Total distributable income		**2,872,133**	3,507,778
Income attributable to depositors	31	**(1,713,761)**	(1,976,204)
Profit distributed to investment account holders		**(288,753)**	(339,436)
		869,619	1,192,138
Personnel expenses	32	**(29,610)**	(32,389)
Other overheads and expenditures	33	**(389,490)**	(364,220)
Profit before zakat and taxation		**450,519**	795,529
Zakat		**(4,091)**	(5,000)
Profit after zakat before taxation		**446,428**	790,529
Taxation	35	**(106,089)**	(189,009)
Net profit for the financial year		**340,339**	601,520
Earnings per share (sen):			
- basic	36	**20.34**	35.95

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RHB ISLAMIC BANK BERHAD
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STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	Note	2020	2019
		RM'000	RM'000
Net profit for the financial year		**340,339**	601,520
Other comprehensive income/(loss) in respect of:			
Items that will be reclassified subsequently to profit or loss:			
Debt instruments measured at FVOCI:			
- Unrealised net gain on revaluation		**181,011**	175,122
- Net transfer to income statement on disposal		**(39,942)**	(15,735)
- Changes in expected credit losses	6	**(394)**	(3,002)
Income tax relating to components of other comprehensive income	12,37	**(33,856)**	(38,253)
Other comprehensive income, net of tax for the financial year		**106,819**	118,132
Total comprehensive income for the financial year		**447,158**	719,652

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

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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

			Non distributable		Distributable	
	Note	Share capital	FVOCI reserve	Regulatory reserve	Retained profits	Total
2020		RM'000	RM'000	RM'000	RM'000	RM'000
Balance as at 1 January 2020		**1,673,424**	**120,030**	**442,869**	**2,530,491**	**4,766,814**
Net profit for the financial year					**340,339**	**340,339**
Financial assets measured at FVOCI - debt instruments:						
- Unrealised net gain on revaluation		**-**	**181,011**	**-**	**-**	**181,011**
- Net transfer to income statement on disposal		**-**	**(39,942)**	**-**	**-**	**(39,942)**
- Changes in expected credit losses	6	**-**	**(394)**	**-**	**-**	**(394)**
Income tax relating to components of other comprehensive income	12,37	**-**	**(33,856)**	**-**	**-**	**(33,856)**
Other comprehensive income, net of tax, for the financial year		**-**	**106,819**	**-**	**-**	**106,819**
Total comprehensive income for the financial year		**-**	**106,819**	**-**	**340,339**	**447,158**
Dividend paid	38				**(89,863)**	**(89,863)**
Transfer from regulatory reserve		**-**	**-**	**(115,064)**	**115,064**	**-**
Balance as at 31 December 2020		**1,673,424**	**226,849**	**327,805**	**2,896,031**	**5,124,109**

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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

			Non distributable		Distributable	
	Note	Share capital	FVOCI reserve	Regulatory reserve	Retained profits	Total
2019		RM'000	RM'000	RM'000	RM'000	RM'000
Balance as at 1 January 2019		1,673,424	1,898	358,054	2,013,786	4,047,162
Net profit for the financial year		-	-	-	601,520	601,520
Financial assets measured at FVOCI - debt instruments:						
- Unrealised net gain on revaluation		-	175,122	-	-	175,122
- Net transfer to income statement on disposal		-	(15,735)	-	-	(15,735)
- Changes in expected credit losses	6	-	(3,002)	-	-	(3,002)
Income tax relating to components of other comprehensive income	12,37	-	(38,253)	-	-	(38,253)
Other comprehensive income, net of tax, for the financial year		-	118,132	-	-	118,132
Total comprehensive income for the financial year		-	118,132	-	601,520	719,652
Transfer to regulatory reserve		-	-	84,815	(84,815)	-
Balance as at 31 December 2019		1,673,424	120,030	442,869	2,530,491	4,766,814

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

RHB ISLAMIC BANK BERHAD
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STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	Note	**2020**	2019
		RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before zakat and taxation		**450,519**	795,529
Adjustments for:			
Net modification loss		**259,233**	-
Depreciation on property, plant and equipment	14	**966**	1,392
Depreciation on right of use assets	13	**3,116**	3,341
Amortisation of computer software license	15	**1,025**	1,334
Income from:			
- Investment on financial assets at FVTPL		**(2,888)**	(7,114)
- Investment on financial assets at FVOCI		**(204,906)**	(210,010)
- Investment on financial investments at amortised cost		**(156,034)**	(147,066)
Net gain on disposal of financial assets at FVOCI		**(39,942)**	(15,735)
Net gain on disposal of financial assets at FVTPL		**(5,881)**	(9,312)
Net (gain)/loss on fair value hedges		**(1,941)**	3,318
Net loss on revaluation of derivatives		**27,470**	7,332
Unrealised (gain)/loss on revaluation of financial assets at FVTPL		**(672)**	1,000
Allowance for credit losses on financing and advances		**261,493**	27,588
Net allowance on financial assets at FVOCI, financial investments at amortised cost and other financial assets		**(952)**	(3,867)
Financing expense on subordinated obligations and lease liabilities		**34,094**	34,825
Operating profit before working capital changes		**624,700**	482,555
(Increase)/Decrease in operating assets:			
Securities purchased under resale agreements		**(2,043,424)**	(797,982)
Deposits and placements with banks and other financial institutions		**(2,373,333)**	(36,886)
Financing and advances		**(7,114,333)**	(8,481,221)
Financial assets at FVTPL		**108,909**	82,508
Other assets		**18,607**	208,659
Statutory deposits with BNM		**1,505,000**	(96,550)
		(9,898,574)	(9,121,472)
Increase/(Decrease) in operating liabilities:			
Deposits from customers		**6,413,205**	8,684,618
Deposits and placements of banks and other financial institutions		**2,014,234**	706,140
Investment account due to designated financial institutions		**611,524**	330,723
Bills and acceptances payable		**(278)**	2,945
Other liabilities		**66,377**	460,391
Amount due to holding company		**(167,701)**	225,327
Recourse obligation on financing sold to Cagamas		**753,521**	-
		9,690,882	10,410,144
Cash generated from operations		**417,008**	1,771,227
Profit paid		**(34,145)**	(35,586)
Net tax and zakat paid		**(159,728)**	(155,917)
Net cash generated from operating activities		**223,135**	1,579,724

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 2020 (CONTINUED)

	Note	2020	2019
		RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Net purchase of financial assets at FVOCI and financial investments at amortised cost		**(2,276,571)**	(1,313,365)
Purchases of property, plant and equipment		**(931)**	(1,116)
Purchases of intangible assets		**(525)**	(437)
Investment income received from financial assets at FVTPL, financial assets at FVOCI and financial investments at amortised cost		**357,963**	327,679
Net cash used in investing activities		**(1,920,064)**	(987,239)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of subordinated obligation		**-**	500,000
Redemption of subordinated obligation		**-**	(500,000)
Principal lease payment		**(3,150)**	(3,367)
Dividend paid		**(89,863)**	-
Net cash used in financing activities		**(93,013)**	(3,367)
Net (decrease)/increase in cash and cash equivalents		**(1,789,942)**	589,118
Cash and cash equivalents at the beginning of the financial year		**4,052,396**	3,463,278
Cash and cash equivalents at the end of the financial year	2	**2,262,454**	4,052,396

		← 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**	**Additions to lease liabilities**	**Accrued profit**	**Balance as at the end of the financial year**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2020						
Lease liabilities	**3,040**	**(3,150)**	**(201)**	**4,950**	**201**	**4,840**
Subordinated obligations	**754,565**	**-**	**(33,944)**	**-**	**33,893**	**754,514**
	757,605	**(3,150)**	**(34,145)**	**4,950**	**34,094**	**759,354**
2019						
Lease liabilities	6,035	(3,367)	(224)	372	224	3,040
Subordinated obligations	755,326	-	(35,362)	-	34,601	754,565
	761,361	(3,367)	(35,586)	372	34,825	757,605

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 2020

(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 2020 are as follows:

(i) The Conceptual Framework for Financial Reporting (Revised 2018)

The Framework was revised with the primary purpose to assist the IASB to develop IFRS that are based on consistent concepts and enable preparers to develop consistent accounting policies where an issue is not addressed by an IFRS. The Framework is not an IFRS, and does not override any IFRSs.

Key changes to the Framework are as follows:

- Objective of general purpose financial reporting - clarification that the objective of financial reporting is to provide useful information to the users of financial statements for resource allocation decisions and assessment of management's stewardship;
- Qualitative characteristics of useful financial information - reinstatement of the concepts of prudence when making judgement of uncertain conditions and 'substance over form' concept to ensure faithful representation of economic phenomenon;
- Clarification on reporting entity for financial reporting - introduction of new definition of a reporting entity, which might be a legal entity or a portion of a legal entity;
- Elements of financial statements - the definitions of an asset and a liability have been refined. Guidance in determining unit of account for assets and liabilities have been added, by considering the nature of executory contracts and substance of contracts;
- Recognition and derecognition - the probability threshold for asset or liability recognition has been removed. New guidance on de-recognition of asset and liability have been added;
- Measurement - explanation of factors to consider when selecting a measurement basis have been provided; and
- Presentation and disclosure - clarification that income statement is the primary source of information about an entity's financial performance for a reporting period. In principle, recycling of income/expense included in other comprehensive income to income statement is required if this results in more relevant information or a more faithful representation of income statement.

(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 2020 are as follows (continued):

(i) The Conceptual Framework for Financial Reporting (Revised 2018) (continued)

<u>Amendments to References to the Conceptual Framework in MFRS Standards</u>

The MASB also issued Amendments to References to the Conceptual Framework in MFRS Standards ('Amendments'), to update references and quotations to fourteen (14) Standards so as to clarify the version of Conceptual Framework these Standards refer to, for which the effective date above applies.

The amendments should be applied retrospectively in accordance with MFRS 108 unless retrospective application would be impracticable or involve undue cost or effort.

(ii) Amendments to MFRS 101 and MFRS 108 'Definition of Material'

The amendments clarify the definition of materiality and use a consistent definition throughout MFRSs and the Conceptual Framework for Financial Reporting.

The definition of 'material' has been revised as 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'.

The amendments also:

- Clarify that an entity assess materiality in the context of the financial statements as a whole;
- Explain the concept of obscuring information in the new definition. Information is obscured if it has the effect similar as omitting or misstating of that information. For example, material transaction is scattered throughout the financial statements, dissimilar items are inappropriately aggregated, or material information is hidden by immaterial information; and
- Clarify the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

(iii) Amendments to MFRS 7, MFRS 9 and MFRS 139 'Interest Rate Benchmark Reform'

The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by inter-bank offered rate ('IBOR') reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the statements of comprehensive income. The reliefs will cease to apply when the uncertainty arising from interest rate benchmark reform is no longer present.

The adoption of the above accounting standards, annual improvements and amendments does not give rise to any material financial impact to the Bank.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (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) Amendments to MFRS 16 'COVID 19 Related Rent Concessions' – effective 1 June 2020

The amendments grant an optional exemption for lessees to account for rent concession related to COVID-19 in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment in the period(s) in which the event or condition that triggers the reduced payment occurs.

The exemption only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

The amendment shall be applied retrospectively.

Lessees are not required to restate comparative information or to provide the disclosure under paragraph 28(f) of MFRS 108.

(ii) Annual Improvements to MFRSs 2018 - 2020 - effective 1 January 2022

- Amendments to MFRS 9 ‘Financial Instruments’

  When entities restructure their financing with existing lenders, they are required to quantitatively assess the significance of the difference in cash flows based on the old and new contractual terms (commonly known as the MFRS 9 ‘10% test’).

  Fees could be paid by the borrower to either third parties or the lender in a debt modification. This amendment to MFRS 9 clarifies that only fees paid or received between the borrower and the lender, including the fees paid or received on each other’s behalf, are included in the assessment. Fees paid to third parties (e.g. fee paid to lawyers) are not included in the 10% test.

  The amendment need not be applied retrospectively for annual periods beginning on or after 1 January 2022 and is applicable to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

- Amendments to illustrative Example 13 accompanying MFRS 16 ‘Leases’: Lease Incentives

  Removed the illustration on the reimbursement relating to leasehold improvements by the lessor to avoid potential confusion as the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in MFRS 16.

  The amendments shall be applied retrospectively for annual periods beginning on or after 1 January 2022. Earlier application is permitted.

(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)

(iii) Amendments to MFRS 116 ‘Property, Plant and Equipment’: Proceeds before Intended Use - effective 1 January 2022

The amendments prohibit an entity from deducting from the cost of a property, plant and equipment (‘PPE’) the proceeds received from selling items produced by the PPE before it is ready for its intended use. The sales proceeds would have met the revenue definition and therefore should be recognised in income statement.

The amendments also clarify that 'testing' in MFRS 116 refers to assessing the technical and physical performance of the PPE rather than its financial performance.

The amendments shall be applied retrospectively to PPE that became available for use on or after the beginning of the earliest period presented in the financial statements when an entity first applies the amendments.

(iv) Amendments to MFRS 137 ‘Provisions, Contingent Liabilities and Contingent Assets’: ‘Onerous Contracts - Cost of Fulfilling a Contract’ - effective 1 January 2022

The amendments clarify that direct costs of fulfilling a contract include both the incremental cost of fulfilling the contract as well as an allocation of other costs directly related to fulfilling contracts. The amendments also clarify that before recognising a separate provision for an onerous contract, impairment loss that has occurred on assets used in fulfilling the contract should be recognised.

The amendments shall be applied retrospectively.

(v) Amendments to MFRS 101 ‘Classification of Liabilities as Current or Non-current’ - effective 1 January 2023

The MFRS 101 classification principle requires an assessment of whether an entity has the substantive right to defer settlement of a liability at the end of the reporting period.

The amendments clarify that when the right to defer settlement is subject to complying with specified conditions, the right only exists at the end of the reporting period if the entity complies with those conditions at that date. The entity must comply with the conditions at the end of the reporting period even if the lender does not test compliance until a later date.

Also, classification is unaffected by the expectations of the entity or events after the reporting date (e.g. waiver obtained or breach of financing covenant).

In addition, the amendments clarify that when a liability could be settled by the transfer of an entity’s own equity instruments (e.g. a conversion option in a convertible bond), the conversion option does not affect the classification of the convertible bond if the option meets the definition of an equity instrument in accordance with MFRS 132 ‘Financial Instruments: Presentation’. Conversion option that is not an equity instrument should therefore be considered in the current or non-current classification of a convertible instrument.

These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies those amendments for an earlier period, it should disclose that fact.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(c) Changes in regulatory requirements

(i) Additional measures issued by Bank Negara Malaysia ('BNM')

On 24 March 2020 and 24 July 2020, BNM announced that the following measures which are aimed to ensure that the financial intermediation function of the financial sector remains intact, access to financing continues to be available and banking institutions remain focused on supporting the economy during the COVID-19 pandemic:

I Moratorium on repayment/payment of financing

(1) Banking institutions to grant an automatic moratorium on all financing repayments covering both principal and profit (except for credit card balances) by individuals and small and medium-sized enterprises ('SMEs') for a period of 6 months effective 1 April 2020. This automatic moratorium is applicable to financing that are not in arrears exceeding 90 days as at 1 April 2020 and denominated in Malaysian Ringgit;

(2) For credit cards, customers shall have the option of converting the outstanding balances into a term financing of a tenure of not more than 3 years and an effective profit rate capped at 13% per annum. For customers who have been unable to meet the minimum repayment for 3 consecutive months, their credit card balances will be automatically converted into a term financing with the abovementioned terms; and

(3) Banking institutions are also strongly encouraged to facilitate requests for a moratorium for corporate borrowers in a way that enables viable corporations to preserve jobs and swiftly resume economic activities.

II Definition of defaulted exposures under the policy documents on Capital Adequacy Framework for Islamic Banks

In applying the definition of defaulted exposures under the above policy to financing for which repayment assistance is extended:

(1) The determination of 'days past due' should be based on the new repayment terms of a financing that has been rescheduled and restructured. Where the repayment terms include a repayment deferral, the determination of days past due should exclude the deferred repayment period;

(2) For financing to individuals or SMEs, a borrower/customer should not be considered to be in default based on 'unlikeliness to repay' at the time the repayment assistance is granted, except where the financing is sold by the banking institution at a material loss or the borrower/customer is subjected to bankruptcy actions; and

(3) For financing to corporates, the assessment of 'unlikeliness to repay' should not be based solely on the borrower/customer taking up an offer of repayment assistance extended by the banking institution but based on a more holistic assessment of all relevant indicators and information available on the corporate borrower/customer.

<u>Regulatory Capital Treatment</u>

The regulatory capital treatment above shall apply to financing denominated in Malaysian Ringgit or foreign currency that meet the following criteria:

(1) The principal or profit, or both, is not in arrears exceeding 90 days as at the date of application for repayment assistance; and

(2) The application for repayment assistance by a borrower/customer is received on or before 30 June 2021.

The regulatory capital treatment would also be applicable to rescheduled and restructured financing that are facilitated by Agensi Kaunseling dan Pengurusan Kredit, the Small Debt Resolution Scheme and the Corporate Debt Restructuring Committee.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(c) Changes in regulatory requirements (continued)

(i) Additional measures issued by Bank Negara Malaysia (‘BNM’) (continued)

III Drawdown of prudential buffers

(1) Banking institutions are given the following relaxation of the prudential buffers, which will need to be restored to the minimum regulatory requirements by 30 September 2021:

- Drawdown of capital conservation buffer of 2.5%;
- Operate below the minimum liquidity coverage ratio (‘LCR’) of 100%; and
- Reduce the regulatory reserves held against expected credit losses to 0%.

(2) The implementation of the Net Stable Funding Ratio (‘NSFR’) will proceed as scheduled on 1 July 2020. However, the minimum NSFR will be lowered to 80% and banking institutions will be required to comply with the requirement of 100% from 30 September 2021.

The adoption of the above additional measures gave rise to the following observations and financial impact:

(1) The financial impact to the Bank as disclosed in Note 29 to the financial statements;

(2) Financing granted with moratorium will not be considered as ‘restructuring and rescheduling’, unless with extended tenure and revising original repayment amount;

(3) The moratorium does not automatically result in stage transfer under MFRS 9 in the absence of other factors relevant to the assessment of whether there has been a significant increase in credit risk. Instead, the Bank will assess other factors, such as historical repayment and delinquency trends before the COVID-19 outbreak, in considering whether the borrower has experienced a significant increase in credit risk; and

(4) The Bank has continued to maintain in aggregate the loss allowance for non-credit impaired exposures and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS

(a) Classification

The Bank classifies its financial assets into the following measurement categories:

- Those to be measured at fair value (either through other comprehensive income (‘OCI’), or through profit or loss; and
- Those to be measured at amortised cost

The classification of debt instruments depends on the Bank’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets:

(i) Business model assessment

The Bank conducts assessment of the objective of a business model to align with how an asset held within a portfolio is being managed. Factors that are being considered include the key objectives of a portfolio whether the business strategy is to earn contractual profit revenue, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising a portfolio through sale of assets. Other factors considered also include the frequency and volume of sales in prior periods, how the asset's performance is evaluated and reported to key management personnel.

(ii) Assessment whether contractual cash flows are solely payments of principal and interest ('SPPI')

Where the business model is to hold the financial assets to collect contractual cash flows, or to collect contractual cash flows and sell, the Bank assesses whether the financial assets’ contractual cash flows represent SPPI. In applying the SPPI test, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. profit includes only consideration for time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

(b) Recognition and derecognition

Financial assets are recognised when the Bank becomes a party to the contractual provisions of the instrument.

Regular way purchases and sales of financial assets are recognised on trade date, the date on which the Bank commits to purchase and sell the assets.

(c) Measurement

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 at 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 SPPI.

(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.

Subsequent measurement of debt instruments depends on the Bank's business model for managing the financial asset and the cash flow characteristics of the financial asset. There are three measurement categories into which the Bank classifies its debt instruments:

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(c) Measurement (continued)

(i) Debt instruments (continued)

(1) Financial investments at amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated as fair value through profit or loss (‘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 through other comprehensive income (‘FVOCI’)

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Changes in the fair value of these assets are recognised in 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 at FVTPL’ in the period in which it arises. The profit income is recognised into income statement using the effective profit rate method.

(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 as 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 at FVTPL’ in the income statement.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(d) Derecognition

(i) Derecognition due to modification of terms and conditions

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

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced, such as a profit share or equity-based return that substantially affects the risk profile of the financing;
- Significant extension of the financing term when the borrower is not in financial difficulty;
- Significant change in the profit rate;
- Change in the currency the financing is denominated in; and
- Insertion of collaterals, other securities or credit enhancements that significantly affect the credit risk associated with the financing.

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

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

(ii) Derecognition other than modification of terms and conditions

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 transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

Collateral furnished by the Bank under repurchase agreements are not derecognised as the Bank retains substantially all risks and rewards on the basis of the pre-determined repurchase price, and hence the criteria for derecognition are not met.

(e) 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 FVTPL, or equity instruments that have been designated as FVOCI even when there is a change in business model. Such designations are irrevocable.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 profit expense respectively on an effective yield method.

(4) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

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 at the end of each reporting period. 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. Changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the income statement. 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 hedging transaction, the risk management objective and strategy and the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items.

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for in profit or loss at the time of the hedge relationship rebalancing.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 10 to the financial statements.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(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.

The Bank applies fair value hedge accounting for hedging fixed profit risk on financing and advances and financial assets at FVOCI. The gain or loss relating to the effective portion of profit rate swaps hedging fixed rate financing and advances are recognised in income statement within other operating income. The gain or loss relating to the ineffective portion is recognised in income statement within net gain or loss on fair value hedges.

For fair value hedge of financial assets designated as FVOCI, any changes in fair value of the hedged financial assets FVOCI are recycled from FVOCI reserves to income statement, while the changes in fair value of the derivatives that is related to the effective portion of the hedge is recognised in income statement within other operating income. The ineffective portion of the aforesaid hedging derivatives is recognised in income statement with net gain or loss on fair value changes of derivatives.

For financial instruments measured at amortised cost, 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 other operating income. EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

(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 2020 (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 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 19 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 19 on impairment of non-financial assets.

(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) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(7) FINANCIAL LIABILITIES (CONTINUED)

(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, bills and acceptances payable, recourse obligation on financing sold to Cagamas, lease liabilities 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.

(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 18 to the financial statements.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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) LEASES - WHERE THE BANK IS THE LESSEE

The Bank recognises leases as right of use ('ROU') asset, with a corresponding liability at the date on which the leased asset is available for use (i.e. the commencement date).

Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

(a) Lease term

In determining the lease term, the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not to be terminated).

The Bank reassesses the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Bank, and affects whether the Bank is reasonably certain to exercise an option not previously included in the determination of lease term, or not to exercise an option previously included in the determination of lease term. A revision in lease term results in remeasurement of the lease liabilities (refer to (d) below).

(b) ROU assets

ROU assets are initially measured at cost comprising the following:
- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentive received;
- any initial direct costs; and
- decommissioning or restoration costs.

ROU assets that are not investment properties are subsequently measured at cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life. In addition, the ROU assets are adjusted for certain remeasurement of the lease liabilities.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(10) LEASES - WHERE THE BANK IS THE LESSEE (CONTINUED)

(c) Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. The lease payments include the following:

- fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Bank under residual value guarantees;
- the exercise price of a purchase and extension options if the Bank is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

Lease payments are discounted using the profit rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, the lessee’s incremental borrowing is used. This is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU in a similar economic environment with similar term, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to income statement over the lease period so as to produce a constant periodic rate of profit on the remaining balance of the liability for each period.

Variable lease payments that depend on sales are recognised in income statement in the period in which the condition that triggers those payments occurs.

The Bank presents the lease liabilities as a separate line item in the statement of financial position. Finance expense on the lease liability is presented within the other finance expenses in the income statement.

(d) Reassessment of lease liabilities

The Bank is also exposed to potential future increases in variable lease payments that depend on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is remeasured and adjusted against the ROU assets.

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

Short term leases are leases with a lease term of 12 months or less. Low-value assets comprise information technology equipment and small items of office furniture. Payments associated with short term leases of information technology and all leases of low-value assets are recognised on a straight-line basis as an expense in income statement.

(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.

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’ 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.

(13) GOVERNMENT GRANTS

Financing under a government scheme is recognised and measured in accordance with MFRS 9 ‘Financial Instruments’, with the benefit at below market rate, which is measured as the difference between the initial carrying amount or fair value of the financing and the amount received.

Financial contribution under a government scheme is measured in accordance with the amount received. The benefit of a financing under a government scheme or a financial contribution under a government scheme that addresses identified costs or expenses incurred by the Bank is recognised in the income statement in the same financial period when the costs or expenses are recognised, when the required conditions are fulfilled in accordance with MFRS 120 ‘Accounting for Government Grants and Disclosure of Government Assistance’.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(14) 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.

(15) 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.

(16) 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)

(17) REVENUE RECOGNITION

(a) Profit income is recognised using the effective profit rate 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).

<u>Bai’ Bithaman Ajil</u>
A contract of sale of an asset in which the payment of price is deferred either to 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.

<u>Ijarah</u>
A contract that transfers ownership of a permitted usufruct and/or service for a specified period in exchange for a specified consideration. The Bank is the owner of the assets throughout the tenure of the ijarah financing.

<u>Murabahah</u>
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.

<u>Musyarakah</u>
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.

<u>Bai'Inah</u>
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 drawndown 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 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)

(18) IMPAIRMENT OF FINANCIAL ASSETS

Under MFRS 9, impairment model requires the recognition of expected credit loss ('ECL') 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.

The general approach is adopted by the Bank. 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.

(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.

<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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(18) IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

Significant increase in credit risk ('SICR') (continued)

(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.

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-month 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-month 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 consideration through structured management overlays have been considered and reflected to ensure adequacy of ECL. The structured management overlays are subject to robust review and governance process.

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

(19) 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. The Bank also assess intangible assets with indefinite useful life and other assets that are subject to amortisation 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 income statement.

(20) 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.

(21) 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.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(22) 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 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 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, are included in other comprehensive income.

(23) 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.

(24) 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 statement of financial position 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 44(g)(i) to the financial statements.

(2) Allowance for expected credit losses

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, private consumption, unemployment rates, inflation and KLIBOR-3M 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 reviewed regularly.

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;
(iv) Establishing groups of similar financial assets for the purposes of measuring ECL; and
(v) Identifying and calculating adjustments to model output (model overlay adjustments).

(B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

(2) Allowance for expected credit losses (continued)

The impact of the COVID-19 pandemic remains uncertain and represents a material downside risk to the economy. While the methodologies and assumptions applied in the base ECL calculations remained unchanged, the Bank has incorporated the following estimates, assumptions and judgements specific to the impact of the COVID-19 pandemic and the associated support packages in the measurement of ECL:

- Forward looking macro-economic information and assumptions relating to the COVID-19 pandemic have been considered, including potential impacts of the COVID-19 pandemic, recognising uncertainty still exists in relation to the duration of the COVID-19 pandemic-related restrictions, the anticipated impact of government stimulus and regulatory actions.

  The sensitivity effect on the macroeconomic factor is further disclosed in Note 44(f)(vii) to the financial statements;

- When determining whether the risk of default has increased significantly since initial recognition, both quantitative and qualitative information is considered, including expert credit assessment, forward looking information and analysis based on the Bank's historical loss experience;

- Consistent with industry guidance, customer support payment deferrals as part of the COVID-19 pandemic moratorium packages, by itself, will not result in a significant increase in credit risk, and therefore will not trigger an automatic migration from stage 1 (12-month ECL) to stage 2 (lifetime ECL) in the credit impairment provision for such financing; and

- As the current MFRS 9 models are not expected to generate levels of ECL to cater for the unprecedented and on-going COVID-19 pandemic due to lack of actual historical loss experiences, overlays and post-model adjustments of RM140 million for the Bank have been applied to determine a sufficient overall level of ECLs for the year ended and as at 31 December 2020.

  These overlays and post-model adjustments were taken to reflect the latest macroeconomic outlook not captured in the modelled outcome and the potential impact to delinquencies and defaults when the various relief and support measures are expiring in 2021.

  The overlays and post-model adjustments involved significant level of judgement and reflect the management's views of possible severities of the pandemic and paths of recovery in the forward looking assessment for ECL estimation purposes.

  The borrowers and customers who have received repayment supports remain in their existing stages unless they have been individually identified as not viable or with subsequent indicators of significant increase in credit risk from each of their pre-COVID-19 status. The overlays and post-model adjustments were generally made at retail and non-retail portfolios level in determining the sufficient level of ECLs to cater for potential deterioration in credit risk due to COVID-19.

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 24 February 2021.

2 CASH AND SHORT-TERM FUNDS

	2020	2019
	RM'000	RM'000
Cash and balances with banks and other financial institutions	**182,693**	242,439
Money at call and deposit placements maturing within one month	**2,079,761**	3,809,957
	2,262,454	4,052,396

3 SECURITIES PURCHASED UNDER RESALE AGREEMENTS

	2020	2019
	RM'000	RM'000
Malaysian Government Investment Issues	**3,767,531**	1,724,107

4 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2020	2019
	RM'000	RM'000
Licensed Islamic banks	**478,762**	36,886
BNM	**1,931,457**	-
	2,410,219	36,886

5 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ('FVTPL')

	2020	2019
	RM'000	RM'000
Mandatory measured at fair value		
Money market instruments:		
Malaysian Government Investment Issues	**107,678**	207,145

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ('FVOCI')

	2020	2019
	RM'000	RM'000
At fair value		
Debt instruments	**6,409,937**	5,118,305
Money market instruments:		
Malaysian Government Investment Issues	**1,714,309**	1,451,776
Islamic Cagamas bonds	**10,156**	10,226
Negotiable Islamic debt certificates	**397,744**	149,537
Unquoted securities:		
In Malaysia		
Corporate sukuk	**4,287,728**	3,481,186
Outside Malaysia		
Corporate sukuk	**-**	25,580
	6,409,937	5,118,305

Movement in allowance for credit losses recognised in FVOCI reserve

	12-month ECL (Stage 1)	**Lifetime ECL not credit impaired (Stage 2)**	**Lifetime ECL credit impaired (Stage 3)**	**Total**
2020	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Balance as at the beginning of the financial year	**2,395**	**-**	**-**	**2,395**
Allowance written back during the financial year	**(394)**	**-**	**-**	**(394)**
Balance as at the end of the financial year	**2,001**	**-**	**-**	**2,001**
2019				
Balance as at the beginning of the financial year	5,090	307	-	5,397
Allowance written back during the financial year	(2,695)	(307)		(3,002)
Balance as at the end of the financial year	2,395	-	-	2,395

7 FINANCIAL INVESTMENTS AT AMORTISED COST

	2020	2019
	RM'000	RM'000
At amortised cost		
Money market instruments:		
Malaysian Government Investment Issues	**389,129**	167,390
Sukuk Perumahan Kerajaan	**10,031**	10,014
Islamic Khazanah bonds	**145,214**	94,424
Unquoted securities:		
In Malaysia		
Corporate sukuk	**4,037,396**	3,141,013
	4,581,770	3,412,841
Allowance for credit losses	**(4,692)**	(5,371)
	4,577,078	3,407,470

Included in financial investments at amortised cost are exposures to RIA as part of arrangement between the Bank and its holding company, RHB Bank.

As at 31 December 2020, the gross exposure to RIA financing is RM811,775,000 (2019: RM811,775,000) and the portfolio expected credit losses for financial investments at amortised cost relating to RIA amounting to RM220,170,000 (2019: RM149,446,000) is recognised in the financial statements of RHB Bank.

Movement in allowance for credit losses

2020	**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	**5,182**	**189**	**-**	**5,371**
Allowance written back during the financial year	**(625)**	**(54)**	**-**	**(679)**
Balance as at the end of the financial year	**4,557**	**135**	**-**	**4,692**
2019				
Balance as at the beginning of the financial year	3,897	2,253	-	6,150
Allowance made/(written back) during the financial year	1,285	(2,064)	-	(779)
Balance as at the end of the financial year	5,182	189	-	5,371

RHB ISLAMIC BANK BERHAD
(Incorporated in Malaysia)
Registration No. 200501003283 (680329-V)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

8 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
(i) By type and Shariah concepts							
2020							
At amortised cost							
Cashline	-	-	825,982	-	-	30,384	856,366
Term financing:							
- Housing financing	310,409	-	7,775,856	13,081,273	-	1,905	21,169,443
- Syndicated term financing	-	-	3,048,044	-	-	19,181	3,067,225
- Hire purchase receivables	-	8,539,853	-	-	-	58,646	8,598,499
- Other term financing	670	114,631	29,459,785	-	-	3,419	29,578,505
Bills receivables	-	-	386,964	-	-	-	386,964
Trust receipts	-	-	37,079	-	-	-	37,079
Claims on customers under acceptance credits	-	-	764,298	-	-	-	764,298
Share margin financing	-	-	2,546	-	-	-	2,546
Staff financing	1,521	-	9,420	-	-	-	10,941
Credit/charge card receivables	-	-	-	-	-	273,966	273,966
Revolving financing	-	-	2,464,088	-	-	-	2,464,088
Gross financing and advances	312,600	8,654,484	44,774,062	13,081,273	-	387,501	67,209,920
Fair value changes arising from fair value hedge							109,684
							67,319,604
Allowance for credit losses on financing and advances							(531,260)
Net financing and advances							66,788,344

* The Bank is the owner of the asset throughout the tenure of the ijarah financing. The ownership of the asset will be transferred to the customer via sale at the end of the Ijarah financing.

8 FINANCING AND ADVANCES (CONTINUED)

(i) By type and Shariah concepts (continued)

2019

At amortised cost

	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
Cashline	-	-	822,018	-	-	25,578	847,596
Term financing:							
- Housing financing	337,097	-	5,290,921	12,728,973	-	936	18,357,927
- Syndicated term financing	-	-	3,168,936	-	-	19,166	3,188,102
- Hire purchase receivables	-	7,666,322	-	-	-	56,705	7,723,027
- Other term financing	705	144,370	23,999,988	-	1,509,993	2,751	25,657,807
Bills receivables	-	-	147,779	-	-	-	147,779
Trust receipts	-	-	29,100	-	-	-	29,100
Claims on customers under acceptance credits	-	-	762,992	-	-	-	762,992
Staff financing	1,928	-	4,781	-	-	-	6,709
Credit/charge card receivables	-	-	-	-	-	293,523	293,523
Revolving financing	-	-	3,555,898	-	-	-	3,555,898
Gross financing and advances	339,730	7,810,692	37,782,413	12,728,973	1,509,993	398,659	60,570,460
Fair value changes arising from fair value hedge							34,139
							60,604,599
Allowance for credit losses on financing and advances							(341,053)
Net financing and advances							60,263,546

* The Bank is the owner of the asset throughout the tenure of the ijarah financing. The ownership of the asset will be transferred to the customer via sale at the end of the Ijarah financing.

Certain comparative balances have been reclassified to conform to current year's presentation which more accurately reflects the type of financing and advances.

8 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 2020, the gross exposures to RIA financing is RM7,917,534,000 (2019: RM7,320,301,000) and the portfolio expected credit losses for financing and advances relating to RIA amounting to RM164,445,000 (2019: RM117,930,000) is recognised in the financial statements of RHB Bank.

(b) Included in term financing are housing financing sold to Cagamas amounting to RM2,896,091,000 (2019: RM2,139,650,000).

	2020	2019
	RM'000	RM'000
(ii) By type of customer		
Domestic non-bank financial institutions:		
- Others	**2,664,899**	2,320,347
Domestic business enterprises:		
- Small medium enterprises	**5,317,492**	4,627,413
- Others	**13,963,090**	14,552,585
Government and statutory bodies	**6,447,168**	5,093,705
Individuals	**38,441,528**	33,508,427
Other domestic entities	**121,727**	122,341
Foreign entities	**254,016**	345,642
	67,209,920	60,570,460
(iii) By profit rate sensitivity		
Fixed rate:		
- Housing financing	**1,521**	1,928
- Hire purchase receivables	**1,544,122**	2,245,851
- Other fixed rate financing	**10,764,142**	9,126,260
Variable rate:		
- Base financing rate-plus	**36,457,513**	30,310,250
- Cost-plus	**18,247,514**	18,768,043
- Other variable rates	**195,108**	118,128
	67,209,920	60,570,460
(iv) By economic sector		
Agriculture, hunting, forestry and fishing	**1,447,001**	1,389,917
Mining and quarrying	**114,934**	105,200
Manufacturing	**2,079,858**	1,949,183
Electricity, gas and water	**226,175**	213,850
Construction	**4,853,654**	4,802,590
Wholesale and retail trade and restaurant and hotel	**2,177,615**	1,843,689
Transport, storage and communication	**5,212,091**	5,036,663
Finance, insurance, real estate and business services	**5,684,002**	5,871,291
Government and government agencies	**3,432,112**	3,583,712
Education, health and others	**3,330,492**	1,919,904
Household sector	**38,608,107**	33,692,323
Others	**43,879**	162,138
	67,209,920	60,570,460

8 FINANCING AND ADVANCES (CONTINUED)

	2020	2019
	RM'000	RM'000
(v) By purpose		
Purchase of securities	**5,288,201**	4,335,604
Purchase of transport vehicles	**8,556,880**	7,686,652
Purchase of landed property:		
- Residential	**20,007,111**	17,302,952
- Non-residential	**5,101,564**	4,500,893
Purchase of property, plant and equipment other than land and building	**614,675**	542,927
Personal use	**4,607,262**	4,184,378
Credit card	**273,966**	293,523
Construction	**1,117,589**	1,491,230
Working capital	**14,660,736**	11,698,617
Merger and acquisition	**1,314,861**	1,400,917
Other purposes	**5,667,075**	7,132,767
	67,209,920	60,570,460
(vi) By geographical distribution		
Malaysia	**67,209,920**	60,570,460
(vii) By remaining contractual maturities		
Maturing within one year	**6,082,032**	8,882,449
One to three years	**4,077,510**	2,069,216
Three to five years	**7,105,019**	8,648,635
Over five years	**49,945,359**	40,970,160
	67,209,920	60,570,460

(viii) By stages

2020	**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	**56,946,209**	**3,158,082**	**466,169**	**60,570,460**
Transfer to 12-month ECL (Stage 1)	**986,132**	**(970,214)**	**(15,918)**	**-**
Transfer to lifetime ECL not credit impaired (Stage 2)	**(3,731,627)**	**3,774,252**	**(42,625)**	**-**
Transfer to lifetime ECL credit impaired (Stage 3)	**(84,232)**	**(92,333)**	**176,565**	**-**
Purchases and origination	**18,516,801**	**1,156,665**	**26,127**	**19,699,593**
Derecognition	**(11,820,661)**	**(734,617)**	**(104,208)**	**(12,659,486)**
Amount written off	**-**	**-**	**(70,664)**	**(70,664)**
Modification of contractual cash flows	**(309,103)**	**(20,641)**	**(239)**	**(329,983)**
Balance as at the end of the financial year	**60,503,519**	**6,271,194**	**435,207**	**67,209,920**

8 FINANCING AND ADVANCES (CONTINUED)

(viii) By stages (continued)

	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
2019				
Balance as at the beginning of the financial year	48,594,946	3,150,068	509,183	52,254,197
Transfer to 12-month ECL (Stage 1)	1,033,147	(1,014,625)	(18,522)	-
Transfer to lifetime ECL not credit impaired (Stage 2)	(1,323,264)	1,394,461	(71,197)	-
Transfer to lifetime ECL credit impaired (Stage 3)	(112,901)	(96,746)	209,647	-
Purchases and origination	18,625,426	735,404	46,347	19,407,177
Derecognition	(9,871,145)	(1,010,480)	(99,603)	(10,981,228)
Amount written off	-	-	(109,686)	(109,686)
Balance as at the end of the financial year	56,946,209	3,158,082	466,169	60,570,460

(ix) Impaired financing and advances

	2020 RM'000	2019 RM'000
(a) By economic sector		
Agriculture, hunting, forestry and fishing	**359**	1,527
Mining and quarrying	**13**	873
Manufacturing	**23,644**	25,226
Electricity, gas and water	**3,805**	20,768
Construction	**43,907**	47,860
Wholesale and retail trade and restaurant and hotel	**47,882**	42,870
Transport, storage and communication	**14,429**	13,661
Finance, insurance, real estate and business services	**33,676**	27,575
Education, health and others	**6,888**	6,813
Household sector	**260,518**	278,996
Others	**86**	-
	435,207	466,169
(b) By purpose		
Purchase of securities	**677**	366
Purchase of transport vehicles	**51,713**	52,669
Purchase of landed property:		
- Residential	**190,461**	208,043
- Non-residential	**64,686**	69,180
Purchase of property, plant and equipment other than land and building	**3,230**	6,015
Personal use	**7,485**	10,303
Credit card	**3,610**	3,604
Working capital	**78,506**	85,939
Other purposes	**34,839**	30,050
	435,207	466,169
(c) By geographical distribution		
Malaysia	**435,207**	466,169

8 FINANCING AND ADVANCES (CONTINUED)

(ix) Impaired financing and advances (continued)

(d) Movement in allowance for credit losses

	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
2020				
Balance as at the beginning of the financial year	**67,562**	**99,609**	**173,882**	**341,053**
Changes due to financial assets recognised in the opening balance that have been:				
- Transferred to 12-month ECL (Stage 1)	**29,383**	**(24,092)**	**(5,291)**	**-**
- Transferred to lifetime ECL not credit impaired (Stage 2)	**(8,766)**	**21,718**	**(12,952)**	**-**
- Transferred to lifetime ECL credit impaired (Stage 3)	**(266)**	**(3,841)**	**4,107**	**-**
	20,351	**(6,215)**	**(14,136)**	**-**
Allowance made during the financial year	**77,605**	**107,516**	**91,163**	**276,284**
Bad debts written off	**-**	**-**	**(41,550)**	**(41,550)**
Derecognition	**(8,882)**	**(5,891)**	**(29,754)**	**(44,527)**
Balance as at the end of the financial year	**156,636**	**195,019**	**179,605**	**531,260**
2019				
Balance as at the beginning of the financial year	73,615	116,254	233,219	423,088
Changes due to financial assets recognised in the opening balance that have been:				
- Transferred to 12-month ECL (Stage 1)	31,585	(25,017)	(6,568)	-
- Transferred to lifetime ECL not credit impaired (Stage 2)	(5,332)	18,178	(12,846)	-
- Transferred to lifetime ECL credit impaired (Stage 3)	(483)	(3,649)	4,132	-
	25,770	(10,488)	(15,282)	-
Allowance made/(written back) during the financial year	(20,935)	13,448	66,258	58,771
Bad debts written off	-	-	(84,924)	(84,924)
Derecognition	(8,260)	(15,501)	(25,389)	(49,150)
Changes to model methodologies	(2,628)	(4,104)	-	(6,732)
Balance as at the end of the financial year	67,562	99,609	173,882	341,053

Included in allowance for credit losses for the Bank as at 31 December 2020 is expected credit losses for financing commitments and financial guarantee contracts amounting to RM11,390,000 (2019: RM11,474,000).

9 OTHER ASSETS

	2020	2019
	RM'000	RM'000
Prepayments	**27,588**	26,794
Deposits	**1,535**	1,527
Other receivables	**291,862**	240,639
	320,985	268,960

10 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.

	2020	2019
	RM'000	RM'000
Derivative assets:		
- Trading derivatives	**215,971**	130,688
- Fair value hedging derivatives	**8**	-
	215,979	130,688
Derivative liabilities:		
- Trading derivatives	**216,937**	140,924
- Fair value hedging derivatives	**120,992**	42,544
	337,929	183,468

10 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
2020			
Trading derivatives:			
Foreign exchange related contracts:			
- Forwards	**13,431,890**	**162,905**	**164,171**
- Cross currency profit rate swaps	**1,784,868**	**51,313**	**51,019**
Profit rate related contracts:			
- Swaps	**340,225**	**1,753**	**1,747**
Fair value hedging derivatives:			
Profit rate related contracts:			
- Swaps	**3,800,000**	**8**	**120,992**
		215,979	**337,929**
2019			
Trading derivatives:			
Foreign exchange related contracts:			
- Forwards	9,306,109	83,853	94,355
- Cross currency profit rate swaps	2,353,426	46,337	45,836
Profit rate related contracts:			
- Swaps	436,015	498	733
Fair value hedging derivatives:			
Profit rate related contracts:			
- Swaps	1,500,000	-	42,544
		130,688	183,468

10 DERIVATIVE ASSETS/(LIABILITIES) (CONTINUED)

Fair value hedges are 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, portfolio homogenous pools of financing and advances and financial assets measured at FVOCI.

The Bank's hedge accounting policy only allows for effective hedge relationship to be established. Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessment to ensure that an economic relationship exists between the hedged item and hedging instrument. The Bank determines whether an economic relationship exists between hedged item and the hedging instrument by considering qualitative characteristics of these items and wherever necessary, supported by quantitative analysis. Under qualitative assessment, the Bank will perform assessment by comparing the changes in the fair value of the hedge to changes in the fair value of the hypothetical derivative.

Only the profit rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Bank. The profit rate risk component is determined as the changes in fair value of long-term fixed rate financial investment (e.g. bonds, financing and advances) arising from changes in benchmarks rates such as 3-month KLIBOR rate. Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed with reference to the effectiveness requirements as set out in MFRS 9, which include demonstrating economic relationship, assessing the effect of credit risk and calculating hedge ratio.

The Bank establishes the hedge ratio by aligning the principal amount of the hedged instrument to the extent of its hedged item.

The Bank has identified the following possible sources of ineffectiveness:

i. Counterparty credit risk which impact the fair value of the profit rate swaps but not the hedged items; or
ii. Mismatches in terms of the hedged items and hedging instruments such as voluntary discontinuance, maturity date and disposal of hedged item.

The following table sets out the maturity profile and average price of the hedging instruments used in fair value hedges:

	2020		2019	
	Nominal amount	**Average fixed profit rate**	Nominal amount	Average fixed profit rate
	RM'000	**%**	RM'000	%
Profit rate related contracts				
1 to 5 years	**1,685,000**	**3.46%**	1,000,000	3.93%
More than 5 years	**2,115,000**	**2.70%**	500,000	3.97%
	3,800,000		1,500,000	

10 DERIVATIVE ASSETS/(LIABILITIES) (CONTINUED)

The amounts relating to items designated as hedging instruments are as follows:

	2020	2019
	RM'000	RM'000
Profit rate swaps		
Nominal amount	**3,800,000**	1,500,000
Fair value assets	**8**	-
Fair value liabilities	**120,992**	42,544
Hedge effectiveness recognised in income statement	**(73,056)**	(36,674)

The amounts relating to items designated as hedged items are as follows:

	2020			2019		
	Carrying value	**Fair value hedge adjustments***	**Hedge effectiveness recognised in income statement**	Carrying value	Fair value hedge adjustments*	Hedge effectiveness recognised in income statement
	RM'000	**RM'000**	**RM'000**	RM'000	RM'000	RM'000
Fixed rate financing and advances	**3,311,726**	**109,684**	**71,770**	1,540,486	37,915	33,356
Financial assets at FVOCI	**537,757**	**3,228**	**3,227**	-	-	-
	3,849,483	**112,912**	**74,997**	1,540,486	37,915	33,356

* All hedging instruments are included in derivative assets and liabilities line items in the statement of financial position.

Included in other operating income is the net gain and loss arising from fair value hedges as follows:

	2020	2019
	RM'000	RM'000
Loss on hedging instruments	**(73,056)**	(36,674)
Gain on hedged items attributable to the hedged risk	**74,997**	33,356
	1,941	(3,318)

11 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.

12 DEFERRED TAX ASSETS/(LIABILITIES)

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:

	2020	2019
	RM'000	RM'000
Deferred tax assets	**6,794**	-
Deferred tax liabilities	**-**	(25,421)
	6,794	(25,421)
Deferred tax assets:		
- Settled more than twelve months	**27,493**	4,542
- Settled within twelve months	**50,674**	7,526
Deferred tax liabilities:		
- Settled more than twelve months	**(71,225)**	(37,151)
- Settled within twelve months	**(148)**	(338)
	6,794	(25,421)

12 DEFERRED TAX ASSETS/(LIABILITIES) (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 and right of use assets RM'000	Financial assets at FVOCI RM'000	Expected credit losses RM'000	Provisions RM'000	Total RM'000
2020							
Balance as at the beginning of the financial year		**(338)**	**260**	**(37,151)**	**6,208**	**5,600**	**(25,421)**
Transfer (to)/from income statement	35	**(28)**	**(21)**	**-**	**32,811**	**33,309**	**66,071**
Transfer to equity		**-**	**-**	**(33,856)**	**-**	**-**	**(33,856)**
Balance as at the end of the financial year		**(366)**	**239**	**(71,007)**	**39,019**	**38,909**	**6,794**
2019							
Balance as at the beginning of the financial year		(258)	424	1,102	13,070	8,937	23,275
Transfer to income statement	35	(80)	(164)	-	(6,862)	(3,337)	(10,443)
Transfer to equity		-	-	(38,253)	-	-	(38,253)
Balance as at the end of the financial year		(338)	260	(37,151)	6,208	5,600	(25,421)

13 RIGHT OF USE ASSETS

	Note	**2020**	2019
		RM'000	RM'000
Properties			
Balance as at the beginning of the financial year		**2,924**	5,893
Additions during the year		**4,950**	372
Depreciation charge for the financial year	33	**(3,116)**	(3,341)
Modification		**(8)**	-
Balance as at the end of the financial year		**4,750**	2,924

14 PROPERTY, PLANT AND EQUIPMENT

	Note	Renovations	Office equipment and furniture	Computer equipment	Motor vehicles	Total
		RM'000	RM'000	RM'000	RM'000	RM'000
2020						
Cost						
Balance as at the beginning of the financial year		17,292	8,449	11,501	1,461	38,703
Additions		254	70	319	288	931
Disposals		-	(84)	-	-	(84)
Written off		-	-	(61)	-	(61)
Balance as at the end of the financial year		17,546	8,435	11,759	1,749	39,489
Less: Accumulated depreciation						
Balance as at the beginning of the financial year		14,491	7,783	11,251	1,199	34,724
Charge for the financial year	33	625	128	131	82	966
Disposals		-	(84)	-	-	(84)
Written off		-	-	(61)	-	(61)
Balance as at the end of the financial year		15,116	7,827	11,321	1,281	35,545
Net book value as at the end of the financial year		2,430	608	438	468	3,944

14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Renovations	Office equipment and furniture	Computer equipment	Motor vehicles	Total
		RM'000	RM'000	RM'000	RM'000	RM'000
2019						
Cost						
Balance as at the beginning of the financial year		16,909	8,581	11,478	1,149	38,117
Transfer from a related company		-	3	15	-	18
Additions		383	263	158	312	1,116
Disposals		-	-	(3)	-	(3)
Written off		-	(398)	(147)	-	(545)
Balance as at the end of the financial year		17,292	8,449	11,501	1,461	38,703
Less: Accumulated depreciation						
Balance as at the beginning of the financial year		13,672	8,018	11,072	1,104	33,866
Transfer from a related company		-	1	13	-	14
Charge for the financial year	33	819	162	316	95	1,392
Disposals		-	-	(3)	-	(3)
Written off		-	(398)	(147)	-	(545)
Balance as at the end of the financial year		14,491	7,783	11,251	1,199	34,724
Net book value as at the end of the financial year		2,801	666	250	262	3,979

15 INTANGIBLE ASSETS

	Note	2020 RM'000	2019 RM'000
Computer software license			
Cost			
Balance as at the beginning of the financial year		**17,839**	17,396
Transfer from a related company		**-**	6
Additions		**525**	437
Balance as at the end of the financial year		**18,364**	17,839
Less: Accumulated amortisation			
Balance as at the beginning of the financial year		**14,206**	12,867
Transfer from a related company		**-**	5
Charge for the financial year	33	**1,025**	1,334
Balance as at the end of the financial year		**15,231**	14,206
Net book value as at the end of the financial year		**3,133**	3,633

16 DEPOSITS FROM CUSTOMERS

	2020 RM'000	2019 RM'000
Savings Deposits:		
- Qard	**2,094,100**	1,546,038
Demand Deposits:		
- Qard	**5,981,871**	4,922,269
- Commodity Murabahah	**1,464,521**	899,010
Term Deposits:		
- Commodity Murabahah	**42,962,476**	39,937,853
Specific Investment Account:		
- Commodity Murabahah	**8,289,588**	7,011,168
General Investment Account:		
- Mudharabah	**37,619**	100,632
	60,830,175	54,416,970

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

	2020 RM'000	2019 RM'000
Due within six months	**37,638,943**	30,039,231
Six months to one year	**12,325,774**	15,563,054
One year to three years	**909,096**	964,180
Three years to five years	**415,870**	483,188
	51,289,683	47,049,653

(b) By type of customer

	2020 RM'000	2019 RM'000
Government and statutory bodies	**13,311,167**	10,093,920
Business enterprises	**26,275,936**	25,315,576
Individuals	**20,612,596**	18,615,758
Others	**630,476**	391,716
	60,830,175	54,416,970

17 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Note	**2020**	2019
		RM'000	RM'000
Non-Mudharabah Funds:			
- Licensed Islamic banks		**948,447**	996,510
- Licensed banks		**5,882,079**	3,733,753
- Licensed investments banks		**149,675**	299,320
- BNM	(a)	**121,750**	59,360
		7,101,951	5,088,943
Mudharabah Funds:			
- Other financial institutions		**22,144**	20,918
		7,124,095	5,109,861

(a) Included in deposits and placements by BNM is an amount received under the Government scheme as part of the COVID-19 relief measures for the purpose of financing to SMEs at a concessionary rate and with a six-year maturity to be repaid in June 2026.

18 INVESTMENT ACCOUNT DUE TO DESIGNATED FINANCIAL INSTITUTIONS

	2020	2019
	RM'000	RM'000
Mudharabah Restricted Investment Account		
Funding inflows/(outflows) - Principal (Note a):		
Balance as at the beginning of the financial year	**8,132,076**	7,816,702
New placement during the financial year	**1,250,000**	846,600
Redemption during the financial year	**(652,767)**	(531,226)
Balance as at the end of the financial year	**8,729,309**	8,132,076
Profit attributable to investment account holders - Total profit payable:		
Balance as at the beginning of the financial year	**97,258**	81,909
Profit distributed to investment account holders during the financial year	**288,753**	339,436
Profit paid to investment account holders during the financial year	**(274,462)**	(324,087)
Balance as at the end of the financial year	**111,549**	97,258
Net balance as at the end of the financial year	**8,840,858**	8,229,334

(a) Investment asset (principal):

	2020	2019
- Personal financing (Note 8(i)(a))	**1,000,000**	1,000,000
- Other term financing (Note 8(i)(a))	**6,917,534**	6,320,301
- Unquoted securities (Note 7)	**811,775**	811,775
- Total investment	**8,729,309**	8,132,076

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

(b) By type of counterparty

	2020	2019
- Licensed banks	**8,840,858**	8,229,334

(c) Profit sharing ratio and rate of return

	Average profit sharing ratio %	**Average rate of return per annum %**
2020		
- Below one year	**69**	**2.98**
- Between one to two years	**88**	**5.67**
- Between two to five years	**83**	**3.19**
- More than five years	**88**	**3.90**
2019		
- Below one year	83	3.69
- Between one to two years	89	5.90
- Between two to five years	81	4.23
- More than five years	88	4.39

19 OTHER LIABILITIES

	Note	**2020** RM'000	2019 RM'000
Sundry creditors		**7,959**	12,964
Amount due to holding company	(a)	**263,326**	431,027
Amounts due to other related companies	(a)	**876**	260
Contract liability	(b)	**141,946**	7,154
Short term employee benefits		**5,306**	5,907
Accrual for operational expenses		**13,722**	9,537
Other accruals and payables	(c)	**352,681**	461,993
		785,816	928,842

(a) Included in amount due to holding company is an amount of RM114.9 million relating to part of COVID-19 Government relief measures that has been channelled from BNM to the Bank through RHB Bank, for the purpose of financing to SMEs at a concessionary rate and with a six-year maturity to be repaid in June 2026.

Other than the above, the remaining amount due to holding company and amounts due to other related companies are unsecured, non-profit bearing and repayable within the normal credit period.

(b) Contract liability represents the recognition of bancatakaful fee income. The Bank has on 28 July 2020, signed a new Bancatakaful agreement and received an advanced fee of RM151 million as disclosed in Note 46(a). During the current financial year, an amount of RM16,209,000 has been recognised in the income statement.

(c) Included in the other accruals and payables is undistributed charity funds amounting to RM73,000 (2019: RM83,000). The funds are sourced from ta'widh (late payment charges).

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

	2020 RM'000	2019 RM'000
Undistributed funds as at the beginning of the financial year	**83**	88
Uses of funds during the year:		
Contribution to non-profit organisation	**(10)**	(5)
Undistributed funds as at the end of the financial year	**73**	83

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 from the statement of financial position.

21 PROVISION FOR TAXATION AND ZAKAT

	2020 RM'000	2019 RM'000
Tax expense	**48,416**	30,984
Zakat	**4,132**	5,041
	52,548	36,025

22 LEASE LIABILITIES

	2020 RM'000	2019 RM'000
Lease liabilities	**4,840**	3,040
Scheduled repayment of lease liabilities:		
- Within one year	**2,327**	2,179
- One year to three years	**2,513**	861
	4,840	3,040

23 SUBORDINATED OBLIGATIONS

	2020 RM'000	2019 RM'000
4.88% RM250 million Tier II Subordinated Sukuk Murabahah 2017/2027	**252,206**	252,139
4.32% RM500 million Tier II Subordinated Sukuk Murabahah 2019/2029	**502,308**	502,426
	754,514	754,565

As at statement of financial position date, the Bank has put in place a RM5 billion Subordinated Sukuk Murabahah programme. The details of the issuance to date are as follows:

Tranche	Principal RM'million	Maturity date	Profit rate	Profit payment
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
2019/2029	500	21 May 2029 (Callable in 2024)	4.32% per annum chargeable to 21 May 2029	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 2020 and 2019.

24 SHARE CAPITAL

	2020	2019
	RM'000	RM'000
Issued and fully paid:		
Balance as at the beginning/end of the financial year	**1,673,424**	1,673,424

There were no issue of shares in the Bank during the current financial year.

25 RESERVES

	Note	**2020**	2019
		RM'000	RM'000
FVOCI reserve	(a)	**226,849**	120,030
Regulatory reserve	(b)	**327,805**	442,869
Retained profits		**2,896,031**	2,530,491
		3,450,685	3,093,390

(a) FVOCI reserve represents the cumulative gains and losses arising on the revaluation of 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.

(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.

26 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	2020 RM'000	2019 RM'000
Income derived from investment of:		
(i) General investment deposits	**3,673**	5,492
(ii) Other deposits	**2,815,074**	2,854,749
	2,818,747	2,860,241

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

	2020 RM'000	2019 RM'000
Financing and advances	**3,070**	4,539
Securities purchased under resale agreements	**53**	95
Financial assets at FVTPL	**4**	13
Financial assets at FVOCI	**260**	391
Financial investments at amortised cost	**140**	188
Money at call and deposits with banks and other financial institutions	**73**	198
Total finance income and hibah	**3,600**	5,424
Other operating income (Note a)	**73**	68
	3,673	5,492

Of which:

Financing income earned on impaired financing	**12**	22

(a) Other operating income comprise of:

Commission	**9**	16
Guarantee fees	**5**	8
Net gain/(loss) on revaluation of financial assets at FVTPL	**1**	(2)
Net gain on disposal of financial assets at FVTPL	**7**	17
Net gain on disposal of debt instruments of financial assets at FVOCI	**51**	29
	73	68

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

	2020 RM'000	2019 RM'000
(ii) Income derived from investment of other deposits:		
Financing and advances	**2,353,022**	2,358,882
Securities purchased under resale agreements	**40,515**	49,385
Financial assets at FVTPL	**2,806**	6,889
Financial assets at FVOCI	**199,128**	203,348
Financial investments at amortised cost	**107,127**	97,599
Money at call and deposits with banks and other financial institutions	**56,158**	103,050
Other income	**17**	-
Total finance income and hibah	**2,758,773**	2,819,153
Other operating income (Note a)	**56,301**	35,596
	2,815,074	2,854,749
Of which:		
Financing income earned on impaired financing	**9,204**	11,380

(a) Other operating income comprise of:

	2020 RM'000	2019 RM'000
Commission	**6,957**	8,342
Guarantee fees	**4,160**	3,969
Net gain/(loss) on revaluation of financial assets at FVTPL	**653**	(968)
Net gain on disposal of financial assets at FVTPL	**5,716**	9,017
Net gain on disposal of debt instruments of financial assets at FVOCI	**38,815**	15,236
	56,301	35,596

27 INCOME DERIVED FROM INVESTMENT ACCOUNT FUNDS

	2020	2019
	RM'000	RM'000
Financing and advances	**318,187**	393,536
Financial investments at amortised cost	**45,798**	46,269
Money at call and deposits with banks and other financial institutions	**26**	-
Total finance income and hibah	**364,011**	439,805

28 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	2020	2019
	RM'000	RM'000
Financing and advances	**65,205**	72,742
Securities purchased under resale agreements	**1,123**	1,523
Financial assets at FVTPL	**78**	212
Financial assets at FVOCI	**5,518**	6,271
Financial investments at amortised costs	**2,969**	3,010
Money at call and deposits with banks and other financial institutions	**1,556**	3,178
Total finance income and hibah	**76,449**	86,936
Other operating income (Note a)	**107,135**	126,996
	183,584	213,932
Of which:		
Financing income earned on impaired financing	**256**	351

(a) Other operating income comprise of:

	2020	2019
Commission	**29,942**	38,568
Service charges and fees	**80,489**	79,759
Guarantee fees and underwriting fees	**115**	122
Foreign exchange profit	**21,907**	17,093
Net gain/(loss) on revaluation of financial assets at FVTPL	**18**	(30)
Net gain on disposal of financial assets at FVTPL	**158**	278
Net gain on disposal of debt instruments of financial assets at FVOCI	**1,076**	470
Net gain/(loss) on fair value hedges (Note 10)	**1,941**	(3,318)
Net loss on revaluation of derivatives	**(27,470)**	(7,332)
Other (loss)/income	**(1,041)**	1,386
	107,135	126,996

29 NET MODIFICATION LOSS

	Note	2020 RM'000	2019 RM'000
Modification loss arising from payment moratorium	(a)	**329,983**	-
Benefits recognised under various government schemes	(b)	**(70,750)**	-
		259,233	-

(a) During the current financial year, the Bank has granted an automatic payment moratorium on certain financing to individuals and SMEs for a period of six months from 1 April 2020 and targeted moratorium to the other borrowers from 1 October 2020. As a result of the payment moratorium, the Bank has recognised a loss arising from the modification of cash flows of the financing.

(b) The Bank has received funding from the Government for the purpose of financing to SMEs at a concessionary rate to support them in sustaining business operations and safeguarding jobs during the COVID-19 pandemic. The fair value gain at inception of these various government schemes have been recognised in the income statement by the Bank as part of the COVID-19 relief measures to address the financial and accounting impact incurred by the Bank.

The following table includes a summary information for financial assets with lifetime ECL whose cash flows were modified during the financial year and their respective effect on the Bank's financial performance:

	2020 RM'000	2019 RM'000
Financing and advances:		
Amortised cost before modification	**628,630**	-
Net modification loss	**20,881**	-

30 ALLOWANCE FOR CREDIT LOSSES ON FINANCIAL ASSETS

	2020 RM'000	2019 RM'000
Charge/(Writeback)		
Financing and advances:		
- Net charge	**231,757**	2,889
- Bad debts recovered	**(25,565)**	(17,521)
- Bad debts written off	**29,736**	24,699
	235,928	10,067
Financial assets at FVOCI	**(394)**	(3,002)
Financial investments at amortised cost	**(679)**	(779)
Other financial assets	**121**	(86)
	234,976	6,200

31 INCOME ATTRIBUTABLE TO DEPOSITORS

	2020	2019
	RM'000	RM'000
Deposits from customers:		
- Mudharabah funds	**16,666**	9,042
- Non-Mudharabah funds	**1,455,497**	1,687,746
Deposits and placements of banks and other financial institutions:		
- Non-Mudharabah funds	**106,690**	147,195
Others:		
- Subordinated obligations	**33,893**	34,601
- Recourse obligation on financing sold to Cagamas	**100,814**	97,396
- Others	**201**	224
	1,713,761	1,976,204

32 PERSONNEL EXPENSES

	2020	2019
	RM'000	RM'000
Salaries, allowances and bonuses	**23,589**	25,143
Contributions to Employees' Provident Fund	**3,783**	4,043
Other staff related costs	**2,238**	3,203
	29,610	32,389

Included in the personnel expenses is the Managing Director's remuneration as disclosed in Note 34.

33 OTHER OVERHEADS AND EXPENDITURES

	2020	2019
	RM'000	RM'000
Establishment costs		
Property, plant and equipment:		
- Depreciation	**966**	1,392
Computer software license		
- Amortisation	**1,025**	1,334
Right of use assets:		
- Depreciation	**3,116**	3,341
Information technology expenses	**2,892**	2,918
Repair and maintenance	**469**	400
Rental of premises	**399**	500
Water and electricity	**506**	555
Rental of equipment	**14**	10
Printing and stationeries	**6,850**	2,776
Insurance	**4,156**	5,890
Others	**3,008**	3,166
	23,401	22,282
Marketing expenses		
Advertisement and publicity	**1,150**	1,711
Sales commission	**9,984**	5,690
Travelling expenses	**137**	293
Motor vehicle expenses	**118**	154
Others	**2,966**	2,977
	14,355	10,825
Administration and general expenses		
Auditors' remuneration:		
Audit		
- Statutory audit	**245**	205
- Limited review	**54**	57
Other audit related	**100**	100
Communication expenses	**10,430**	4,560
Legal and professional fee	**2,073**	2,148
Management fee	**330,333**	315,575
Others	**8,499**	8,468
	351,734	331,113
	389,490	364,220

Included in the administration and general expenses of the Bank are other Director's remuneration as disclosed in Note 34.

34 REMUNERATION OF MANAGING DIRECTOR, NON-EXECUTIVE DIRECTORS AND SHARIAH COMMITTEE MEMBERS

2020

	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	1,332	7	672	2,011
	1,332	7	672	2,011

In addition to the above, during the financial year ended 31 December 2020, the Managing Director of the Bank who led the achievement of the Group's short and long term business objectives, was awarded a sum of RM2,318,000 (inclusive of the employer's EPF contribution) (2019: RM157,000) as a Cash Retention/Deferred Scheme.

	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' Mohamad Nasir Ab Latif	111	15	26	152
Dato' Abd Rahman Dato' Md Khalid	135	-	102	237
Dato' Foong Chee Meng	135	-	43	178
Ong Ai Lin	135	-	115	250
Abdul Aziz Peru Mohamed (retired on 28 May 2020)	69	7	8	84
	585	22	294	901

	Fees
	RM'000
Shariah Committee	
Dr. Ahmad Basri Ibrahim (Chairman)	113
Assoc. Prof. Dr. Kamaruzaman Noordin (appointed on 1 April 2020)	76
Mohd Fadhly Md. Yusoff	95
Wan Abdul Rahim Kamil Wan Mohamed Ali	94
Shabnam Mohamad Mokhtar	96
Dr. Ghazali Jaapar (tenure completed on 31 March 2020)	23
Assoc. Prof. Dr. Amir Shaharuddin (tenure completed on 31 March 2020)	19
	516

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

2019

	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	1,287	7	847	2,141
	1,287	7	847	2,141

	Fees	Benefits-in-kind (based on an estimated monetary value)	Other remuneration	Total
	RM'000	RM'000	RM'000	RM'000
Non-executive Directors				
Abdul Aziz Peru Mohamed	170	17	18	205
Dato' Abd Rahman Dato' Md Khalid	135	-	98	233
Dato' Foong Chee Meng	135	-	38	173
Ong Ai Lin	135	-	117	252
Datuk Nozirah Bahari (resigned on 12 February 2019)	16	-	2	18
	591	17	273	881

	Fees
	RM'000
Shariah Committee	
Dr. Ghazali Jaapar (Chairman)	96
Assoc. Prof. Dr. Amir Shaharuddin	82
Dr. Ahmad Basri Ibrahim	84
Mohd Fadhly Md. Yusoff	83
Wan Abdul Rahim Kamil Wan Mohamed Ali	81
Shabnam Mohamad Mokhtar	84
	510

Note:
During the financial year, Directors of the Bank are covered under the Directors’ Liability Takaful 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 Takaful effected for the Directors of the Bank was RM200.0 million (2019: RM200.0 million). The total amount of premium paid for the Directors’ Liability Takaful by the Bank was RM401,000 (2019: RM382,000).

35 TAXATION

	2020	2019
	RM'000	RM'000
Malaysian income tax:		
- Current tax	**171,908**	184,394
Deferred tax (Note 12)	**(64,802)**	4,783
	107,106	189,177
(Over)/Underprovision in respect of prior financial years		
- Income tax	**252**	(5,828)
- Deferred tax (Note 12)	**(1,269)**	5,660
	(1,017)	(168)
Tax expense	**106,089**	189,009

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

	2020	2019
	%	%
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
Overprovision in respect of prior financial years	**(0.2)**	-
Temporary differences not recognised in prior financial years	**(0.3)**	-
Non-taxable income	**(0.1)**	(0.3)
Effective tax rate	**23.5**	23.8

36 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.

	2020	2019
Net profit for the financial year (RM'000)	**340,339**	601,520
Weighted average number of ordinary shares in issue ('000)	**1,673,424**	1,673,424
Basic earnings per share (sen)	**20.34**	35.95

37 INCOME TAX EFFECTS RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

2020	**Before tax RM'000**	**Tax effects RM'000**	**Net of tax RM'000**
Financial assets at FVOCI:			
- Net fair value gain, net amount transfer to income statement and changes in expected credit losses	**140,675**	**(33,856)**	**106,819**
2019			
Financial assets at FVOCI:			
- Net fair value gain, net amount transfer to income statement and changes in expected credit losses	156,385	(38,253)	118,132

38 DIVIDENDS

Dividends declared or proposed by the Bank are as follows:

	2020		2019	
	Dividend per share sen	**Total dividend RM'000**	Dividend per share sen	Total dividend RM'000
Interim dividend	**3.00**	**50,203**	5.37	89,863

The Directors proposed a single-tier interim dividend of 3.00 sen per share amounting to RM50,203,000 in respect of the financial year ended 31 December 2020.

The financial statements for the current financial year do not reflect this single-tier interim dividend. This dividend payment will be accounted for in the shareholder's equity as an appropriation of retained profits in the financial year ending 31 December 2021.

Dividend recognised as distribution to equity holders of the Bank:

	2020		2019	
	Dividend per share sen	**Total dividend RM'000**	Dividend per share sen	Total dividend RM'000
Interim dividend - 2019	**5.37**	**89,863**	-	-

39 RELATED PARTY TRANSACTIONS

(a) Related parties and relationships

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

Related parties	**Relationship**
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.

39 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
2020				
Income				
Commission	-	-	-	113
Income derived from investment of depositors' funds	41,691	19,561	-	-
Other income	(70,132)	-	-	84
	(28,441)	19,561	-	197
Expenditure				
Profit expense on deposits and placements	52,650	24	64	2,538
Profit expense on investment account	288,753	-	-	-
Reimbursement of operating expenses to holding company	330,333	-	-	-
Other expenses	827	-	-	1,417
	672,563	24	64	3,955
Amounts due from				
Cash and short-term funds	2,979	-	-	-
Securities purchased under resale agreements	3,767,531	-	-	-
Financial assets at FVOCI	-	83,988	-	-
Financial investments at amortised cost	-	10,112	-	-
Financing and advances	-	319,203	-	-
Derivative assets	209,406	-	-	-
	3,979,916	413,303	-	-
Amounts due to				
Derivative liabilities	144,527	-	-	-
Demand and investment deposits	-	122,818	4,980	34,125
Deposits and placements of banks and other financial institutions	5,276,432	-	-	-
Investment account due to designated financial institutions	8,840,858	-	-	-
Other liabilities	263,326	-	-	876
	14,525,143	122,818	4,980	35,001

39 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
2019				
Income				
Commission	-	-	-	116
Income derived from investment of depositors' funds	51,003	8,263	-	-
Other income	(85,810)	-	-	82
	(34,807)	8,263	-	198
Expenditure				
Profit expense on deposits and placements	44,347	-	46	2,437
Profit expense on investment account	339,436	-	-	-
Reimbursement of operating expenses to holding company	315,575	-	-	-
Other expenses	702	-	-	1,052
	700,060	-	46	3,489
Amounts due from				
Cash and short-term funds	910	-	-	-
Securities purchased under resale agreements	1,724,107	-	-	-
Financial assets at FVOCI	-	83,988	-	-
Financial investments at amortised cost	-	15,477	-	-
Financing and advances	-	315,684	-	-
Derivative assets	121,985	-	-	-
	1,847,002	415,149	-	-
Amounts due to				
Derivative liabilities	59,854	-	-	-
Demand and investment deposits	-	148,215	3,395	29,467
Deposits and placements of banks and other financial institutions	3,179,438	-	-	-
Investment account due to designated financial institutions	8,229,334	-	-	-
Other liabilities	431,027	-	-	260
	11,899,653	148,215	3,395	29,727

39 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management personnel

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

	2020	2019
	RM'000	RM'000
Short-term employee benefits:		
- Fees	**585**	591
- Salary and other remuneration (Note (i))	**4,206**	2,399
- Defined contribution plan (Note (i))	**410**	165
- Benefits-in-kind (based on an estimated monetary value)	**29**	24
	5,230	3,179

(i) Inclusive of Cash Retention/Deferred Scheme and the related employer's EPF contribution totalling RM2,318,000 (2019: RM157,000) for the Bank. The payout under this Cash Retention/Deferred Scheme was based on the achievement of the Group’s short and long term business objectives.

The above includes Directors' remuneration as disclosed in Note 34.

(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:

	2020	2019
Outstanding credit exposure with connected parties (RM'000)	**4,338,121**	3,032,921
Percentage of outstanding credit exposures with connected parties as proportion of total credit exposures (%)	**5.74**	4.51
Percentage of outstanding credit exposures with connected parties which is impaired or in default (%)	**0.28**	0.42

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**
2020	**RM’000**	**RM’000**	**RM’000**	**RM’000**
Malaysia	**55,188**	**288,753**	**330,333**	**2,244**
2019				
Malaysia	46,784	339,436	315,575	1,754

40 COMMITMENTS AND CONTINGENCIES

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

	2020	2019
	RM'000	RM'000
Transaction-related contingent items	**321,425**	260,081
Short-term self-liquidating trade related contingencies	**24,011**	95,289
Irrevocable commitments to extend credit:		
- Maturity less than one year	**705**	30,233
- Maturity more than one year	**8,829,638**	7,522,933
Foreign exchange related contracts*:		
- Less than one year	**13,436,013**	9,851,295
- One year to less than five years	**834,440**	854,063
- More than five years	**946,305**	954,177
Profit rate related contracts*:		
- Less than one year	**4,130,225**	1,860,000
- One year to less than five years	**1,685,000**	1,346,015
- More than five years	**2,115,000**	500,000
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	**2,410,216**	2,266,736
	34,732,978	25,540,822

* 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.

41 CAPITAL COMMITMENTS

	2020	2019
	RM'000	RM'000
Capital expenditure for property, plant and equipment:		
- Authorised and contracted for	**900**	958

42 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.

RHB ISLAMIC BANK BERHAD
(Incorporated in Malaysia)
Registration No. 200501003283 (680329-V)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

42 SEGMENT REPORTING (CONTINUED)

	Wholesale Banking					
2020	**Corporate and Investment Banking**	**Treasury**	**Business Banking**	**Retail Banking**	**Others**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
External revenue	**1,033,731**	**414,714**	**238,920**	**1,608,829**	**(189,085)**	**3,107,109**
Inter-segment revenue	**49,175**	**286,696**	**23,437**	**(359,308)**	**-**	**-**
Segment revenue	**1,082,906**	**701,410**	**262,357**	**1,249,521**	**(189,085)**	**3,107,109**
Depositors' payout	**(695,623)**	**(679,253)**	**(88,540)**	**(539,098)**	**-**	**(2,002,514)**
Net income	**387,283**	**22,157**	**173,817**	**710,423**	**(189,085)**	**1,104,595**
Operating overheads	**(48,200)**	**(23,435)**	**(57,245)**	**(285,113)**	**-**	**(413,993)**
Depreciation of property, plant and equipment and right of use assets	**(941)**	**(353)**	**(1,762)**	**(1,026)**	**-**	**(4,082)**
Amortisation of computer software	**(351)**	**(18)**	**(235)**	**(421)**	**-**	**(1,025)**
Allowance for credit losses on financial assets	**(24,319)**	**288**	**(47,515)**	**(163,430)**	**-**	**(234,976)**
Profit before zakat and taxation	**313,472**	**(1,361)**	**67,060**	**260,433**	**(189,085)**	**450,519**
Zakat						**(4,091)**
Profit after zakat before taxation						**446,428**
Taxation						**(106,089)**
Net profit for the financial year						**340,339**

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

42 SEGMENT REPORTING (CONTINUED)

2020	Wholesale Banking				
	Corporate and Investment Banking	Treasury	Business Banking	Retail Banking	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Segment assets	25,465,820	17,193,290	5,270,941	38,702,302	86,632,353
Unallocated assets					251,679
Deferred tax assets					6,794
Total assets					86,890,826
Segment liabilities	25,744,855	28,255,672	5,412,814	21,510,171	80,923,512
Unallocated liabilities					843,205
Total liabilities					81,766,717
Other segment items:					
Capital expenditure	125	-	2,686	3,595	6,406

42 SEGMENT REPORTING (CONTINUED)

2019	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	1,122,745	463,112	240,336	1,687,785	3,513,978
Inter-segment revenue	32,915	522,012	5,428	(560,355)	-
Segment revenue	1,155,660	985,124	245,764	1,127,430	3,513,978
Depositors' payout	(854,069)	(826,004)	(84,452)	(551,115)	(2,315,640)
Net income	301,591	159,120	161,312	576,315	1,198,338
Operating overheads	(47,834)	(19,415)	(56,249)	(267,044)	(390,542)
Depreciation of property, plant and equipment and right of use assets	(878)	(110)	(1,861)	(1,884)	(4,733)
Amortisation of computer software	(380)	(89)	(260)	(605)	(1,334)
Allowance for credit losses on financial assets	7,316	3,586	28,908	(46,010)	(6,200)
Profit before zakat and taxation	259,815	143,092	131,850	260,772	795,529
Zakat					(5,000)
Profit after zakat before taxation					790,529
Taxation					(189,009)
Net profit for the financial year					601,520

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

42 SEGMENT REPORTING (CONTINUED)

2019	Wholesale Banking: Corporate and Investment Banking	Wholesale Banking: Treasury	Business Banking	Retail Banking	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Segment assets	24,804,314	12,854,255	4,414,202	34,385,858	76,458,629
Unallocated assets					278,410
Total assets					76,737,039
Segment liabilities	23,458,038	23,503,703	4,610,645	19,404,512	70,976,898
Deferred tax liabilities					25,421
Unallocated liabilities					967,906
Total liabilities					71,970,225
Other segment items:					
Capital expenditure	183	-	629	1,113	1,925

43 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.

The capital adequacy ratios of the Bank are as follows:

	2020	2019
	RM'000	RM'000
Common Equity Tier-I ('CET-I') Capital/Tier-I Capital		
Share capital	**1,673,424**	1,673,424
Retained profits	**2,896,031**	2,530,491
FVOCI reserve	**224,848**	117,635
	4,794,303	4,321,550
Less:		
Deferred tax assets	**(78,167)**	(12,068)
Intangible assets (include associated deferred tax liabilities)	**(2,767)**	(3,295)
55% of cumulative gains of financial assets at FVOCI	**(123,666)**	(64,699)
Other deductions*	**(2,643)**	(1,955)
Total CET-I / Total Tier-I Capital	**4,587,060**	4,239,533
Tier-II Capital		
Subordinated obligations	**750,000**	750,000
Surplus eligible provisions over expected losses	**137,002**	114,957
General provisions^	**69,026**	53,940
Total Tier-II Capital	**956,028**	918,897
Total Capital	**5,543,088**	5,158,430
Capital ratios		
Before proposed dividends:		
CET-I capital ratio	**14.877%**	13.922%
Tier-I capital ratio	**14.877%**	13.922%
Total capital ratio	**17.977%**	16.939%
After proposed dividends:		
CET-I capital ratio	**14.714%**	13.627%
Tier-I capital ratio	**14.714%**	13.627%
Total capital ratio	**17.815%**	16.644%

* 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.

^ 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 RM54,526,000 (2019: RM44,447,000).

43 CAPITAL ADEQUACY RATIO (CONTINUED)

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

	2020	2019
	RM'000	RM'000
Credit risk	**35,557,840**	29,308,355
Credit risk absorbed by PSIA +	**(7,202,054)**	(5,833,615)
Market risk	**210,344**	293,518
Operational risk	**2,223,938**	1,937,774
Additional RWA due to capital floor	**43,510**	4,746,219
Total risk-weighted assets	**30,833,578**	30,452,251

The total risk-weighted assets of the Bank are computed based on BNM's Capital Adequacy Framework for Islamic Banks ('CAFIB'): Internal Ratings Based Approach for Credit and 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.

44 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.

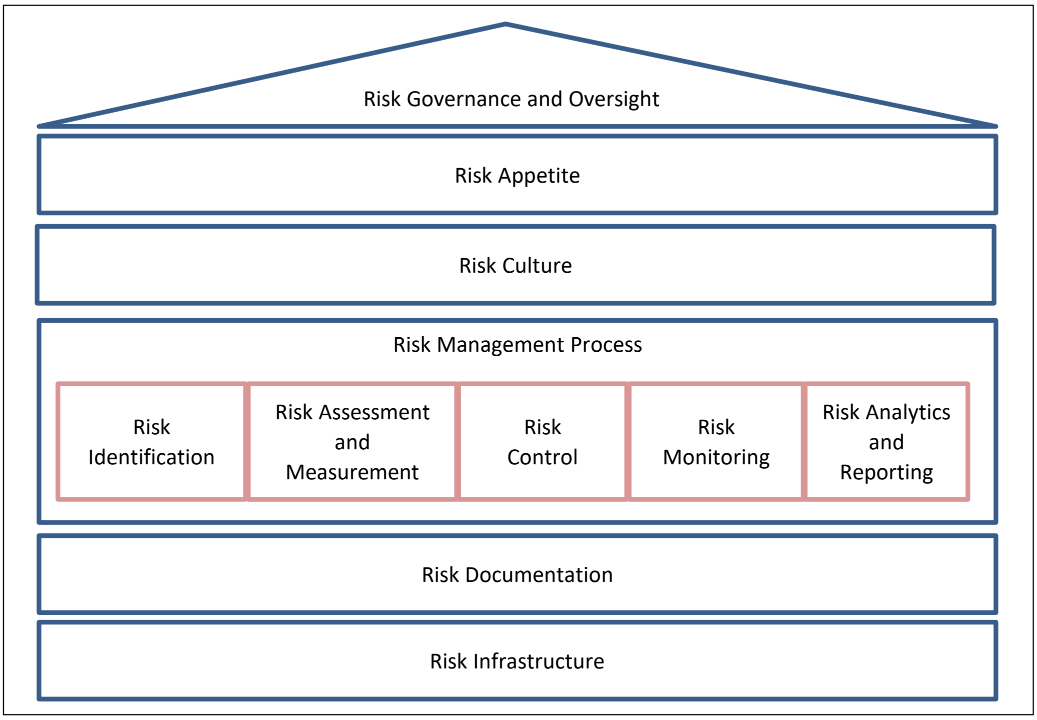
Effective risk management is fundamental to being able to drive sustainable growth and shareholder's value, while maintaining competitive advantage, and is thus a central part of the proactive risk management of the Bank's operating environment.

The Group Risk Management Framework governs the management of risks in the RHB Banking Group ('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:



44 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Key features of the framework are:

<u>Risk Governance and Oversight</u>

The Board of Directors sits at the apex of the risk governance structure and is ultimately responsible for the Group's/respective entities' risk management strategy, appetite, framework and oversight of risk management activities.

In order to manage the businesses and risks across all subsidiaries in an integrated basis, Group level committees are established to ensure consistency in practices. However, the Group maintains entity-specific committees to allow for greater flexibility and agility in managing specific regulatory and business requirements. Each Board Risk Committee which reports directly to the respective Boards provides oversight and assists the respective Boards to review the Group's overall risk management philosophy, frameworks, policies and models, and risk issues relevant and unique to its business.

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 relevant board committees and the Group Management Committee ('GMC'). The Investment Bank Risk Management Committee ('IBRMC') is responsible for oversight of risk management matters relating to RHB Investment Bank Group's business whilst the Group Asset and Liability Committee ('Group ALCO') oversees market risk, liquidity risk and balance sheet management.

The Group Chief Risk Officer ('GCRO') who reports directly to the Group Managing Director, is responsible for the risk management function. The main roles and responsibilities of GCRO are:

1. Facilitating the setting of the strategic direction and overall policy on management and control of risks of the Group;
2. Ensuring industry best practices in risk management are adopted across the Group, including the setting of risk management parameters and risk models;
3. Developing proactive, balanced and risk attuned culture within the Group; and
4. Advising senior management, management level committees, board level risk committees and Board of Directors of the Group's entities on risk issues and their possible impact on the Group in the achievement of its objectives and strategies.

GCRO is supported by the entities chief risk officers and various teams within risk management function:

1. The entities' chief risk officers main function is to assess and manage the enterprise risk and liaise with regulators in the respective country/entity under his/her purview. They are supported by their respective risk management teams with support from the risk management function from the Group.
2. The risk management function are teams who specialise in the respective risks and responsible for the active oversight of Group-wide functional risk management and support the respective entities/chief risk officers. Group Risk and Credit Management consist of Group Credit Risk Management, Group Market Risk Management, Group Asset and Liability Management, Group Operational Risk Management, Group Technology and Cyber Risk Management, Group Shariah Risk Management, Group Risk Operations, Group Credit Management, Regional Risk & Investment Bank Risk Management and Insurance Risk Management.

<u>Risk Appetite</u>

The Board of Directors sets the risk appetite and tolerance level that are consistent with the Group and each entity's overall business objectives and desired risk profile. It describes the types and level of risks the Group is prepared to accept in delivering its business strategies, and reported through various metrics that enable the Group to manage capital resources and shareholders' expectations.

The alignment of the Group's business strategy with its risk strategy, and vice-versa 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.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Key features of the framework are (continued):

<u>Risk Culture</u>

The Group subscribes to the principle of 'Risk and Compliance is Everyone's Responsibility' and risk management is managed via a 'three lines of defence' model. Business/functional units of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risk.

The approach is based on the 'three lines of defence' model as depicted below:

FIRST LINE Business/Functional Level	• Responsible for managing day-to-day risks and compliance issues • Business Risk and Compliance Officer is to assist business/functional unit in day-to-day risks and compliance matters
SECOND LINE Group Risk and Credit Management and Group Compliance	• Responsible for oversight, establishing governance and providing support to business/functional unit on risk and compliance matters
THIRD LINE Group Internal Audit	• Provide independent assurance to the Board that risk and compliance management functions effectively as designed

<u>Risk Management Process</u>

The risk management process identifies, assesses and measures, controls, monitors and reports/analyses risk. This ensures that risk exposures are adequately managed and that the expected return compensates for the risk taken.

- Identification: The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and proactive and timely identification of risk within the Group's business operations. This ensures that risks can be managed and controlled within the risk appetite of the Group and specific entity, where necessary.
- Assessment and 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: Risks identified during the risk identification process must be adequately managed and mitigated to control the risk of loss. This is also to ensure risk exposures are managed within the Group's or entity's risk appetite.
- Monitoring: Effective monitoring process ensures that the Group is aware of the condition of its exposures vis-à-vis its approved appetite and to facilitate early identification of potential problem on a timely basis by using continuous and on-going monitoring of risk exposures and risk control/mitigation measures.
- Analytics and Reporting: Risk analysis and reports are 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.

In addition, risk management seeks to ensure that risk decisions are consistent with strategic business objectives and within the risk appetite.

<u>Risk Documentation</u>

The Group recognises that effective implementation of the risk management system and process must be supported by a robust set of documentation. 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.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Key features of the framework are (continued):

Risk Infrastructure

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

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) Credit risk - the risk of loss arising from customers' or counterparties' failure to fulfil their financial and contractual obligations in accordance to the agreed terms. It stems primarily from the Bank's lending/financing, trade finance and its placement, underwritings, investment, hedging and trading activities from both on- and off-balance sheet transactions. Credit risk does not happen in isolation as certain risk event (e.g. fluctuation of profit rate and foreign exchange) may give rise to both market and credit risks.

(ii) Market risk - the risk of losses arising from adverse movements in market drivers, such as profit rates, credit spreads, equity prices, currency exchange rates and commodity prices. Under this definition, market risk will constitute:

- the profit rate and equity risks pertaining to financial instruments in the trading book; and
- foreign exchange risk and commodities risk in the trading and banking books.

(iii) Liquidity risk - the risk of the Bank being unable to maintain sufficient liquidity 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.

(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.

(v) Technology and Cyber risk - Technology risk is the business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an enterprise while Cyber risk refers to threats or vulnerabilities emanating from the connectivity of internal infrastructure to external networks such as the Internet.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Major Areas of Risk (continued)

To mitigate the various business risks of the Bank, the following has been put in place:

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.

- Regulatory requirement and industry best practices are incorporated into the approved 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.

- Group Investment Underwriting Committee (‘GIUC’) deliberates, approves and rejects stockbroking/equities/futures business related proposals such as equity underwriting, equity derivatives and structured products, and share margin financing.

- GCC and GIUC submit 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 by Group Credit Management/Group Retail Credit 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 auto approved by financing origination system or 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 or escalated approval is required for all discretionary lending between business and independent credit underwriters, except for end-financing which can only be singly assessed by independent credit underwriter. 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 relationships 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 applies 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.

- The Bank has embarked on an end-to-end credit transformation journey to support business growth responsibly and protect the asset quality in challenging times. The coverage of the transformation covers the core business segments of Retail Banking, Business Banking and Corporate Banking.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Major Areas of Risk (continued)

Credit risk (continued)

- In addition, the Credit War Room has been established to steer, coordinate and ensure the effective implementation of the Group's repayment assistance strategy in relation to borrowers/customers affected by the COVID-19 pandemic, in a consistent and structured response across RHB Banking Group headed by the Group Managing Director in line with BNM requirement for FIs to set-up a dedicated function led by the Chief Executive Officer.

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 senior management committees; namely Group ALCO, the GCRC and IBRMC performs a critical role in the oversight of the management of market risk and supports the board risk committees 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.

- Minimum liquid assets buffer, capping on large depositor concentration and sufficient long term funding are available to meet obligations and aligned to Liquidity Coverage Ratio and Net Stable Funding Ratio 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.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Major Areas of Risk (continued)

Operational risk

- The Group Operational 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 matters. 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, Key Control Testing, Incident Management and Loss Data Collection and Scenario Analysis.

- The Bank's operational risk management system has integrated applications to support the operational risk management process (i.e. assessment, reporting, database/library).

- The Bank has Business Continuity Management ('BCM') programme for the major critical business operations and activities at the Head Office, data centre, and branches' locations. The BCM programme is 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.

Technology & Cyber Risk

- The Group Technology & Cyber Risk function is responsible for the development of group-wide technology and cyber risk policies, framework and methodologies, and providing guidance and consultation to the business units on technology and cyber risk areas.

- There is a continuous enhancement of existing policies, procedures and internal control measures; with regular independent assessment on areas pertaining to technology and cyber risks to prevent and/or minimise unexpected losses.

- Development of policies and mitigating controls are made reference to industry standards such as ISO/IEC:27001:2013, COBIT 5 and the NIST Cyber Security Framework.

- Regular technology and cyber risk reporting is made to senior management, relevant senior management and board committees to facilitate a risk informed decision by proactively identifying emerging cyber threats, assessment on the effectiveness of the controls implemented and the recommendation of new appropriate controls.

- Subscription to threat intelligence service providers for the latest cyber threats, and modus operandi in compromising an organisation. The information shall be shared with business units in improving their controls.

- Continuous education and awareness on technology and cyber risks to Board, business units, new recruits and third party service providers via Computer Based Training, classroom training and regular email broadcast communication.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category

	At amortised cost	At fair value through profit and loss	At fair value through other comprehensive income	Total
	RM'000	RM'000	RM'000	RM'000
2020				
Assets				
Cash and short-term funds	2,262,454	-	-	2,262,454
Securities purchased under resale agreements	3,767,531	-	-	3,767,531
Deposits and placements with banks and other financial institutions	2,410,219	-	-	2,410,219
Financial assets at FVTPL	-	107,678	-	107,678
Financial assets at FVOCI				
- Debt instruments	-	-	6,409,937	6,409,937
Financial investments at amortised cost	4,577,078	-	-	4,577,078
Financing and advances	66,788,344	-	-	66,788,344
Other financial assets	240,557	-	-	240,557
Derivative assets	-	215,979	-	215,979
	80,046,183	323,657	6,409,937	86,779,777
Liabilities				
Deposits from customers	60,830,175	-	-	60,830,175
Deposits and placements of banks and other financial institutions	7,124,095	-	-	7,124,095
Investment account due to designated financial institutions	8,840,858	-	-	8,840,858
Bills and acceptances payable	12,182	-	-	12,182
Other financial liabilities	647,945	-	-	647,945
Derivative liabilities	-	337,929	-	337,929
Recourse obligation on financing sold to Cagamas	3,023,760	-	-	3,023,760
Lease liabilities	4,840	-	-	4,840
Subordinated obligations	754,514	-	-	754,514
	81,238,369	337,929	-	81,576,298

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category (continued)

	At amortised cost RM'000	At fair value through profit and loss RM'000	At fair value through other comprehensive income RM'000	Total RM'000
2019				
Assets				
Cash and short-term funds	4,052,396	-	-	4,052,396
Securities purchased under resale agreements	1,724,107	-	-	1,724,107
Deposits and placements with banks and other financial institutions	36,886	-	-	36,886
Financial assets at FVTPL	-	207,145	-	207,145
Financial assets at FVOCI				
- Debt instruments	-	-	5,118,305	5,118,305
Financial investments at amortised cost	3,407,470	-	-	3,407,470
Financing and advances	60,263,546	-	-	60,263,546
Other financial assets	192,584	-	-	192,584
Derivative assets	-	130,688	-	130,688
	69,676,989	337,833	5,118,305	75,133,127
Liabilities				
Deposits from customers	54,416,970	-	-	54,416,970
Deposits and placements of banks and other financial institutions	5,109,861	-	-	5,109,861
Investment account due to designated financial institutions	8,229,334	-	-	8,229,334
Bills and acceptances payable	12,460	-	-	12,460
Other financial liabilities	894,521	-	-	894,521
Derivative liabilities	-	183,468	-	183,468
Recourse obligation on financing sold to Cagamas	2,270,239	-	-	2,270,239
Lease liabilities	3,040	-	-	3,040
Subordinated obligations	754,565	-	-	754,565
	71,690,990	183,468	-	71,874,458

44 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:

Increase/(Decrease)	Impact on profit after tax RM'000	Impact on reserve RM'000
2020		
+100 bps	**112,039**	**(181,850)**
-100 bps	**(111,424)**	**204,535**
2019		
+100 bps	88,619	(214,057)
-100 bps	(86,768)	234,378

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 profit rate 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 (2019: 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 profit rate instruments held in the FVOCI portfolio arising from the shift in the profit rate.

44 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, while other variables remain constant.

	Impact on profit after tax RM'000
Increase/(Decrease)	
2020	
+10%	**(1,412)**
-10%	**1,412**
2019	
+10%	3,393
-10%	(3,393)

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.

44 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								
2020	**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	**2,078,933**	**-**	**-**	**-**	**-**	**-**	**183,521**	**-**	**2,262,454**
Securities purchased under resale agreements	**1,277,509**	**1,787,378**	**692,029**	**-**	**-**	**-**	**10,615**	**-**	**3,767,531**
Deposits and placements with banks and other financial institutions	**-**	**2,408,919**	**-**	**-**	**-**	**-**	**1,300**	**-**	**2,410,219**
Financial assets at FVTPL	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**107,678**	**107,678**
Financial assets at FVOCI	**15,006**	**209,105**	**213,840**	**66,010**	**1,116,127**	**4,732,034**	**57,815**	**-**	**6,409,937**
Financial investments at amortised cost	**176,000**	**40,145**	**129,457**	**369,211**	**2,024,555**	**1,814,851**	**22,859**	**-**	**4,577,078**
Financing and advances	**54,262,717**	**855,398**	**398,934**	**100,712**	**674,941**	**10,274,188**	**221,454**	**-**	**66,788,344**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**320,985**	**-**	**320,985**
Derivative assets	**-**	**-**	**-**	**-**	**-**	**8**	**-**	**215,971**	**215,979**
Statutory deposits with BNM	**-**	**-**	**-**	**-**	**-**	**-**	**12,000**	**-**	**12,000**
Deferred tax assets	**-**	**-**	**-**	**-**	**-**	**-**	**6,794**	**-**	**6,794**
Right of use assets	**-**	**-**	**-**	**-**	**-**	**-**	**4,750**	**-**	**4,750**
Property, plant and equipment	**-**	**-**	**-**	**-**	**-**	**-**	**3,944**	**-**	**3,944**
Intangible assets	**-**	**-**	**-**	**-**	**-**	**-**	**3,133**	**-**	**3,133**
TOTAL ASSETS	**57,810,165**	**5,300,945**	**1,434,260**	**535,933**	**3,815,623**	**16,821,081**	**849,170**	**323,649**	**86,890,826**

44 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								
2020	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	14,064,716	8,857,905	14,527,199	12,173,864	868,496	407,658	9,930,337	-	60,830,175
Deposits and placements of banks and other financial institutions	2,812,395	3,961,979	198,867	24,551	36,409	82,856	7,038	-	7,124,095
Investment account due to designated financial institutions	176,000	39,331	134,832	-	3,199,038	5,180,107	111,550	-	8,840,858
Bills and acceptances payable	12,182	-	-	-	-	-	-	-	12,182
Other liabilities	-	-	-	-	-	-	785,816	-	785,816
Derivative liabilities	-	-	-	-	27,046	93,946	-	216,937	337,929
Recourse obligation on financing sold to Cagamas	-	1,000,000	-	1,250,000	749,951	-	23,809	-	3,023,760
Provision for tax and zakat	-	-	-	-	-	-	52,548	-	52,548
Lease liabilities	261	471	567	1,028	2,513	-	-	-	4,840
Subordinated obligations	-	-	-	-	250,000	500,000	4,514	-	754,514
TOTAL LIABILITIES	17,065,554	13,859,686	14,861,465	13,449,443	5,133,453	6,264,567	10,915,612	216,937	81,766,717
TOTAL EQUITY	-	-	-	-	-	-	5,124,109	-	5,124,109
TOTAL LIABILITIES AND EQUITY	17,065,554	13,859,686	14,861,465	13,449,443	5,133,453	6,264,567	16,039,721	216,937	86,890,826
On-balance sheet profit sensitivity gap	40,744,611	(8,558,741)	(13,427,205)	(12,913,510)	(1,317,830)	10,556,514			
Off-balance sheet profit sensitivity gap	-	-	-	-	(500,000)	(3,100,000)			
TOTAL PROFIT-SENSITIVITY GAP	40,744,611	(8,558,741)	(13,427,205)	(12,913,510)	(1,817,830)	7,456,514			

44 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								
2019	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	3,808,800	-	-	-	-	-	243,596	-	4,052,396
Securities purchased under resale agreements	1,159,113	558,964	-	-	-	-	6,030	-	1,724,107
Deposits and placements with banks and other financial institutions	-	36,810	-	-	-	-	76	-	36,886
Financial assets at FVTPL	-	-	-	-	-	-	-	207,145	207,145
Financial assets at FVOCI	99,736	114,892	140,400	30,225	723,747	3,959,748	49,557	-	5,118,305
Financial investments at amortised cost	5,001	20,200	15,080	327,508	1,034,546	1,986,914	18,221	-	3,407,470
Financing and advances	47,973,430	1,225,369	381,903	93,783	827,210	9,407,414	354,437	-	60,263,546
Other assets	-	-	-	-	-	-	268,960	-	268,960
Derivative assets	-	-	-	-	-	-	-	130,688	130,688
Statutory deposits with BNM	-	-	-	-	-	-	1,517,000	-	1,517,000
Right of use assets	-	-	-	-	-	-	2,924	-	2,924
Property, plant and equipment	-	-	-	-	-	-	3,979	-	3,979
Intangible assets	-	-	-	-	-	-	3,633	-	3,633
TOTAL ASSETS	53,046,080	1,956,235	537,383	451,516	2,585,503	15,354,076	2,468,413	337,833	76,737,039

RHB ISLAMIC BANK BERHAD
(Incorporated in Malaysia)
Registration No. 200501003283 (680329-V)

NOTES TO THE FINANCIAL STATEMENTS
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44 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):

2019	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	11,036,121	8,823,957	9,837,633	15,395,828	953,404	473,752	7,896,275	-	54,416,970
Deposits and placements of banks and other financial institutions	991,756	3,555,157	501,629	258	19,237	39,773	2,051	-	5,109,861
Investment account due to designated financial institutions	-	-	250,000	739,331	1,071,832	6,070,913	97,258	-	8,229,334
Bills and acceptances payable	12,460	-	-	-	-	-	-	-	12,460
Other liabilities	-	-	-	-	-	-	928,842	-	928,842
Derivative liabilities	-	-	-	-	-	42,544	-	140,924	183,468
Recourse obligation on financing sold to Cagamas	-	-	-	-	2,250,000	-	20,239	-	2,270,239
Provision for tax and zakat	-	-	-	-	-	-	36,025	-	36,025
Deferred tax liabilities	-	-	-	-	-	-	25,421	-	25,421
Lease liabilities	257	460	669	793	861	-	-	-	3,040
Subordinated obligations	-	-	-	-	250,000	500,000	4,565	-	754,565
TOTAL LIABILITIES	12,040,594	12,379,574	10,589,931	16,136,210	4,545,334	7,126,982	9,010,676	140,924	71,970,225
TOTAL EQUITY	-	-	-	-	-	-	4,766,814	-	4,766,814
TOTAL LIABILITIES AND EQUITY	12,040,594	12,379,574	10,589,931	16,136,210	4,545,334	7,126,982	13,777,490	140,924	76,737,039
On-balance sheet profit sensitivity gap	41,005,486	(10,423,339)	(10,052,548)	(15,684,694)	(1,959,831)	8,227,094			
Off-balance sheet profit sensitivity gap	-	-	(90,000)	-	-	(1,500,000)			
TOTAL PROFIT-SENSITIVITY GAP	41,005,486	(10,423,339)	(10,142,548)	(15,684,694)	(1,959,831)	6,727,094			

44 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. In July 2019, BNM has issued the final Net Stable Funding Ratio (NSFR) policy document, which will be effective from 1 July 2020 and banking institutions are expected to maintain a minimal NSFR of 100% at the Bank level.

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:

2020	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	1,214,532	1,047,922	-	-	-	-	-	2,262,454
Securities purchased under resale agreements	1,141,809	137,862	1,794,444	693,416	-	-	-	3,767,531
Deposits and placements with banks and other financial institutions	-	-	2,410,219	-	-	-	-	2,410,219
Financial assets at FVTPL	-	-	-	-	-	107,678	-	107,678
Financial assets at FVOCI	-	15,311	209,212	213,863	66,545	5,905,006	-	6,409,937
Financial investments at amortised cost	-	173,765	40,379	130,306	368,739	3,863,889	-	4,577,078
Financing and advances	1,057,085	3,346,676	897,816	541,977	137,404	60,807,386	-	66,788,344
Other assets	219,192	50,701	-	-	-	-	51,092	320,985
Derivative assets	27,861	15,026	47,199	70,567	4,107	51,219	-	215,979
Statutory deposits with BNM	-	-	-	-	-	-	12,000	12,000
Deferred tax assets	-	-	-	-	-	-	6,794	6,794
Right of use assets	-	-	-	-	-	-	4,750	4,750
Property, plant and equipment	-	-	-	-	-	-	3,944	3,944
Intangible assets	-	-	-	-	-	-	3,133	3,133
TOTAL ASSETS	3,660,479	4,787,263	5,399,269	1,650,129	576,795	70,735,178	81,713	86,890,826

44 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):

2020	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	14,551,514	9,124,727	8,948,059	14,555,135	12,325,774	1,324,966	-	60,830,175
Deposits and placements of banks and other financial institutions	1,491,052	1,322,801	3,967,519	198,867	24,576	119,280	-	7,124,095
Investment account due to designated financial institutions	-	178,713	39,382	135,215	-	8,487,548	-	8,840,858
Bills and acceptances payable	12,182	-	-	-	-	-	-	12,182
Other liabilities	430,655	179,529	9,023	1,249	23,360	4,128	137,872	785,816
Derivative liabilities	17,984	14,506	58,771	71,629	3,129	171,910	-	337,929
Recourse obligation on financing sold to Cagamas	-	-	1,011,223	-	1,258,961	753,576	-	3,023,760
Provision for taxation and zakat	-	-	-	-	-	-	52,548	52,548
Lease liabilities	-	261	471	567	1,028	2,513	-	4,840
Subordinated obligations	-	-	-	4,514	-	750,000	-	754,514
TOTAL LIABILITIES	16,503,387	10,820,537	14,034,448	14,967,176	13,636,828	11,613,921	190,420	81,766,717
TOTAL EQUITY	-	-	-	-	-	-	5,124,109	5,124,109
TOTAL LIABILITIES AND EQUITY	16,503,387	10,820,537	14,034,448	14,967,176	13,636,828	11,613,921	5,314,529	86,890,826

44 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):

2019	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	3,226,913	825,483	-	-	-	-	-	4,052,396
Securities purchased under resale agreements	609,937	552,629	561,541	-	-	-	-	1,724,107
Deposits and placements with banks and other financial institutions	-	-	36,886	-	-	-	-	36,886
Financial assets at FVTPL	-	-	-	-	-	207,145	-	207,145
Financial assets at FVOCI	-	99,736	115,919	141,505	30,740	4,730,405	-	5,118,305
Financial investments at amortised cost	-	5,095	20,361	15,118	325,659	3,041,237	-	3,407,470
Financing and advances	988,138	4,392,140	1,231,111	692,409	1,626,669	51,333,079	-	60,263,546
Other assets	227,628	8,076	-	-	-	-	33,256	268,960
Derivative assets	3,656	3,381	36,725	44,047	3,333	39,546	-	130,688
Statutory deposits with BNM	-	-	-	-	-	-	1,517,000	1,517,000
Right of use assets	-	-	-	-	-	-	2,924	2,924
Property, plant and equipment	-	-	-	-	-	-	3,979	3,979
Intangible assets	-	-	-	-	-	-	3,633	3,633
TOTAL ASSETS	5,056,272	5,886,540	2,002,543	893,079	1,986,401	59,351,412	1,560,792	76,737,039

44 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):

2019	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	10,095,769	8,369,117	8,987,020	9,954,642	15,563,054	1,447,368	-	54,416,970
Deposits and placements of banks and other financial institutions	406,947	584,942	3,557,033	501,655	258	59,026	-	5,109,861
Investment account due to designated financial institutions	-	-	-	250,373	741,397	7,237,564	-	8,229,334
Bills and acceptances payable	12,460	-	-	-	-	-	-	12,460
Other liabilities	785,000	74,257	13,297	-	19,088	2,878	34,322	928,842
Derivative liabilities	3,361	1,696	46,844	46,592	3,246	81,729	-	183,468
Recourse obligation on financing sold to Cagamas	-	-	-	-	-	2,270,239	-	2,270,239
Provision for taxation and zakat	-	-	-	-	-	-	36,025	36,025
Deferred tax liabilities	-	-	-	-	-	-	25,421	25,421
Lease liabilities	-	257	460	669	793	861	-	3,040
Subordinated obligations	-	-	-	-	4,565	750,000	-	754,565
TOTAL LIABILITIES	11,303,537	9,030,269	12,604,654	10,753,931	16,332,401	11,849,665	95,768	71,970,225
TOTAL EQUITY	-	-	-	-	-	-	4,766,814	4,766,814
TOTAL LIABILITIES AND EQUITY	11,303,537	9,030,269	12,604,654	10,753,931	16,332,401	11,849,665	4,862,582	76,737,039

44 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 payments:

2020	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	23,687,473	23,805,748	12,444,831	940,596	498,690	-	61,377,338
Deposits and placements of banks and other financial institutions	2,814,717	4,173,552	25,213	38,115	62,618	20,850	7,135,065
Investment account due to designated financial institutions	179,368	174,657	-	3,211,566	4,092,380	1,421,159	9,079,130
Bills and acceptances payable	12,182	-	-	-	-	-	12,182
Other financial liabilities	609,918	8,453	24,123	4,471	73	907	647,945
Derivative liabilities:							
- Gross settled derivatives:							
- Inflow	(1,545,691)	(5,391,641)	(158,112)	(444,149)	(32,770)	(475,145)	(8,047,508)
- Outflow	1,577,372	5,542,669	170,119	477,984	50,693	503,509	8,322,346
- Net settled derivatives	3,165	12,749	20,677	82,509	51,783	16,309	187,192
Recourse obligation on financing sold to Cagamas	-	1,057,718	1,285,953	786,659	-	-	3,130,330
Lease liabilities	261	1,038	1,028	2,513	-	-	4,840
Subordinated obligations	-	16,900	16,900	299,300	510,800	-	843,900
TOTAL FINANCIAL LIABILITIES	27,338,765	29,401,843	13,830,732	5,399,564	5,234,267	1,487,589	82,692,760

44 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 payments (continued):

2019	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	18,481,778	19,155,917	16,003,375	1,028,810	580,125	-	55,250,005
Deposits and placements of banks and other financial institutions	991,934	4,075,934	701	20,837	40,401	-	5,129,807
Investment account due to designated financial institutions	-	250,798	742,108	1,079,313	5,287,072	961,454	8,320,745
Bills and acceptances payable	12,460	-	-	-	-	-	12,460
Other financial liabilities	859,258	13,297	19,088	2,878	-	-	894,521
Derivative liabilities:							
- Gross settled derivatives:							
- Inflow	(492,846)	(2,893,155)	(211,707)	(468,671)	(33,328)	(499,896)	(4,599,603)
- Outflow	498,015	2,945,327	222,155	500,619	50,693	528,855	4,745,664
- Net settled derivatives	1,382	3,384	5,274	18,034	14,746	3,444	46,264
Recourse obligation on financing sold to Cagamas	-	48,646	48,646	2,325,476	-	-	2,422,768
Lease liabilities	257	1,129	793	861	-	-	3,040
Subordinated obligations	-	16,900	16,900	311,500	532,400	-	877,700
TOTAL FINANCIAL LIABILITIES	20,352,238	23,618,177	16,847,333	4,819,657	6,472,109	993,857	73,103,371

44 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 RM'000	**Over 1 year RM'000**	**Total RM'000**
2020			
Transaction-related contingent items	**22,550**	**298,875**	**321,425**
Short-term self-liquidating trade-related contingencies	**24,011**	**-**	**24,011**
Irrevocable commitments to extend credit	**705**	**8,829,638**	**8,830,343**
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	**101,605**	**2,308,611**	**2,410,216**
TOTAL COMMITMENTS AND CONTINGENCIES	**148,871**	**11,437,124**	**11,585,995**

	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
2019			
Transaction-related contingent items	32,017	228,064	260,081
Short-term self-liquidating trade-related contingencies	55,928	39,361	95,289
Irrevocable commitments to extend credit	30,233	7,522,933	7,553,166
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	112,437	2,154,299	2,266,736
TOTAL COMMITMENTS AND CONTINGENCIES	230,615	9,944,657	10,175,272

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.

44 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 are subject to impairment:

	2020	2019
	RM'000	RM'000
Credit risk exposure relating to on-balance sheet assets:		
Short-term funds (exclude cash in hand)	**2,250,672**	4,031,070
Securities purchased under resale agreements	**3,767,531**	1,724,107
Deposits and placements with banks and other financial institutions	**2,410,219**	36,886
Financial assets at FVOCI	**6,409,937**	5,118,305
Financial investments at amortised cost	**4,577,078**	3,407,470
Financing and advances	**66,788,344**	60,263,546
Other financial assets	**240,557**	192,584
	86,444,338	74,773,968
Credit risk exposure relating to off-balance sheet assets:		
Commitments and contingencies	**11,585,995**	10,175,272
Total maximum credit risk exposure that are subject to impairment	**98,030,333**	84,949,240

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

	2020	2019
	RM'000	RM'000
Financial assets at FVTPL	**107,678**	207,145
Derivative assets	**215,979**	130,688
	323,657	337,833

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(ii) Collaterals

The tangible securities acceptable by the Bank are as follows:

(a) Fixed deposits, Commodity Murabahah Deposit-i, negotiable Islamic negotiable instrument of deposits, foreign currency deposits and cash deposits/margins;
(b) Land and/or buildings;
(c) Vessels and automobiles;
(d) Equities, Collective Investment Scheme and 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 2020 amounted to RM39.1 million (2019: RM55.8 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 2020 for the Bank is 76.4% (2019: 78.4%). 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:

2020	**Gross impaired outstanding**	**Credit losses**	**Net carrying amount**	**Collateral value over gross outstanding**
	RM'000	**RM'000**	**RM'000**	**%**
Financing and advances	**435,207**	**(179,605)**	**255,602**	**76.0**
2019				
Financing and advances	466,169	(173,882)	292,287	83.5

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (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 18.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(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

44 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:

2020	Gross Carrying Amount Good RM'000	Fair RM'000	No rating RM'000	Credit-impaired RM'000	Total RM'000	Provision for credit loss RM'000
General Approach						
Short-term funds (exclude cash)	413,103	2,231	1,835,568	-	2,250,902	(230)
Stage 1	413,103	2,231	1,835,568	-	2,250,902	(230)
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Securities purchased under resale agreements	3,767,531	-	-	-	3,767,531	-
Stage 1	3,767,531	-	-	-	3,767,531	-
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Deposits and placements with banks and other financial institutions	442,551	-	1,967,668	-	2,410,219	-
Stage 1	442,551	-	1,967,668	-	2,410,219	-
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Financial assets at FVOCI	1,739,799	-	4,670,138	-	6,409,937	(2,001)
Stage 1	1,739,799	-	4,527,023	-	6,266,822	(2,001)
Stage 2	-	-	143,115	-	143,115	-
Stage 3	-	-	-	-	-	-
Financial investments at amortised cost	185,797	-	4,395,973	-	4,581,770	(4,692)
Stage 1	185,797	-	3,726,985	-	3,912,782	(4,557)
Stage 2	-	-	668,988	-	668,988	(135)
Stage 3	-	-	-	-	-	-
Financing and advances	52,111,788	7,986,823	6,676,102	435,207	67,209,920	(531,260)
Stage 1	46,869,083	7,078,875	6,555,561	-	60,503,519	(156,636)
Stage 2	5,242,705	907,948	120,541	-	6,271,194	(195,019)
Stage 3	-	-	-	435,207	435,207	(179,605)
	58,660,569	7,989,054	19,545,449	435,207	86,630,279	(538,183)

44 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 (continued):

2019	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)	320,899	5,549	3,704,733	-	4,031,181	(111)
Stage 1	320,899	5,549	3,704,733	-	4,031,181	(111)
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Securities purchased under resale agreements	1,724,107	-	-	-	1,724,107	-
Stage 1	1,724,107	-	-	-	1,724,107	-
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Deposits and placements with banks and other financial institutions	-	-	36,886	-	36,886	-
Stage 1	-	-	36,886	-	36,886	-
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Financial assets at FVOCI	891,691	-	4,226,614	-	5,118,305	(2,395)
Stage 1	891,691	-	4,226,614	-	5,118,305	(2,395)
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Financial investments at amortised cost	196,334	-	3,216,507	-	3,412,841	(5,371)
Stage 1	196,334	-	2,588,856	-	2,785,190	(5,182)
Stage 2	-	-	627,651	-	627,651	(189)
Stage 3	-	-	-	-	-	-
Financing and advances	39,377,598	15,366,596	5,360,097	466,169	60,570,460	(341,053)
Stage 1	37,741,112	13,864,030	5,341,067	-	56,946,209	(67,562)
Stage 2	1,636,486	1,502,566	19,030	-	3,158,082	(99,609)
Stage 3	-	-	-	466,169	466,169	(173,882)
	42,510,629	15,372,145	16,544,837	466,169	74,893,780	(348,930)

Other financial assets for the Bank of RM240,557,000 (2019: RM192,584,000) are non-rated and short-term in nature, of which no provision for credit loss is provided.

44 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:

2020	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	-	-	-	21,393	102,634	1,446,854	-	277,739	1,848,620
Mining and quarrying	-	-	-	-	-	114,929	-	38,506	153,435
Manufacturing	-	-	-	-	-	2,068,573	-	819,194	2,887,767
Electricity, gas and water	-	-	-	140,428	-	226,174	-	135,505	502,107
Construction	-	-	-	397,967	354,199	4,829,877	-	1,920,870	7,502,913
Wholesale and retail trade and restaurant and hotel	-	-	-	30,138	-	2,162,302	-	840,981	3,033,421
Transport, storage and communication	-	-	-	806,796	241,982	5,202,608	-	628,102	6,879,488
Finance, insurance, real estate and business services	1,073,790	3,767,531	-	1,663,689	2,724,975	5,668,587	215,979	1,190,495	16,305,046
Government and government agencies	3,587,331	-	107,678	3,349,526	1,157,980	3,432,112	50,000	-	11,684,627
Others	-	-	-	-	-	41,878,299	190,557	5,734,603	47,803,459
	4,661,121	3,767,531	107,678	6,409,937	4,581,770	67,030,315	456,536	11,585,995	98,600,883

^ Excludes stage 1 expected credit losses amounting to RM230,000.
@ Excludes stage 1 and stage 2 expected credit losses amounting to RM4,692,000.
# Excludes stage 1 and stage 2 expected credit losses amounting to RM351,655,000 and positive fair value changes amounting to RM109,684,000.
* Other financial assets include other assets amounting to RM240,557,000 and derivative assets amounting to RM215,979,000.

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44 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 (continued):

2019	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	-	-	-	20,814	107,990	1,389,716	-	259,913	1,778,433
Mining and quarrying	-	-	-	-	-	104,809	-	26,852	131,661
Manufacturing	-	-	-	-	-	1,937,387	923	912,146	2,850,456
Electricity, gas and water	-	-	-	15,272	-	213,850	2,811	125,954	357,887
Construction	-	-	-	304,783	225,560	4,778,791	-	1,593,151	6,902,285
Wholesale and retail trade and restaurant and hotel	-	-	-	-	-	1,826,947	804	594,746	2,422,497
Transport, storage and communication	-	-	-	745,808	81,370	5,031,810	-	281,656	6,140,644
Finance, insurance, real estate and business services	438,088	-	-	1,268,025	2,091,295	5,859,476	126,150	1,059,103	10,842,137
Government and government agencies	3,629,979	1,724,107	207,145	2,763,603	906,626	3,583,712	-	-	12,815,172
Others	-	-	-	-	-	35,670,080	192,584	5,321,751	41,184,415
	4,068,067	1,724,107	207,145	5,118,305	3,412,841	60,396,578	323,272	10,175,272	85,425,587

^ Excludes stage 1 expected credit losses amounting to RM111,000.
@ Excludes stage 1 and stage 2 expected credit losses amounting to RM5,371,000.
# Excludes stage 1 and stage 2 expected credit losses amounting to RM167,171,000 and positive fair value changes amounting to RM34,139,000.
* Other financial assets include other assets amounting to RM192,584,000 and derivative assets amounting to RM130,688,000.

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44 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:

2020	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	4,620,406	3,767,531	107,678	6,409,937	4,581,770	66,867,887	456,536	11,585,995	98,397,740
Malaysia	4,475,165	3,767,531	107,678	6,409,937	4,581,770	66,773,743	456,536	11,585,995	98,158,355
Other Southeast Asia	145,241	-	-	-	-	94,144	-	-	239,385
Other Asia	25,338	-	-	-	-	140,708	-	-	166,046
Europe	3,023	-	-	-	-	13,936	-	-	16,959
America	12,354	-	-	-	-	4,985	-	-	17,339
Africa	-	-	-	-	-	2,740	-	-	2,740
Others	-	-	-	-	-	59	-	-	59
	4,661,121	3,767,531	107,678	6,409,937	4,581,770	67,030,315	456,536	11,585,995	98,600,883

^ Excludes stage 1 expected credit losses amounting to RM230,000.
@ Excludes stage 1 and stage 2 expected credit losses amounting to RM4,692,000.
# Excludes stage 1 and stage 2 expected credit losses amounting to RM351,655,000 and positive fair value changes amounting to RM109,684,000.
* Other financial assets include other assets amounting to RM240,557,000 and derivative assets amounting to RM215,979,000.

44 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 (continued):

2019	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	4,053,575	1,724,107	207,145	5,092,725	3,412,841	60,250,411	323,272	10,175,272	85,239,348
Malaysia	3,993,255	1,724,107	207,145	5,092,725	3,412,841	60,160,285	323,272	10,175,272	85,088,902
Other Southeast Asia	60,320	-	-	-	-	90,126	-	-	150,446
Other Asia	3,372	-	-	25,580	-	127,688	-	-	156,640
Europe	3,253	-	-	-	-	10,532	-	-	13,785
America	7,867	-	-	-	-	5,038	-	-	12,905
Africa	-	-	-	-	-	2,838	-	-	2,838
Others	-	-	-	-	-	71	-	-	71
	4,068,067	1,724,107	207,145	5,118,305	3,412,841	60,396,578	323,272	10,175,272	85,425,587

^ Excludes stage 1 expected credit losses amounting to RM111,000.
@ Excludes stage 1 and stage 2 expected credit losses amounting to RM5,371,000.
# Excludes stage 1 and stage 2 expected credit losses amounting to RM167,171,000 and positive fair value changes amounting to RM34,139,000.
* Other financial assets include other assets amounting to RM192,584,000 and derivative assets amounting to RM130,688,000.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(v) 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 2020, and are still subject to enforcement activities was RM6.5 million (2019: RM6.0 million) for the Bank.

(vi) 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 as net modification loss in the income statements as disclosed in Note 29, 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, excluding borrowers under moratorium repayment during the year due to COVID-19 pandemic.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(vii) Sensitivity analysis

The Bank has performed ECL sensitivity assessment on financing and advances based on the changes in key variables, such as private consumption, unemployment rates, inflation and KLIBOR-3M, 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:

2020	**Changes**	**← Increase/(Decrease) in ECL →** **RM'000**	**RM'000**
(a) Retail			
Private consumption	+/- 200bps	**(6,141)**	**6,462**
Unemployment rates	+/- 50bps	**9,510**	**(8,871)**
Inflation	+/- 100bps	**2,020**	**(1,677)**
(b) Non-retail			
Private consumption	+/- 200bps	**(8,602)**	**8,183**
KLIBOR-3M	+/- 25bps	**6,911**	**(7,030)**

2019	Changes	← Increase/(Decrease) in ECL → RM'000	RM'000
(a) Retail			
Private consumption	+/- 50bps	(1,053)	1,424
Unemployment rates	+/- 10bps	1,642	(1,592)
Inflation	+/- 5bps	81	(86)
(b) Non-retail			
Private consumption	+/- 50bps	(1,756)	1,545
KLIBOR-3M	+/- 25bps	6,501	(6,579)

Retail comprises substantially household sector as disclosed in Note 8(iv) under financing and advances by economic sector.

Non-retail comprises other than household sector as disclosed in Note 8(iv) under financing and advances by economic sector.

44 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
2020				
Financial assets				
Financial assets at FVTPL:				
- money market instruments	**-**	**107,678**	**-**	**107,678**
Financial assets at FVOCI:	**-**	**6,409,937**	**-**	**6,409,937**
- money market instruments	**-**	**2,122,209**	**-**	**2,122,209**
- unquoted securities	**-**	**4,287,728**	**-**	**4,287,728**
Derivative assets	**-**	**215,979**	**-**	**215,979**
	-	**6,733,594**	**-**	**6,733,594**
Financial liabilities				
Derivative liabilities	**-**	**337,929**	**-**	**337,929**
2019				
Financial assets				
Financial assets at FVTPL:				
- money market instruments	-	207,145	-	207,145
Financial assets at FVOCI:	-	5,118,305	-	5,118,305
- money market instruments	-	1,611,539	-	1,611,539
- unquoted securities	-	3,506,766	-	3,506,766
Derivative assets	-	130,688	-	130,688
	-	5,456,138	-	5,456,138
Financial liabilities				
Derivative liabilities	-	183,468	-	183,468

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

44 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 non-transferable and non-tradable perpetual sukuk and impaired securities.

45 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
2020	**RM'000**	**RM'000**
Financial assets		
Financial investments at amortised cost	**4,577,078**	**4,673,280**
Financing and advances	**66,788,344**	**67,608,304**
Financial liabilities		
Deposits from customers	**60,830,175**	**60,838,727**
Deposits and placements of banks and other financial institutions	**7,124,095**	**7,118,564**
Investment account due to designated financial institutions	**8,840,858**	**9,047,106**
Recourse obligation on financing sold to Cagamas	**3,023,760**	**3,179,978**
Subordinated obligations	**754,514**	**781,204**
2019		
Financial assets		
Financial investments at amortised cost	3,407,470	3,466,752
Financing and advances	60,263,546	60,611,841
Financial liabilities		
Deposits from customers	54,416,970	54,525,002
Deposits and placements of banks and other financial institutions	5,109,861	5,106,243
Investment account due to designated financial institutions	8,229,334	8,372,010
Recourse obligation on financing sold to Cagamas	2,270,239	2,439,193
Subordinated obligations	754,565	770,683

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

45 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 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2020				
Financial assets				
Financial investments at amortised cost	**-**	**2,164,935**	**2,508,345**	**4,673,280**
Financing and advances	**-**	**67,608,304**	**-**	**67,608,304**
Financial liabilities				
Deposits from customers	**-**	**60,838,727**	**-**	**60,838,727**
Deposits and placements of banks and other financial institutions	**-**	**7,118,564**	**-**	**7,118,564**
Investment account due to designated financial institutions	**-**	**9,047,106**	**-**	**9,047,106**
Recourse obligation on financing sold to Cagamas	**-**	**3,179,978**	**-**	**3,179,978**
Subordinated obligations	**-**	**781,204**	**-**	**781,204**
2019				
Financial assets				
Financial investments at amortised cost	-	1,409,772	2,056,980	3,466,752
Financing and advances	-	60,611,841	-	60,611,841
Financial liabilities				
Deposits from customers	-	54,525,002	-	54,525,002
Deposits and placements of banks and other financial institutions	-	5,106,243	-	5,106,243
Investment account due to designated financial institutions	-	8,372,010	-	8,372,010
Recourse obligation on financing sold to Cagamas	-	2,439,193	-	2,439,193
Subordinated obligations	-	770,683	-	770,683

45 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 at FVTPL, financial assets at FVOCI and financial investments at amortised cost

The estimated fair value for financial assets at FVTPL, financial assets at FVOCI and financial investments at amortised cost 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 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 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.

45 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) Lease liabilities

The estimated fair value of lease liabilities with maturities of less than six months approximate the carrying values. For other lease liabilities with maturities of six months or more, the fair values are estimated based on discounted cash flows using prevailing market rates of incremental borrowings.

(x) 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.

(xi) 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.

(xii) 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.

46 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

(a) Bancatakaful service agreements between the Bank and Syarikat Takaful Malaysia Keluarga Berhad ('STMKB') and Syarikat Takaful Malaysia Am Berhad ('STMAB')

The Bank had on 28 July 2020, entered into the following agreements:

(i) Bancatakaful service agreement in respect of family Takaful products ('Family Bancatakaful Agreement') with STMKB; and

(ii) Bancatakaful service agreement in respect of general Takaful products ('General Bancatakaful Agreement') with STMAB, a wholly-owned subsidiary of STMKB.

The salient terms of the Bancatakaful Agreements are as follows:

Family Bancatakaful Agreement	General Bancatakaful Agreement
(a) Tenure shall be for a period of 5 years commencing on 1 August 2020 and subject to the Bank meeting the pre-agreed budgets for the family credit Takaful products, and shall end on 31 July 2025. In event that the Bank fails to meet the pre-agreed budgets for the family credit Takaful products at the end of the 5th year of the contract period, the tenure of the Family Bancatakaful Agreement may be extended for a period of up to 1 year;	(a) Tenure shall be for a period of 5 years commencing on 1 August 2020 and subject to the Bank meeting the pre-agreed budgets for the general Takaful products, and shall end on 31 July 2025. In event that the Bank fails to meet the pre-agreed budgets for the general Takaful products at the end of the 5th year of the contract period, the tenure of the General Bancatakaful Agreement may be extended for a period of up to 1 year; and
(b) The Bank shall sell, distribute, market and promote family credit Takaful products developed by STMKB for distribution by the Bank on an exclusive basis to the extent permitted by the applicable laws and regulatory requirements. In consideration thereof, STMKB will pay a facilitation fee of RM145 million to the Bank; and	(b) The Bank shall sell, distribute, market and promote general Takaful products developed by STMAB for distribution by the Bank on an exclusive basis to the extent permitted by the applicable laws and regulatory requirements. In consideration thereof, STMAB will pay a facilitation fee of RM6 million to the Bank.
(c) STMKB shall have the right of first refusal to develop and offer for sale by the Bank non-credit related/advisory family Takaful products proposed by the Bank, in accordance with the terms of the Family Bancatakaful Agreement.	

47 EVENT SUBSEQUENT TO THE FINANCIAL YEAR END

On 13 January 2021, the Government of Malaysia reintroduced the movement control order to curb the soaring number of COVID-19 cases. The lock down may have a negative impact on the Bank's result of operations, similar to the areas highlighted in the Directors' Report. The Bank is not able to predict the potential future direct or indirect effects resulted from the movement control order. However, the Bank is taking actions to mitigate the impacts, and will continue to closely monitor the impact and the related risks as they evolve.

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

We, Dato' Mohamad Nasir Ab Latif 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 2020 and financial performance of the Bank for the financial year ended on 31 December 2020 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 24 February 2021.

DATO' MOHAMAD NASIR AB LATIF
CHAIRMAN

DATO' ADISSADIKIN ALI
CHIEF EXECUTIVE OFFICER/
MANAGING DIRECTOR

Kuala Lumpur

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 24 February 2021.

Before me:

PESURUHJAYA SUMPAH
No. W 540
Dr. T. YOKHESWAREM
PhD., MBA.
1-1-2019 – 31-12-2021
MALAYSIA

COMMISSIONER FOR OATHS
Kuala Lumpur

Unit A11-1 & 2, Megan Avenue 1,
No. 189, Jalan Tun Razak,
50400 Kuala Lumpur.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF RHB ISLAMIC BANK BERHAD
(Incorporated in Malaysia)
Registration No. 200501003283 (680329-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 2020, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 December 2020, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 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' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF RHB ISLAMIC BANK BERHAD (CONTINUED)
(Incorporated in Malaysia)
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REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

The Directors of the Bank are responsible for the other information. The other information comprises the Directors' Report and Report of the Shariah Committee, but does not include the financial statements of the Bank and our auditors' report thereon.

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

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

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

Responsibilities of the Directors for the financial statements

The Directors of the Bank are responsible for the preparation of 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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF RHB ISLAMIC BANK BERHAD (CONTINUED)
(Incorporated in Malaysia)
Registration No. 200501003283 (680329-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF RHB ISLAMIC BANK BERHAD (CONTINUED)
(Incorporated in Malaysia)
Registration No. 200501003283 (680329-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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	SOO HOO KHOON YEAN
LLP0014401-LCA & AF 1146	02682/10/2021 J
Chartered Accountants	Chartered Accountant

Kuala Lumpur
24 February 2021