

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

INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018

	Note	As at 31 March 2018 RM'000	As at 31 December 2017 RM'000
ASSETS			
Cash and short-term funds		4,991,551	2,029,860
Securities purchased under resale agreements	9	617,307	1,587,979
Deposits and placements with banks and other financial institutions		346,437	447,210
Financial assets at fair value through profit or loss ('FVTPL')/held-for-trading ('HFT')	10	91,219	172,536
Financial investments available-for-sale ('AFS')	11	-	3,394,493
Financial investments held-to-maturity ('HTM')	12	-	3,820,734
Financial assets at fair value through other comprehensive income ('FVOCI')	13	3,401,529	-
Financial assets at amortised costs	14	2,824,104	-
Financing and advances	15	45,751,218	42,701,794
Other assets	16	196,626	90,934
Derivative assets		458,399	327,978
Statutory deposits with Bank Negara Malaysia		1,237,201	1,116,200
Deferred tax assets		13,952	16,513
Property, plant and equipment		5,833	6,193
Intangible assets		4,806	5,039
TOTAL ASSETS		59,940,182	55,717,463
LIABILITIES AND EQUITY			
Deposits from customers	17	42,119,482	37,850,205
Deposits and placements of banks and other financial institutions	18	2,156,846	4,394,801
Investment account from customers	19	50	-
Investment account due to designated financial institutions	20	8,424,069	8,102,698
Obligations on securities sold under repurchase agreements		-	604,163
Bills and acceptances payable		13,953	9,216
Derivative liabilities		457,047	327,723
Recourse obligation on financing sold to Cagamas Berhad ('Cagamas')		1,000,359	-
Subordinated obligations		764,504	755,393
Other liabilities	21	1,217,557	345,792
Provision for tax and zakat		5,456	15,623
TOTAL LIABILITIES		56,159,323	52,405,614
Share capital		1,673,424	1,273,424
Reserves		2,107,435	2,038,425
TOTAL EQUITY		3,780,859	3,311,849
TOTAL LIABILITIES AND EQUITY		59,940,182	55,717,463
COMMITMENTS AND CONTINGENCIES	28	20,988,720	24,280,522

Note:

Comparatives have not been restated as provided in the transitional provision of MFRS 9.

This Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Bank for the financial year ended 31 December 2017.

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

INTERIM FINANCIAL STATEMENTS
UNAUDITED INCOME STATEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2018

	Note	Three Months Ended	
		31 March 2018	31 March 2017
		RM'000	RM'000
Income derived from investment of depositors' funds	22	548,702	455,587
Income derived from investment account funds	23	103,844	84,027
Income derived from investment of shareholders' funds	24	57,305	31,684
Allowance for credit losses	25	(22,098)	(28,216)
Total distributable income		687,753	543,082
Income attributable to depositors	26	(353,226)	(297,085)
Profit distributed to investment account holders		(85,742)	(69,481)
		248,785	176,516
Personnel expenses		(8,881)	(7,488)
Other overheads and expenditures		(91,046)	(69,635)
Profit before taxation		148,858	99,393
Taxation		(35,360)	(23,749)
Net profit for the financial period		113,498	75,644
Basic earnings per share (sen)	27	8.22	5.94

This Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Bank for the financial year ended 31 December 2017.

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

INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2018

	Three Months Ended	
	31 March 2018	31 March 2017
	RM'000	RM'000
Net profit for the financial period	113,498	75,644
Other comprehensive income/(loss) in respect of:		
Items that will be reclassified subsequently to profit or loss:		
(a) Financial investments AFS:		
- Unrealised net gain on revaluation	-	15,204
- Net transfer to income statement on disposal or impairment	-	(641)
(b) Debt instruments measured at FVOCI:		
- Unrealised net gain	6,811	-
- Net transfer to income statement on disposal	(86)	-
Income tax relating to components of other comprehensive income	(1,614)	(3,495)
Other comprehensive income, net of tax, for the financial period	5,111	11,068
Total comprehensive income for the financial period	118,609	86,712

This Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Bank for the financial year ended 31 December 2017.

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

INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 31 MARCH 2018

Note	Share capital RM'000	Non distributable		Distributable	Total RM'000
		AFS reserve RM'000	Regulatory reserve RM'000	Retained profits RM'000	
Balance as at 1 January 2018					
- As previously reported	1,273,424	(15,929)	267,031	1,787,323	3,311,849
- Effect of adoption of MFRS 9	-	-	48,800	(98,399)	(49,599)
- As restated	1,273,424	(15,929)	315,831	1,688,924	3,262,250
Net profit for the financial period	-	-	-	113,498	113,498
Other comprehensive income/(loss):					
Debt instruments:					
- Unrealised net gain		6,811			6,811
- Net transfer to income statement on disposal		(86)			(86)
Income tax relating to components of other comprehensive income	-	(1,614)	-	-	(1,614)
Other comprehensive income, net of tax, for the financial period	-	5,111	-	-	5,111
Total comprehensive income for the financial period	-	5,111	-	113,498	118,609
Issuance of shares	400,000	-	-	-	400,000
Transfer to regulatory reserve	-	-	45,680	(45,680)	-
Balance as at 31 March 2018	1,673,424	(10,818)	361,511	1,756,742	3,780,859

Note:

Comparatives have not been restated as provided in the transitional provision of MFRS 9.

This Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Bank for the financial year ended 31 December 2017.

RHB ISLAMIC BANK BERHAD (680329 – V)
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INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 31 MARCH 2018

	Share capital RM'000	Non distributable			Distributable	Total RM'000
		Statutory reserve RM'000	AFS reserve RM'000	Regulatory reserve RM'000	Retained profits RM'000	
Balance as at 1 January 2017	1,273,424	762,388	(31,944)	158,516	766,058	2,928,442
Net profit for the financial period	-	-	-	-	75,644	75,644
Other comprehensive income/(loss):						
Financial investments AFS:						
- Unrealised net gain on revaluation	-	-	15,204	-	-	15,204
- Net transfer to income statement on disposal or impairment	-	-	(641)	-	-	(641)
Income tax relating to components of other comprehensive income	-	-	(3,495)	-	-	(3,495)
Other comprehensive income, net of tax, for the financial period	-	-	11,068	-	-	11,068
Total comprehensive income for the financial period	-	-	11,068	-	75,644	86,712
Transfer to regulatory reserve	-	-	-	268	(268)	-
Balance as at 31 March 2017	1,273,424	762,388	(20,876)	158,784	841,434	3,015,154

This Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Bank for the financial year ended 31 December 2017.

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

INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2018

	Three months ended	
	31 March 2018	31 March 2017
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	148,858	99,393
Adjustments for non-cash items	(43,482)	(27,186)
Operating profit before changes in working capital	105,376	72,207
Changes in working capital:		
Net changes in operating assets	(2,210,289)	(1,731,608)
Net changes in operating liabilities	3,632,941	1,375,468
Cash generated from/(used in) operations	1,528,028	(283,933)
Zakat paid	-	(250)
Tax paid	(28,917)	(28,400)
Net cash generated from/(used in) operating activities	1,499,111	(312,583)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(131)	(237)
Purchase of intangible assets	(212)	(18)
Net proceeds from disposal/(purchase) of financial assets at FVOCI/financial investments AFS	717	(3,947)
Net redemption of financial assets at amortised cost/financial investments HTM	1,007,327	680,225
Income received from financial assets at FVOCI/financial investments AFS	28,491	30,774
Income received from financial assets at amortised cost/financial investments HTM	26,610	25,733
Net cash generated from investing activities	1,062,802	732,530
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	400,000	-
Net cash generated from financing activities	400,000	-
Net increase in cash and cash equivalents	2,961,913	419,947
Cash and cash equivalents at the beginning of the financial period	2,029,638	3,436,239
Cash and cash equivalents at the end of the financial period	4,991,551	3,856,186
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and short-term funds	4,991,551	3,856,186

This Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Bank for the financial year ended 31 December 2017.

RHB ISLAMIC BANK BERHAD (680329 – V)
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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2018

1 BASIS OF PREPARATION

The interim financial statements are unaudited and has been prepared in compliance with Malaysian Financial Reporting Standard (MFRS) 134, 'Interim Financial Reporting' issued by Malaysian Accounting Standards Board (MASB) and should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2017.

The accounting policies and presentation adopted by the Bank for the interim financial statements are consistent with those adopted in the audited financial statements for the financial year ended 31 December 2017, except for the adoption of the following:

(a) Accounting standards, annual improvements and amendments to MFRS which are effective for annual periods beginning on or after 1 January 2018:

- MFRS 9 'Financial Instruments'
- MFRS 15 'Revenue from Contracts with Customers'
- Annual Improvements to MFRS 2014-2016 Cycle:
 - Amendment to MFRS 1 'First-time Adoption of Malaysian Financial Reporting Standards'
 - IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'

The adoption of the above accounting standards, annual improvements and amendments do not give rise to any material financial impact to the Bank other than the effects and change in accounting policy arising from the adoption of MFRS 9 as disclosed in Note 38.

(b) Changes in regulatory requirements - Financial Reporting for Islamic Banking Institutions

On 2 February 2018, Bank Negara Malaysia (BNM) issued the revised policy document on Financial Reporting for Islamic Banking Institutions which prescribes the regulatory reserves to be maintained by banking institutions.

With effect from 1 January 2018, the Bank must maintain, in aggregate, 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.

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

The effect of this change is as disclosed in Note 38.

2 AUDITORS' REPORT

The auditors' report for the financial year ended 31 December 2017 was not subject to any qualification.

3 SEASONAL OR CYCLICAL ITEMS

The business operations of the Bank have not been affected by any material seasonal or cyclical factors.

4 EXCEPTIONAL OR EXTRAORDINARY ITEMS

There were no exceptional or unusual items for the three months ended 31 March 2018.

5 CHANGES IN ESTIMATES

There were no material changes in estimates of amounts reported in prior financial years that have a material effect for the three months ended 31 March 2018.

6 CHANGES IN DEBT AND EQUITY SECURITIES

On 8 March 2018, the Bank increased its issued and paid up share capital from RM1,273,424,002 to RM1,673,424,002 via the issuance of 400,000,000 new ordinary shares at RM1 each to its holding company, RHB Bank Berhad ('RHB Bank').

Other than the above, there were no other issuances and repayments of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the three months ended 31 March 2018.

7 DIVIDENDS PAID

No dividend has been paid during the three months ended 31 March 2018.

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2018**

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:

- 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.
- 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.
- Details of the IA are as disclosed in Notes 19 and 20.

9 SECURITIES PURCHASED UNDER RESALE AGREEMENTS

	As at 31 March 2018 RM'000	As at 31 December 2017 RM'000
At amortised cost		
Malaysian Government Investment Issues	617,307	1,587,979

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

	As at 31 March 2018 RM'000	As at 31 December 2017 RM'000
At fair value		
<u>Money market instruments:</u>		
Malaysian Government Investment Issues	51,059	172,536
Cagamas bonds	40,160	-
	91,219	172,536

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

	As at 31 December 2017 RM'000
At fair value	
<u>Money market instruments:</u>	
Malaysian Government Investment Issues	648,592
Khazanah bonds	9,403
Cagamas bonds	30,485
<u>Unquoted securities:</u>	
<u>In Malaysia</u>	
Corporate sukuk	2,505,393
Perpetual sukuk	200,620
	3,394,493
At cost	
<u>Unquoted securities:</u>	
<u>In Malaysia</u>	
Shares in Islamic Bank and Financial Institutions of Malaysia ('IBFIM')	549
	3,395,042
Accumulated impairment losses	(549)
	3,394,493

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2018**

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

	As at 31 December 2017 RM'000
At amortised cost	
<u>Money market instruments:</u>	
Malaysian Government Investment Issues	335,325
Sukuk Perumahan Kerajaan	9,985
Khazanah bonds	21,799
Negotiable Islamic debt certificates	1,838,090
<u>Unquoted securities:</u>	
<u>In Malaysia</u>	
Corporate sukuk	1,615,535
	3,820,734

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

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

	As at 31 March 2018 RM'000
At fair value	
Debt instruments	3,401,529
Debt instruments	
<u>Money market instruments:</u>	
Malaysian Government Investment Issues	660,048
BNM Monetary Notes	4,368
Khazanah bonds	9,486
Cagamas bonds	40,175
<u>Unquoted securities:</u>	
<u>In Malaysia</u>	
Corporate sukuk	2,489,401
Perpetual sukuk	203,554
	3,407,032
Allowance for credit losses	(5,503)
	3,401,529

(a) 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
Balance as at the beginning of the financial period	-	-	-	-
- As previously reported	5,382	-	-	5,382
- Effect of adoption of MFRS 9	5,382	-	-	5,382
- As restated	121	-	-	121
Net charge	5,503	-	-	5,503
Balance as at the end of the financial period	5,503	-	-	5,503

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2018**

14 FINANCIAL ASSETS AT AMORTISED COSTS

	<u>As at 31 March 2018</u> RM'000
At amortised cost	
<u>Money market instruments:</u>	
Malaysian Government Investment Issues	336,091
Sukuk Perumahan Kerajaan	10,080
Khazanah bonds	22,034
Negotiable Islamic debt certificates	796,028
<u>Unquoted securities:</u>	
<u>In Malaysia</u>	
Corporate sukuk	<u>1,662,437</u>
	<u>2,826,670</u>
Allowance for credit losses	<u>(2,566)</u>
	<u>2,824,104</u>

Included in financial assets at amortised costs are securities acquired and funded via the RIA, as part of arrangement between the Bank and RHB Bank, its holding company. Gross exposure to RIA financing as at 31 March 2018 was RM893,775,000.

(a) 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
Balance as at the beginning of the financial period	-	-	-	-
- As previously reported	1,845	1,213	-	3,058
- Effect of adoption of MFRS 9	1,845	1,213	-	3,058
- As restated	(12)	12	-	-
Transfer in/(out) to Lifetime ECL not credit impaired (Stage 2)	93	(585)	-	(492)
Net charge/(writeback)	<u>1,926</u>	<u>640</u>	<u>-</u>	<u>2,566</u>
Balance as at the end of the financial period	<u>1,926</u>	<u>640</u>	<u>-</u>	<u>2,566</u>

RHB ISLAMIC BANK BERHAD (680329 – V)
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**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2018**

15 FINANCING AND ADVANCES

31 March 2018	Bai'						
	Bithaman						
At amortised cost	Ajil ('BBA')	Ijarah	Murabahah	Musarakah	Bai'Inah	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cashline	-	-	561,715	-	-	16,082	577,797
Term financing:							
- Housing financing	432,315	-	1,270,694	11,235,919	-	214	12,939,142
- Syndicated term financing	-	70,915	1,784,277	-	-	18,555	1,873,747
- Hire purchase receivables	-	6,422,569	-	-	-	44,555	6,467,124
- Other term financing	907	477,861	17,360,108	-	1,526,064	4,433	19,369,373
Bills receivables	-	-	1,049,115	-	-	5,098	1,054,213
Trust receipts	-	-	26,429	-	-	255	26,684
Staff financing	2,464	-	-	-	-	-	2,464
Credit/charge card receivables	-	-	-	-	-	259,972	259,972
Revolving financing	-	-	3,519,539	-	-	-	3,519,539
Gross financing and advances	435,686	6,971,345	25,571,877	11,235,919	1,526,064	349,164	46,090,055
Fair value changes arising from fair value hedge							(8,228)
							46,081,827
Allowance for credit losses on financing and advances							(330,609)
Net financing and advances							45,751,218

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2018**

15 FINANCING AND ADVANCES (CONTINUED)

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

RHB ISLAMIC BANK BERHAD (680329 – V)
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**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2018**

15 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 March 2018, the gross exposure to RIA financing is RM7,238,030,000 (31 December 2017: RM7,030,030,000) and the portfolio expected credit losses for financing and advances relating to RIA amounting to RM57,825,000 (31 December 2017: RM45,287,000) is recognised in the financial statements of RHB Bank. There is no Stage 3 expected credit losses being made for such RIA financing.

- (b) Included in term financing are housing financing sold to Cagamas amounting to RM997,314,000 (31 December 2017: Nil).

- (i) By type of customer

	As at 31 March 2018	As at 31 December 2017
	RM'000	RM'000
Domestic non-bank financial institutions:		
- Others	1,287,383	1,287,745
Domestic business enterprises:		
- Small medium enterprises	3,216,512	3,085,019
- Others	13,701,778	12,985,826
Government and statutory bodies	4,203,537	4,005,023
Individuals	23,208,445	21,173,536
Other domestic entities	134,208	100,176
Foreign entities	338,192	338,357
	<u>46,090,055</u>	<u>42,975,682</u>

- (ii) By profit rate sensitivity

Fixed rate:		
- Housing financing	432,429	448,398
- Hire-purchase receivables	4,127,280	4,452,465
- Other fixed rate financing	8,756,590	8,238,412
Variable rate:		
- BFR-plus	30,691,426	27,774,276
- Cost-plus	2,082,330	2,062,131
	<u>46,090,055</u>	<u>42,975,682</u>

- (iii) By economic sector

Agriculture, hunting, forestry and fishing	1,013,816	1,122,652
Mining and quarrying	244,295	245,208
Manufacturing	1,235,052	1,215,270
Electricity, gas and water	185,707	187,516
Construction	4,040,402	2,994,392
Wholesale and retail trade and restaurant and hotel	1,360,148	1,294,069
Transport, storage and communication	4,832,816	4,870,770
Real estate	1,251,123	1,274,802
Finance, insurance and business services	3,683,908	3,791,815
Government and government agencies	2,536,686	2,354,165
Education, health & others	2,158,780	2,118,510
Household sector	23,305,936	21,232,290
Others	241,386	274,223
	<u>46,090,055</u>	<u>42,975,682</u>

- (iv) By geographical distribution

In Malaysia	<u>46,090,055</u>	<u>42,975,682</u>
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- (v) By remaining contractual maturities

Maturing within one year	8,679,976	7,861,965
One to three years	5,005,631	5,113,144
Three to five years	3,964,323	3,599,350
Over five years	28,440,125	26,401,223
	<u>46,090,055</u>	<u>42,975,682</u>

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15 FINANCING AND ADVANCES (CONTINUED)

	As at 31 March 2018 RM'000	As at 31 December 2017 RM'000
(vi) Impaired financing and advances		
(a) Movement in impaired financing and advances		
Balance as at the beginning of the financial period/year		
- As previously reported	-	393,096
- Effect of adoption of MFRS 9	406,084	-
- As restated	406,084	393,096
Transfer in/(out) to 12-month ECL (Stage 1)	(20,684)	-
Transfer in/(out) to Lifetime ECL not credit impaired (Stage 2)	(22,430)	-
Transfer in/(out) to Lifetime ECL credit impaired (Stage 3)	85,156	-
Classified as impaired	-	472,890
Reclassified as non-impaired	-	(385,958)
Purchases and origination	14,719	-
Derecognition	(16,481)	-
Amount recovered	-	(77,000)
Amount written off	(12,445)	(59,067)
Balance as at the end of the financial period/year	433,919	343,961
(b) By economic sector		
Agriculture, hunting, forestry and fishing	183	304
Mining and quarrying	337	530
Manufacturing	26,015	22,380
Electricity, gas and water	28,488	29,822
Construction	82,210	40,724
Wholesale and retail trade and restaurant and hotel	60,319	54,481
Transport, storage and communication	9,348	9,391
Real estate	2,989	2,903
Finance, insurance and business services	23,153	7,169
Education, health & others	4,152	3,800
Household sector	196,725	172,457
	433,919	343,961
(c) By geographical distribution		
In Malaysia	433,919	343,961
(d) Allowance for credit losses on advances and financing		
12-month ECL (Stage 1)	56,327	-
Lifetime ECL not credit impaired (Stage 2)	81,615	-
Lifetime ECL credit impaired (Stage 3)	192,667	-
Individual impairment allowance	-	42,612
Collective impairment allowance	-	230,045
	330,609	272,657
(e) Movement in allowance for impaired financing and advances		
<u>Individual impairment allowance</u>		
Balance as at the beginning of the financial year	-	15,864
Net allowance made	-	29,204
Amount written off	-	(2,456)
Balance as at the end of the financial year	-	42,612
<u>Collective impairment allowance</u>		
Balance as at the beginning of the financial year	-	236,525
Net allowance made	-	37,562
Amount written off	-	(44,042)
Balance as at the end of the financial year	-	230,045

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15 FINANCING AND ADVANCES (CONTINUED)

(f) Movement in allowance for credit losses

31 March 2018	12-month ECL (Stage 1) RM'000	Lifetime ECL not Credit Impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	Total RM'000
Balance as at the beginning of the financial period				
- As previously reported	-	-	-	-
- Effect of adoption of MFRS 9	52,582	75,980	200,695	329,257
- As restated	52,582	75,980	200,695	329,257
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to 12-month ECL (Stage 1)	39,187	(35,792)	(3,395)	-
- Transferred to Lifetime ECL not credit impaired (Stage 2)	(7,965)	13,759	(5,794)	-
- Transferred to Lifetime ECL credit impaired (Stage 3)	(261)	(8,741)	9,002	-
	30,961	(30,774)	(187)	-
New financial assets originated or purchased	3,971	10,567	-	14,538
Allowance (written back)/made during the financial period	(29,864)	27,688	19,947	17,771
Bad debts written off	-	-	(20,181)	(20,181)
Derecognised during the financial period	(1,323)	(1,846)	(7,607)	(10,776)
Balance as at the end of the financial period	<u>56,327</u>	<u>81,615</u>	<u>192,667</u>	<u>330,609</u>

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16 OTHER ASSETS

	As at 31 March 2018	As at 31 December 2017
	RM'000	RM'000
Prepayments	18,751	15,998
Deposits	1,732	1,732
Other debtors	176,143	73,204
	196,626	90,934

17 DEPOSITS FROM CUSTOMERS

	As at 31 March 2018	As at 31 December 2017
	RM'000	RM'000
<u>Savings Deposits</u>		
Wadiah	1,414,841	1,353,675
<u>Demand Deposits</u>		
Wadiah	6,636,186	6,392,228
Commodity Murabahah	-	55,952
<u>Term Deposits</u>		
Commodity Murabahah	28,175,681	24,813,727
<u>Specific Investment Account</u>		
Commodity Murabahah	5,760,673	5,098,668
<u>General Investment Account</u>		
Mudharabah	132,101	135,955
	42,119,482	37,850,205

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

Due within six months	26,615,346	22,074,985
Six months to one year	5,753,555	7,966,481
One year to three years	1,610,788	4,814
Three years to five years	88,766	2,070
	34,068,455	30,048,350

(b) The deposits are sourced from the following classes of customers:

Government and statutory bodies	4,121,503	4,313,279
Business enterprises	26,066,291	23,926,425
Individuals	11,469,567	9,224,592
Others	462,121	385,909
	42,119,482	37,850,205

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18 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 March 2018 RM'000	As at 31 December 2017 RM'000
<u>Non-Mudharabah Funds:</u>		
Licensed Islamic banks	1,511,061	2,945,973
Licensed banks	272,385	1,115,096
Licensed investment banks	345,887	298,349
Bank Negara Malaysia	27,513	20,689
	2,156,846	4,380,107
<u>Mudharabah Funds:</u>		
Other financial institutions	-	14,694
	2,156,846	4,394,801

19 INVESTMENT ACCOUNT FROM CUSTOMERS

	As at 31 March 2018 RM'000	As at 31 December 2017 RM'000
<u>Restricted Investment Account:</u>		
Wakalah	50	-
<u>Investment asset (principal):</u>		
Short term funds	50	-
(a) The maturity structure is as follows:		
Due within six months	50	-
(b) The investment accounts is sourced from the following class of customers:		
Individuals	50	-

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20 INVESTMENT ACCOUNT DUE TO DESIGNATED FINANCIAL INSTITUTIONS

	<u>As at</u> <u>31 March 2018</u>	<u>As at</u> <u>31 December 2017</u>
	RM'000	RM'000
<u>Restricted Investment Account:</u>		
Mudharabah	<u>8,424,069</u>	<u>8,102,698</u>
<u>By type of counterparty:</u>		
Licensed banks	<u>8,424,069</u>	<u>8,102,698</u>
<u>Investment asset (principal):</u>		
Housing financing	300,000	300,000
Hire purchase receivables	700,000	700,000
Other term financing	6,238,030	6,030,030
Unquoted securities (Notes 12 and 14)	<u>893,775</u>	<u>790,275</u>
	<u>8,131,805</u>	<u>7,820,305</u>

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

21 OTHER LIABILITIES

	<u>As at</u> <u>31 March 2018</u>	<u>As at</u> <u>31 December 2017</u>
	RM'000	RM'000
Sundry creditors	5,673	4,691
Amount due to holding company	688,958	168,364
Amount due to other related companies	46	259
Deferred income	28,616	31,682
Short term employee benefits	2,301	5,391
Accrual for operational expenses	11,697	10,206
Cash collateral	415,570	-
Other accruals and payables	<u>64,696</u>	<u>125,199</u>
	<u>1,217,557</u>	<u>345,792</u>

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22 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	Three Months Ended	
	31 March 2018	31 March 2017
	RM'000	RM'000
Income derived from investment of:		
(i) General investment deposits	1,668	1,883
(ii) Other deposits	547,034	453,704
	548,702	455,587
(i) Income derived from investment of general investment deposits:		
Financing and advances	1,369	1,438
Securities purchased under resale agreements	26	58
Financial assets FVTPL/HFT	2	2
Financial investments AFS	-	146
Financial investments HTM	-	91
Financial assets at FVOCI	103	-
Financial assets at amortised costs	78	-
Money at call and deposits with banks and other financial institutions	78	144
Total finance income and hibah	1,656	1,879
Other operating income (Note a to d)	12	4
	1,668	1,883
Of which:		
Financing income earned on impaired financing	8	14
Other operating income comprise of:		
(a) Fee income:		
- Commission	7	-
- Guarantee fees	4	1
	11	1
(b) Net gain on revaluation of financial assets FVTPL	2	-
(c) Net loss on disposal of financial assets FVTPL	(1)	-
(d) Net gain on disposal of financial investments AFS	-	3
	12	4

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

	Three Months Ended	
	31 March 2018	31 March 2017
	RM'000	RM'000
(ii) Income derived from investment of other deposits:		
Financing and advances	448,510	346,738
Securities purchased under resale agreements	8,570	13,890
Financial assets FVTPL/HFT	703	473
Financial investments AFS	-	35,169
Financial investments HTM	-	21,968
Financial assets at FVOCI	33,752	-
Financial assets at amortised costs	25,671	-
Money at call and deposits with banks and other financial institutions	25,608	34,706
Total finance income and hibah	542,814	452,944
Other operating income (Note a to e)	4,220	760
	547,034	453,704
Of which:		
Financing income earned on impaired financing	2,426	3,400
Other operating income comprise of:		
(a) Fee income:		
- Commission	2,285	22
- Guarantee fees	1,253	194
	3,538	216
(b) Net gain on revaluation of financial assets FVTPL	674	-
(c) Net loss on disposal of financial assets FVTPL/HFT	(76)	(84)
(d) Net gain on disposal of financial assets at FVOCI	84	-
(e) Net gain on disposal of financial investments AFS	-	628
	4,220	760

23 INCOME DERIVED FROM INVESTMENT ACCOUNT FUNDS

	Three Months Ended	
	31 March 2018	31 March 2017
	RM'000	RM'000
Financing and advances	90,541	76,392
Financial investments HTM	-	5,316
Financial assets at amortised costs	13,302	-
Money at call and deposits with banks and other financial institutions	1	2,319
Total finance income and hibah	103,844	84,027

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24 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	Three Months Ended	
	31 March 2018	31 March 2017
	RM'000	RM'000
Financing and advances	14,361	5,531
Securities purchased under resale agreements	274	222
Financial assets FVTPL/HFT	22	8
Financial investments AFS	-	561
Financial investments HTM	-	350
Financial assets at FVOCI	1,081	-
Financial assets at amortised costs	822	-
Money at call and deposits with banks and other financial institutions	820	554
Total finance income and hibah	17,380	7,226
Other operating income (Note a to h)	39,925	24,458
	57,305	31,684
Of which:		
Financing income earned on impaired financing	78	54
Other operating income comprise of:		
(a) Fee income:		
- Commission	7,857	5,327
- Guarantee and underwriting fees	40	3
- Service charges and fees	13,290	19,636
	21,187	24,966
(b) Net gain on revaluation of financial assets FVTPL	22	-
(c) Net loss on disposal of financial assets FVTPL/HFT	(2)	(1)
(d) Net loss on revaluation of derivatives	(514)	(5,792)
(e) Net (loss)/gain on fair value hedges	(6,078)	299
(f) Net gain on disposal of financial investments AFS	-	10
(g) Other income:		
- Foreign exchange gain	25,308	4,974
- Other non-operating income	2	2
	39,925	24,458

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25 ALLOWANCE FOR CREDIT LOSSES

	Three Months Ended	
	31 March 2018	31 March 2017
	RM'000	RM'000
Charge/(writeback)		
Financing and advances:		
- Net charge	21,533	29,381
- Bad debts recovered	(2,966)	(2,655)
- Bad debts written off	4,070	1,490
	22,637	28,216
Financial assets at FVOCI	121	-
Financial assets at amortised cost	(492)	-
Other financial assets	(168)	-
	22,098	28,216

26 INCOME ATTRIBUTABLE TO DEPOSITORS

	Three Months Ended	
	31 March 2018	31 March 2017
	RM'000	RM'000
Deposits from customers:		
- Mudharabah funds	7,247	1,143
- Non-Mudharabah funds	308,644	235,312
Deposits and placements of banks and other financial institutions:		
- Non-Mudharabah funds	27,482	45,075
Subordinated obligations	9,111	6,103
Recourse obligation on financing sold to Cagamas	359	9,452
Obligations on securities sold under repurchase agreements	383	-
	353,226	297,085

27 EARNINGS PER SHARE

	Three Months Ended	
	31 March 2018	31 March 2017
Net profit for the financial period (RM'000)	113,498	75,644
Weighted average number of ordinary shares in issue ('000)	1,380,091	1,273,424
Basic earnings per share (sen)	8.22	5.94

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28 COMMITMENTS AND CONTINGENCIES

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

	As at 31 March 2018	As at 31 December 2017
	RM'000	RM'000
Transaction-related contingent items	208,678	195,298
Short term self-liquidating trade-related contingencies	123,882	111,779
Commitment to buy back the Islamic securities arising from the Sell and Buy Back ('SBBA') transaction	-	629,085
Irrevocable commitments to extend credit:		
- maturity more than one year	5,490,328	5,800,512
Foreign exchange related contracts [@] :		
- less than one year	7,547,587	7,910,145
- one year to less than five years	1,673,653	1,713,345
- more than five years	928,038	949,178
Profit rate related contracts [@] :		
- less than one year	1,675,000	3,690,000
- one year to less than five years	751,786	767,338
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	2,589,768	2,513,842
Total	20,988,720	24,280,522

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

29 CAPITAL COMMITMENTS

	As at 31 March 2018	As at 31 December 2017
	RM'000	RM'000
Capital expenditure for property, plant and equipment:		
- Authorised and contracted for	6,626	6,460

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30 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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
<u>31 March 2018</u>				
<u>Financial assets</u>				
Financial assets FVTPL:				
- money market instruments	-	91,219	-	91,219
Financial assets at FVOCI:				
- money market instruments	-	3,197,975	203,554	3,401,529
- unquoted securities	-	714,077	-	714,077
	-	2,483,898	203,554	2,687,452
Derivative assets				
	-	458,399	-	458,399
	-	3,747,593	203,554	3,951,147
<u>Financial liabilities</u>				
Derivative liabilities				
	-	457,047	-	457,047
<u>31 December 2017</u>				
<u>Financial assets</u>				
Financial assets HFT:				
- money market instruments	-	172,536	-	172,536
Financial investments AFS:				
- money market instruments	-	3,193,873	200,620	3,394,493
- unquoted securities	-	688,480	-	688,480
	-	2,505,393	200,620	2,706,013
Derivative assets				
	-	327,978	-	327,978
	-	3,694,387	200,620	3,895,007
<u>Financial liabilities</u>				
Derivative liabilities				
	-	327,723	-	327,723

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30 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(i) Valuation techniques and sensitivity analysis

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 are 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. This would include quoted securities.

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

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

(ii) Reconciliation of movements in Level 3 financial instruments:

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

Financial assets at FVOCI/Financial investments AFS

	As at 31 March 2018	As at 31 December 2017
	RM'000	RM'000
Balance as at the beginning of the financial period/year	200,620	200,619
Profit recognised	2,934	11,900
Payment received	-	(11,899)
Balance as at the end of the financial period/year	<u>203,554</u>	<u>200,620</u>

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31 CAPITAL ADEQUACY

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:

	As at 31 March 2018	As at 31 December 2017
	RM'000	RM'000
<u>Common Equity Tier-I ('CET-I') Capital /Tier I Capital</u>		
Share capital	1,673,424	1,273,424
Retained profits	1,643,244	1,787,323
FVOCI/AFS reserve	<u>(10,818)</u>	<u>(15,929)</u>
	3,305,850	3,044,818
Less:		
Deferred tax assets	(14,507)	(17,140)
Intangible assets (include associated deferred tax liabilities)	(4,251)	(4,412)
Ageing Reserves and Liquidity Reserve*	<u>(8,431)</u>	<u>(4,296)</u>
Total CET-I /Total Tier I Capital	<u>3,278,661</u>	<u>3,018,970</u>
<u>Tier II Capital</u>		
Subordinated obligations	750,000	750,000
General provision and regulatory reserve [^]	<u>358,654</u>	<u>343,212</u>
Total Tier II Capital	<u>1,108,654</u>	<u>1,093,212</u>
Total Capital	<u>4,387,315</u>	<u>4,112,182</u>
<u>Capital Ratios</u>		
CET-I Capital Ratio	10.807%	10.376%
Tier-I Capital Ratio	10.807%	10.376%
Total Capital Ratio	<u>14.461%</u>	<u>14.134%</u>

Risk-weighted assets by each major risk category are as follows:

Credit risk-weighted assets	36,222,383	34,726,152
Credit risk-weighted assets absorbed by PSIA	(7,530,039)	(7,269,199)
Market risk-weighted assets	166,558	240,688
Operational risk-weighted assets	<u>1,479,361</u>	<u>1,397,487</u>
Total risk-weighted assets	<u>30,338,263</u>	<u>29,095,128</u>

In accordance with BNM's Guideline on "Recognition and Measurement of Profit Sharing Investment Account (PSIA) as Risk Absorbent", the credit and market risks of the assets funded by the Restricted Profit Sharing Investment account (RPSIA) which qualifies as risk absorbent are excluded from the risk weighted capital ratio (RWCR) calculation. As at 31 March 2018, credit risks relating to RPSIA assets excluded from the RWCR calculation amounted to RM7,530,039,000 (31 December 2017: RM7,269,199,000).

[^] General provision attributable to financing and advances classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on "Classification and Impairment Provisions for Loans/Financing". Includes the qualifying regulatory reserve under the Standardised Approach for non-impaired financing and advances of RM216,369,000 (31 December 2017: RM204,312,000).

* Pursuant to the Basel II Market Risk para 5.19 and 5.20 – Valuation Adjustments/Reserves, the RWCR computation shall account for the ageing, liquidity and holding back adjustments/reserves on its trading portfolio.

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32 VALUATION OF PROPERTY, PLANT AND EQUIPMENT

The property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

33 EVENTS SUBSEQUENT TO BALANCE SHEET DATE

There are no material events subsequent to the balance sheet date that have not been reflected in the financial statements.

34 CHANGES IN THE COMPOSITION OF THE BANK

There are no significant changes in the composition of the Bank for the three months ended 31 March 2018.

35 CHANGES IN PROFIT FOR THE QUARTER

The Bank reported a pre-tax profit of RM148.9 million for the current quarter, 23.8% higher as compared to the preceding quarter ended 31 December 2018. The higher profit was mainly attributed to higher net funding income by RM39.6 million and higher non funding income by RM9.9 million, partially offset by higher overhead expenses by RM14.2 million and higher allowances for credit losses by RM6.8 million.

36 PERFORMANCE REVIEW

For the three months ended 31 March 2018, the Bank recorded a pre-tax profit of RM148.9 million, 49.8% higher than previous year corresponding period of RM99.4 million. The higher profit was mainly due to higher net funding income by RM47.2 million, higher non funding income by RM18.9 million and lower allowance for credit losses by RM6.1 million, partially offset by higher overhead expenses by RM22.8 million.

37 PROSPECTS FOR 2018

Malaysia is expected to register a moderate GDP expansion of 5.2% in 2018, against 5.9% growth registered in 2017. Growth is expected to be supported by resilient domestic demand, even as exports continue to expand and create positive spillover effects into consumer spending and private investments.

Market and industry players will be keenly awaiting the economic policies of the new government, which are expected to boost consumer spending. It is anticipated that the private sector would play an increasing role in the economic growth. This in turn is expected to have a positive effect on the banking sector which is further supported by healthy asset quality, strong capital position and ample liquidity.

The Bank remains focused in executing its five-year strategy FIT22, to boost performance, build scale and deliver service excellence. Digital enhancements and AGILE way of working will feature prominently in the implementation of the strategy. Barring unforeseen circumstances, the Bank expects to achieve better performance this year.

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38 CHANGE IN ACCOUNTING POLICIES

Adoption of MFRS 9 'Financial Instruments'

The Bank has adopted MFRS 9 'Financial Instruments', issued by the MASB on 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

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

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

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

(a) Classification and measurement of financial assets

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

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

As a results, the financial instruments available for sale ('AFS') and held to maturity ('HTM') categories were removed.

The classification and subsequent measurement of financial assets depend on:

- (i) The Bank's business model for managing the financial assets, and
- (ii) The contractual cash flow characteristics of the financial assets.

Based on these factors, the Bank classifies its financial assets into one of the following three (3) measurement categories:

- (i) Financial assets classified and measured at amortised cost:

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated as FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted for any expected credit losses that are recognised into profit or loss. The profit income is recognised into profit or loss using the effective interest rate method.

All the Bank's debt instruments that were classified as HTM and measured at amortised cost meet the condition for classification as amortised cost under MFRS 9.

- (ii) Financial assets classified and measured at fair value through other comprehensive income ('FVOCI')

Financial assets that are held for collection for contractual cash flow where those cash flows represent SPPI and held in a business model whose objective is achieved by both collecting the contractual cash flows and selling the financial assets, and that are not designated as FVTPL, are measured at FVOCI. Changes in the fair value of these assets are recognised in OCI, except for recognition of profit, dividend, foreign exchange gains or losses and expected credit losses which are recognised in profit or loss.

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38 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

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

(ii) Financial assets classified and measured at fair value through other comprehensive income ('FVOCI') (continued)

When these financial assets, other than equity instruments held in FVOCI, are derecognised, the cumulative gains or losses previously recognised in OCI is reclassified from equity to profit or loss.

The majority of the Bank's debts and equity instruments that were classified as financial instruments AFS satisfy the conditions for classification as FVOCI and hence there will be no change to the accounting for these assets.

(b) Classification and measurement of financial liabilities

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

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

(c) Hedge accounting

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

(d) Impairment of financial assets

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

MFRS 9 does not distinguish between individual assessment and collective assessment. The Bank first assesses whether objective evidence of impairment exists for financial assets which are individually significant. If the Bank determines that objective evidence of impairment exists, i.e. credit impaired, for an individually assessed financial asset, a lifetime ECL will be recognised for impairment loss which has been incurred. Financial assets which are individually significant but non-impaired and not individually significant are grouped on the basis of similar credit risk characteristics (such as credit quality, instrument type, credit risk ratings, credit utilisation, level of collateralisation and other relevant factors) for collective assessment. Collectively, the individually assessment allowance and collective assessment allowance form the total expected credit allowance for 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

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.

(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.

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38 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(d) Impairment of financial assets (continued)

(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 cashflows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognised.

The changes in ECL between two-periods will be recognised in profit and loss.

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

The 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 model, where feasible or available, with necessary adjustment to meet MFRS 9 requirements.

As a result of the changes in basis of determining the level of allowances for credit losses mentioned above, the total ECL allowances computed under MFRS 9 is higher by RM49,599,000 (net of tax) than the total allowance for impairment on financial assets under MFRS 139.

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

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

With effect from 1 January 2018, the Bank must maintain, in aggregate, 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.

The financial effects of the adoption of the revised policy are presented as below.

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38 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

Summary of the impact on classification and measurement, and a reconciliation of the financial position of the Bank upon adoption of MFRS 9 as at 31 December 2017 and 1 January 2018 are as follows:

	MFRS 139 measurement category	MFRS 9 measurement category	MFRS 139 carrying amount as at 31 December 2017	MFRS 9 Expected credit losses	MFRS 9 carrying amount as at 1 January 2018
	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS					
Cash and short-term funds	Loans and receivables	Amortised costs	2,029,860	(222)	2,029,638
Securities purchased under resale agreements	Loans and receivables	Amortised costs	1,587,979	-	1,587,979
Deposits and placements with banks and other financial institutions	Loans and receivables	Amortised costs	447,210	-	447,210
Financial assets at FVTPL	FVTPL	FVTPL	172,536	-	172,536
Financial assets at FVOCI - debt instruments	Financial investments AFS	FVOCI	3,394,493	(5,382)	3,389,111
Financial assets at amortised costs	Financial investments HTM	Amortised costs	3,820,734	(3,058)	3,817,676
Loans, advances and financing	Loans and receivables	Amortised costs	42,701,794	(56,600)	42,645,194
Other assets	Loans and receivables	Amortised costs	90,934	-	90,934
Derivative assets	FVTPL	FVTPL	327,978	-	327,978
Statutory deposits	Loans and receivables	Amortised costs	1,116,200	-	1,116,200
Deferred tax assets	NA	NA	16,513	-	16,513
Property, plant and equipment	NA	NA	6,193	-	6,193
Intangible assets	NA	NA	5,039	-	5,039
TOTAL ASSETS			55,717,463	(65,262)	55,652,201

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38 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

Summary of the impact on classification and measurement, and a reconciliation of the financial position of the Bank upon adoption of MFRS 9 as at 31 December 2017 and 1 January 2018 are as follows:

	MFRS 139 measurement category	MFRS 9 measurement category	MFRS 139 carrying amount as at 31 December 2017	MFRS 9 Expected credit losses	MFRS 9 carrying amount as at 1 January 2018
	RM'000	RM'000	RM'000	RM'000	RM'000
LIABILITIES					
Deposits from customers	Amortised costs	Amortised costs	37,850,205	-	37,850,205
Deposits and placements of banks and other financial institutions	Amortised costs	Amortised costs	4,394,801	-	4,394,801
Investment account due to designated financial institutions	Amortised costs	Amortised costs	8,102,698	-	8,102,698
Obligations on securities sold under repurchase agreements	Amortised costs	Amortised costs	604,163	-	604,163
Bills and acceptances payable	Amortised costs	Amortised costs	9,216	-	9,216
Derivative liabilities	FVTPL	FVTPL	327,723	-	327,723
Subordinated obligations	Amortised costs	Amortised costs	755,393	-	755,393
Other liabilities	Amortised costs	Amortised costs	345,792	-	345,792
Provision for tax and zakat	NA	NA	15,623	(15,663)	(40)
TOTAL LIABILITIES			52,405,614	(15,663)	52,389,951
EQUITY					
Share capital			1,273,424	-	1,273,424
Reserves			2,038,425	(49,599)	1,988,826
TOTAL EQUITY			3,311,849	(49,599)	3,262,250
TOTAL LIABILITIES AND EQUITY			55,717,463	(65,262)	55,652,201

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38 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

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

	RM'000
Regulatory reserve	
Closing balance under MFRS 139 as at 31 December 2017	267,031
Transfer from retained profits	48,800
Closing balance under MFRS 9 as at 1 January 2018	<u>315,831</u>
Retained profits	
Closing balance under MFRS 139 as at 31 December 2017	1,787,323
Effect of ECL adjustments, net of tax	(49,599)
Transfer to regulatory reserves	(48,800)
Closing balance under MFRS 9 as at 1 January 2018	<u>1,688,924</u>

The following table reconciles the opening ECL allowance determined in accordance with MFRS 9 as at 1 January 2018:

	MFRS 139	Classification	Expected	MFRS 9
	Allowance	and	credit	Allowance
	as at	measurement	losses	as at
	31 December 2017	RM'000	RM'000	1 January 2018
	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	-	-	222	222
Financial assets at FVTPL	-	549	(549)	-
Financial assets at FVOCI	549	(549)	5,382	5,382
Financial assets at amortised costs	-	-	3,058	3,058
Loans, advances and financing	272,657	-	56,600	329,257
	<u>273,206</u>	<u>-</u>	<u>64,713</u>	<u>337,919</u>