MBSB BANK BERHAD (716122-P)

(Incorporated in Malaysia)

FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

MBSB BANK BERHAD (716122-P)
(Incorporated in Malaysia)

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Directors' report

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

Principal activities

The Bank is principally engaged in Islamic Banking business and the provision of related financial services.

Immediate and ultimate holding company/body

The immediate holding company is Malaysia Building Society Berhad ("MBSB"), a public limited liability company incorporated in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The ultimate holding body is Employees Provident Fund ("EPF"), a statutory body established under the Employees Provident Fund Act 1991 (Act 452).

Subsidiary

The details of the Bank's subsidiary are disclosed in Note 14 to the financial statements.

Results

	Bank Group RM'000	Bank RM'000
Profit for the year	383,878	319,195

Reserves and provisions

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

Directors

The Directors of the Bank and the Bank's subsidiary in office since the beginning of the current financial year to the date of this report are:

The Bank
Datuk Azrulnizam bin Abdul Aziz
Datuk Johar bin Che Mat
Tan Sri Abdul Halim bin Ali (Appointed on 7 February 2018)
Encik Sazaliza bin Zainuddin (Appointed on 7 February 2018)
Encik Aw Hong Boo (Appointed on 7 February 2018)
Puan Lynette Yeow Su-Yin (Appointed on 7 February 2018)
Tunku Alina binti Raja Muhd Alias (Appointed on 7 February 2018)
Dr. Loh Leong Hua (Resigned on 9 February 2018 and reappointed on 1 June 2018)
Dr. Saleh Jameel Malaikah (Resigned on 7 February 2018)
Encik Zakir Hussain Rizvi (Resigned on 7 February 2018)
Dato' Dr. Md Khir Abdul Rahman (Resigned on 9 February 2018)
Dato' Dr. Vaseehar Hassan Abdul Razack (Resigned on 9 February 2018)
Encik Abdul Rahim Abdul Hamid (Resigned on 9 February 2018)

The subsidiary of the Bank
Encik Tang Yow Sai
Puan Norhayati binti Azit
Yam Kwai Ying Sharon (Appointed on 1 August 2018)
Encik Loke Chee Kien (Resigned on 1 August 2018)

Directors' benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Bank or its subsidiary was a party whereby the Directors might acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Since the end of the previous financial year, no Director has received nor become entitled to receive a benefit (other than benefits included in the aggregate amount of remuneration received or due and receivable by the Directors as shown in Note 33 to the financial statements) by reason of a contract made by the Bank or a related corporation with any 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.

Indemnity and Takaful cost

The Directors and Officers of the Bank Group and of the Bank are covered by Directors' and Officers' Liability Takaful of the holding company, MBSB. The total takaful coverage amounts to RM30,000,000 and the annual takaful cost that is payable amounts to RM79,510 which is borne by the holding company.

Directors' interests in shares

According to the register of Directors' shareholdings, the interest of a Director in office at the end of the financial year in shares of the Bank and its related corporations during the financial year are as follows:

	Number of ordinary shares			
Holding company	**1.1.2018**	**Acquired**	**Sold**	**31.12.2018**
Malaysia Building Society Berhad ("MBSB")				
Direct interest:				
Tan Sri Abdul Halim bin Ali *	238,667	11,699	-	250,366

* appointed as Director on 7 February 2018

None of the other Directors in office at the end of the financial year had any interest in shares and options over shares in the Bank or its related corporations during the financial year.

Issue of shares

On 2 April 2018, the Bank increased its issued and paid-up capital from RM532,530,020 to RM4,625,859,288 via the issuance of 4,093,329,268 new ordinary shares at RM1.00 per ordinary share as consideration for the transfer and vesting of the first tranche of the identified Shariah-compliant assets and liabilities from the holding company (see Note 43(a)).

There were no other changes in the issued and paid-up capital of the Bank during the financial year.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Bank during the financial year.

Statement of Corporate Governance

The Board of Directors ("the Board") of the Bank are pleased to report the application by the Bank of the principles contained in the Malaysian Code on Corporate Governance ("the Code") and the extent of compliance with the best practices of the Code. Although the Bank is not a listed company, the Board has endeavoured to apply the principles and comply with the relevant best practices of corporate governance as set out in the Code. The Bank is also required to comply with Bank Negara Malaysia ("BNM")'s policy document on Corporate Governance ("BNM/RH/PD 029-9") issued on 3 August 2016.

Business review for 2018

The Bank Group registered a profit before taxation and zakat of RM518 million for 2018 as compared to loss before taxation and zakat of RM3.7 million in prior year. Gross financing and advances for the Bank Group as at 31 December 2018 stood at RM33,045 million (2017: RM1,089 million) whilst total deposits stood at RM32,788 million (2017: RM1,880 million).

The huge increase of profit before taxation and zakat, financing and advances and deposits were mainly due to vesting of Shariah-compliant assets and liabilities from the holding company, MBSB which was completed on 2 April 2018. The vesting of Shariah-compliant assets and liabilities from holding company is further elaborated in Note 43.

Outlook for 2019

The Islamic banking industry in Malaysia has advanced rapidly over the years, with a significant proportion of loans and financing in the country being Islamic financing. Islamic banks offer various competitive and innovative products, complementing solutions offered by conventional banks. While the growth is seen as significant in the industry, it is also important that Islamic financing delivers a positive and sustainable impact on the economy and community.

The Bank Group will continue its focus to expand the corporate business, to reach the desired corporate retail portfolio mix. The Bank Group is looking forward to expand its products and services which include trade finance, wealth management and internet and mobile banking to cater for various segments of our customers and depositors.

Barring any unforeseen circumstances, the Bank Group's prospects for the year is expected to be satisfactory.

Other statutory information

(a) Before the financial statements of the Bank Group and of the Bank were made out, the Directors took reasonable steps:

(i) to ascertain that proper actions had been taken in relation to the writing off of bad financing and advances, and the making of allowance for impaired financing and advances and had satisfied themselves that all known bad financing and advances had been written off and that adequate allowance had been made for impaired financing and advances; and

(ii) to ensure that any current assets, other than financing and advances, which were unlikely to be realised at their values as shown in the accounting records of the Bank Group and of the Bank in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the Directors are not aware of any circumstances which would render:

(i) the amount written off for bad financing and advances or the amount of the allowance for impaired financing and advances in the financial statements of the Bank Group and of the Bank inadequate to any substantial extent; and

(ii) the values attributed to the current assets in the financial statements of the Bank Group and of the Bank misleading.

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

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

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

(i) any charge on the assets of the Bank Group or of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or

(ii) any contingent liability of the Bank Group or of the Bank which has arisen since the end of the financial year other than those arising from the normal course of business of the Bank Group and of the Bank.

Other statutory information (cont'd.)

(f) In the opinion of the Directors:

(i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Bank Group and of the Bank to meet their obligations as and when they fall due; and

(ii) the results of the operations of the Bank Group and of the Bank for the financial year ended 31 December 2018 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Significant event

Significant event during the financial year is disclosed in Note 43 to the financial statements.

Auditors

The auditors, KPMG PLT, have expressed their willingness to continue in office. The auditors' remuneration is disclosed in Note 32 to the financial statements.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 19 April 2019.

Tan Sri Abdul Halim bin Ali
Chairman

Aw Hong Boo
Director

Kuala Lumpur, Malaysia

MBSB BANK BERHAD (716122-P)
(Incorporated in Malaysia)

Statement by Directors
Pursuant to Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 13 to 135 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Bank Group and of the Bank as at 31 December 2018 and of their financial performance and their cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 19 April 2019.

Tan Sri Abdul Halim bin Ali
Chairman

Aw Hong Boo
Director

Kuala Lumpur, Malaysia

Statutory Declaration
Pursuant to Section 251(1)(b) of the Companies Act 2016

I, Tang Yow Sai, the officer primarily responsible for the financial management of MBSB Bank Berhad, do solemnly and sincerely declare that the financial statements set out on pages 13 to 135 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Tang Yow Sai at
Kuala Lumpur in the Federal
Territory on 19 April 2019

Tang Yow Sai

Before me,

PESURUHJAYA SUMPAH
W641
MOHD IBRAHIM BIN YAAKOB
01 Januari 2019
hingga
31 Disember 2021
MALAYSIA

Unit 50-10-1, Tingkat 10
Wisma UOA Damansara
No. 50, Jalan Dungun
Bukit Damansara
50490 Kuala Lumpur.
Tel: +603-2081 3770

Shariah Advisory Committee's Report

In the name of Allah, the Beneficent, the Merciful.

In compliance with the letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by MBSB Bank Berhad ("the Bank") during the year ended 31 December 2018. We have also conducted our review to form an opinion as to whether the Bank has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.

The management of the Bank is responsible for ensuring that the Bank conducts its business in accordance with the Shariah 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 which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by the Bank.

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

In our opinion:

- the contracts, transactions and dealings entered into by the Bank during the year ended 31 December 2018 that we have reviewed are in compliance with the Shariah principles;

- all earnings that have been realised from sources or by means prohibited by the Shariah principles have been considered for disposal to charitable causes; and

- the calculation of zakat is in compliance with Shariah principles.

We, the members of the Shariah Advisory Committee of the Bank to the best of our knowledge based on material evidences presented to us, do hereby confirm that the operations of the Bank for the year ended 31 December 2018 have been conducted in conformity with the Shariah principles.

Chairperson of Shariah Committee:

Assistant Prof. Dr. Akhtarzaite Abd Aziz

Member of Shariah Committee:

Prof. Dato' Dr. Noor Inayah Ya'akub

19 April 2019

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants
Level 10, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan, Malaysia

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF MBSB BANK BERHAD

(Company No. 716122 - P)
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of MBSB Bank Berhad, which comprise the statements of financial position as at 31 December 2018 of the Bank Group and of the Bank, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Bank Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 13 to 135.

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

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

Information Other than the Financial Statements and Auditors' Report Thereon

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

Our opinion on the financial statements of the Bank Group and of the Bank does not cover the Directors' Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Bank Group and of the Bank, our responsibility is to read the Directors' Report and, in doing so, consider whether the Directors' Report is materially inconsistent with the financial statements of the Bank Group and 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 the Directors' Report, 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 financial statements of the Bank Group and 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 Group and of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Bank Group and of the Bank, the Directors are responsible for assessing the ability of the Bank Group and of the Bank 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 Group or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Bank Group and 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.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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:

- Identify and assess the risks of material misstatement of the financial statements of the Bank Group and of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Bank Group and of the Bank.

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

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Bank Group or the Bank 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 Group and 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 Group or the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Bank Group and of the Bank, including the disclosures, and whether the financial statements of the Bank Group and of the Bank represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank Group to express an opinion on the financial statements of the Bank Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Matter

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.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Adrian Lee Lye Wang
Approval Number: 02679/11/2019 J
Chartered Accountant

Petaling Jaya

Date: 19 April 2019

MBSB BANK BERHAD (716122-P)
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

		Bank Group	Economic Entity	Bank	
		2018	2017	2018	2017
	Note	RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short-term funds	5(a)	3,242,228	478,674	3,237,276	478,674
Deposits and placements with banks and other financial institutions	5(b)	776,739	-	1,842	-
Derivative financial assets	6	67	3,091	67	3,091
Financial investments at fair value through other comprehensive income ("FVOCI")	7	5,097,105	-	5,097,105	-
Financial investments available-for-sale	8	-	227,086	-	227,086
Financial investments at amortised cost	9	20,350	-	20,350	-
Financial investments held-to-maturity	10	-	600,600	-	600,600
Financing and advances	11	31,806,617	1,035,668	31,806,617	1,035,668
Sukuk Commodity Murabahah	12(a)	-	-	2,924,734	-
Other receivables	13	578,064	8,140	604,838	8,140
Investment in subsidiary	14	-	-	-	-
Investment in joint venture	15	-	-	-	-
Statutory deposits with Bank Negara Malaysia	16	1,053,000	26,774	1,053,000	26,774
Investment property	17	820	820	820	820
Property and equipment	18	20,923	965	20,923	965
Intangible assets	19	104,692	1,619	104,692	1,619
Deferred tax assets	20	-	626	-	626
Tax recoverable		74,587	5,750	74,587	5,750
Total assets		42,775,192	2,389,813	44,946,851	2,389,813
Liabilities					
Deposits from customers	21	24,209,449	1,198,676	24,209,449	1,198,676
Deposits and placements of banks and other financial institutions	22	8,578,851	681,268	8,578,851	681,268
Derivative financial liabilities	6	2	777	2	777
Other payables	23	515,834	14,623	3,099,060	14,623
Recourse obligation on financing sold	24	2,135,518	-	2,135,518	-
Sukuk-MBSB Structured Covered ("SC") Murabahah	12(b)	1,968,075	-	1,968,075	-
Provision for zakat		13,000	-	13,000	-
Deferred tax liabilities	20	41,552	-	41,552	-
Total liabilities		37,462,281	1,895,344	40,045,507	1,895,344
Equity					
Share capital	25	4,625,859	532,530	4,625,859	532,530
Reserves	26	687,052	(38,061)	275,485	(38,061)
Total equity		5,312,911	494,469	4,901,344	494,469
Total liabilities and equity		42,775,192	2,389,813	44,946,851	2,389,813
Commitments and contingencies	35	6,078,479	598,062	6,078,479	598,062

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

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Income derived from investment of depositors' funds	27	1,800,046	89,694	1,871,470	89,694
Income derived from investment of shareholders' funds	28	252,918	29,839	243,195	29,839
Net allowance for impairment on financing and advances and other financial assets	29	(135,694)	(12,451)	(135,694)	(12,451)
Total distributable income		1,917,270	107,082	1,978,971	107,082
Income attributable to depositors and others	30	(1,126,948)	(74,268)	(1,260,384)	(74,268)
Total net income		790,322	32,814	718,587	32,814
Personnel expenses	31	(180,456)	(19,864)	(180,456)	(19,864)
Other overhead expenses	32	(91,872)	(16,630)	(89,568)	(16,630)
Profit/(Loss) before taxation and zakat		517,994	(3,680)	448,563	(3,680)
Taxation	34	(121,116)	74	(116,368)	74
Zakat		(13,000)	-	(13,000)	-
Profit/(Loss) for the year		383,878	(3,606)	319,195	(3,606)
Other comprehensive income, net of tax:					
Movement in fair value reserve, which may be reclassified subsequently to profit or loss	26	10,667	818	10,667	818
Total comprehensive income/(loss) for the year		394,545	(2,788)	329,862	(2,788)
Earnings/(Loss) per share (sen)	36	10.65	(0.68)	8.85	(0.68)

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

MBSB BANK BERHAD (716122-P)
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

Bank Group / Economic Entity	Share capital RM'000	Statutory reserve RM'000	Regulatory reserve RM'000	Fair value reserve RM'000	Distributable (Accumulated losses)/ Retained profit RM'000	Total RM'000
	← Non-distributable			→		
At 1 January 2018	532,530	-	5,234	41	(43,336)	494,469
Effects of adopting MFRS 9, net of tax (Note 3(a))	-	-	-	-	(16,316)	(16,316)
Restated at 1 January 2018	532,530	-	5,234	41	(59,652)	478,153
Profit for the year	-	-	-	-	383,878	383,878
Other comprehensive income for the year:						
- changes in fair value	-	-	-	14,036	-	14,036
- income tax relating to component of other comprehensive income	-	-	-	(3,369)	-	(3,369)
	-	-	-	10,667	-	10,667
Adjustment arising from merger exercise (Note 43(b))	-	-	-	-	346,884	346,884
Issuance of ordinary shares (Note 43(a))	4,093,329	-	-	-	-	4,093,329
At 31 December 2018	4,625,859	-	5,234	10,708	671,110	5,312,911
At 1 January 2017	532,530	13,364	5,234	(777)	(53,094)	497,257
Loss for the year	-	-	-	-	(3,606)	(3,606)
Other comprehensive income for the year:						
- changes in fair value	-	-	-	1,076	-	1,076
- income tax relating to component of other comprehensive income	-	-	-	(258)	-	(258)
	-	-	-	818	-	818
Transfer from statutory reserves (Note 26)	-	(13,364)	-	-	13,364	-
At 31 December 2017	532,530	-	5,234	41	(43,336)	494,469

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018 (Cont'd.)

Bank	Share capital	Statutory reserve	Regulatory reserve	Fair value reserve	Distributable (Accumulated losses)/ Retained profit	Total
	← Non-distributable			→		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2018	532,530	-	5,234	41	(43,336)	494,469
Effects of adopting MFRS 9, net of tax (Note 3(a))	-	-	-	-	(16,316)	(16,316)
Restated at 1 January 2018	532,530	-	5,234	41	(59,652)	478,153
Profit for the year	-	-	-	-	319,195	319,195
Other comprehensive income for the year:						
- changes in fair value	-	-	-	14,036	-	14,036
- income tax relating to component of other comprehensive income	-	-	-	(3,369)	-	(3,369)
	-	-	-	10,667	-	10,667
Issuance of ordinary shares (Note 43(a))	4,093,329	-	-	-	-	4,093,329
At 31 December 2018	4,625,859	-	5,234	10,708	259,543	4,901,344
At 1 January 2017	532,530	13,364	5,234	(777)	(53,094)	497,257
Loss for the year	-	-	-	-	(3,606)	(3,606)
Other comprehensive income for the year:						
- changes in fair value	-	-	-	1,076	-	1,076
- income tax relating to component of other comprehensive income	-	-	-	(258)	-	(258)
	-	-	-	818	-	818
Transfer from statutory reserves (Note 26)	-	(13,364)	-	-	13,364	-
At 31 December 2017	532,530	-	5,234	41	(43,336)	494,469

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

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Cash flows from operating activities				
Profit/(Loss) before taxation and zakat	517,994	(3,680)	448,563	(3,680)
Depreciation of property and equipment	4,085	400	4,085	400
Amortisation of intangible assets	9,680	799	9,680	799
Loss on disposal of property and equipment	2	8	2	8
Allowance for impairment	135,694	12,763	135,694	12,763
Profit adjustment on:				
- financial investments	(147,895)	(30,509)	(147,895)	(30,509)
- Sukuk-MBSB SC Murabahah	79,951	-	79,951	-
- Sukuk Commodity Murabahah	-	-	(79,943)	-
- Recourse obligation on financing sold	72,822	-	72,822	-
Unrealised gain on derivatives	(65)	-	(65)	-
Net impairment loss on investment property	-	54	-	54
Net gain on sale of financial investments	(1,537)	(22)	(1,537)	(22)
Net accretion of discount less amortisation of premium	1,911	50	1,911	50
Operating profit/(loss) before working capital changes	672,642	(20,137)	523,268	(20,137)
Working capital changes:				
Decrease in deposits with financial institutions with maturity of more than one month	105,929	-	52,971	-
(Increase)/decrease in statutory deposits with BNM	(1,026,226)	3,600	(1,026,226)	3,600
Decrease/(increase) in other receivables	62,263	(4,536)	62,227	(4,536)
Decrease in investment property	-	(874)	-	(874)
Decrease/(increase) in derivative financial assets	3,089	(2,878)	3,089	(2,878)
(Increase)/decrease in financing and advances	(822,442)	408,553	(822,442)	408,553
	(1,677,387)	403,865	(1,730,381)	403,865
Decrease in deposits from customers and deposits and placements of banks and other financial instituitions	(1,056,011)	(66,000)	(1,056,011)	(66,000)
(Decrease)/increase in derivative financial liabilities	(775)	219	(775)	219
Increase in other payables	266,782	2,337	32,824	2,337
	(790,004)	(63,444)	(1,023,962)	(63,444)
Cash (used in)/generated from operations	(1,794,749)	320,284	(2,231,075)	320,284
Tax paid	(145,593)	(794)	(141,243)	(794)
Zakat paid	(4,844)	-	(4,844)	-
Net cash (used in)/generated from operating activities	(1,945,186)	319,490	(2,377,162)	319,490

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

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Cont'd.)

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Cash flows from investing activities				
Purchase of property and equipment	(15,048)	(352)	(15,048)	(352)
Purchase of intangible assets	(88,387)	(900)	(88,387)	(900)
Arising from vesting of assets and liabilities from holding company	6,270,568	-	6,269,184	-
Proceeds from disposal of property and equipment	2	-	2	-
Profit income from financial investments	147,895	30,509	147,895	30,509
Net purchase of financial investments	(1,066,082)	(80,197)	(1,066,082)	(80,197)
Profit income from Sukuk Commodity Murabahah	-	-	79,943	-
Proceeds from maturity of Sukuk Commodity Murabahah	-	-	348,465	-
Net cash generated from/(used in) investing activities	5,248,948	(50,940)	5,675,972	(50,940)
Cash flows from financing activities				
Repayment of recourse obligation on financing sold	(43,404)	-	(43,404)	-
Profit expense paid on recourse obligation on financing sold	(68,908)	-	(68,908)	-
Profit expense paid on Sukuk-MBSB SC Murabahah	(108,407)	-	(108,407)	-
Repayment of Sukuk-MBSB SC Murabahah	(319,489)	-	(319,489)	-
Net cash used in financing activities	(540,208)	-	(540,208)	-
Net increase in cash and cash equivalents	2,763,554	268,550	2,758,602	268,550
Cash and cash equivalents at 1 January	478,674	210,124	478,674	210,124
Cash and cash equivalents at 31 December	3,242,228	478,674	3,237,276	478,674

An analysis of changes in liabilities arising from financing activities for the financial year ended 31 December 2018 is as follows:

Bank Group/Economic Entity and Bank	Recourse obligation on financing sold RM'000	Sukuk-MBSB SC Murabahah RM'000	Total RM'000
At 1 January 2017/31 December 2017/1 January 2018	-	-	-
Vested from holding company (Note 43(a))	2,175,008	2,316,020	4,491,028
Profit expense during the year (Note 30)	72,822	79,951	152,773
Profit paid during the year	(68,908)	(108,407)	(177,315)
Repayment and redemption	(43,404)	(319,489)	(362,893)
At 31 December 2018	2,135,518	1,968,075	4,103,593

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

Notes to the financial statements
For the financial year ended 31 December 2018

Corporate information

The Bank is a licensed Islamic bank under Islamic Financial Services Act 2013, incorporated and domiciled in Malaysia. The address of the registered office and principal place of business of the Bank is as follows:

11th floor, Wisma MBSB
48 Jalan Dungun
Damansara Heights
50490 Kuala Lumpur

The Bank is principally engaged in Islamic Banking business and the provision of related financial services. The details of the Bank's subsidiary are disclosed in Note 14 to the financial statements.

On 7 February 2018, the Bank became a wholly owned subsidiary of Malaysia Building Society Berhad ("MBSB"), a public limited liability company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad. The Bank subsequently changed the registered legal entity name from Asian Finance Bank Berhad ("AFB") to MBSB Bank Berhad ("MBSB Bank" or "the Bank") on 2 April 2018.

The ultimate holding body is Employees Provident Fund ("EPF"), a statutory body established under the Employees Provident Fund Act 1991 (Act 452).

The consolidated financial statements of the Bank as at and for the financial year ended 31 December 2018 comprise the Bank and its subsidiary (together referred to as the "Bank Group" and individually referred to as "Bank Group entities") and its interest in joint venture. In the previous financial year, the Economic Entity included both the Bank and the equity accounted joint venture (refer Note 15).

These financial statements were approved by the Board of Directors on 19 April 2019.

1. Basis of preparation

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

The financial statements of the Bank Group and of the Bank have been prepared on a historical cost basis except as disclosed in the accounting policies below.

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

2. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been applied consistently by Bank Group entities, unless otherwise stated.

(a) Foreign currency transactions

Foreign currency transactions are translated to the respective functional currencies of Bank Group entities using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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 profit or loss.

(b) Basis of consolidation

(i) Subsidiaries

A subsidiary is an entity over which the Bank has all of the following:

- power over the investee;
- exposure or rights to variable returns from its involvement with the investee; and
- the ability to use its power to affect those returns.

In the Bank’s separate financial statements, investment in subsidiary is accounted for at cost less any impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(j) below. On disposal of such investment, the difference between the net disposal proceeds and its carrying amount is included in profit or loss. Dividend income received from subsidiary is recognised in profit or loss on the date that the Bank's right to receive payment is established.

(ii) Business combination

Subsidiaries are consolidated from the date of acquisition, being the date on which the Bank Group obtains control, and continue to be consolidated until the date that such control ceases. The assessment of control is performed continuously to determine if control exists or continues to exist over an entity. Acquisitions of subsidiaries are accounted for using the acquisition method of accounting. The identifiable assets acquired and the liabilities assumed are measured at their fair values at the acquisition date. Acquisition costs incurred are expensed and included in administrative expenses.

The difference between these fair values and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or discount on acquisition. Discount on acquisition which represents gain on bargain purchase is recognised immediately in profit or loss.

2. Summary of significant accounting policies (cont'd.)

(b) Basis of consolidation (cont'd.)

(ii) Business combination (cont'd.)

In business combinations achieved in stages, previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

For each business combination, the Bank Group elects whether to measure the non-controlling interest in the acquiree at the acquisition date either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Changes in the Bank Group's equity interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their respective interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in shareholders' equity.

If the Bank Group loses control over a subsidiary, at the date the Bank Group losses control, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary at their respective carrying amounts;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration or distribution received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

(c) Joint venture

Joint ventures are corporations, partnerships or other entities over which there is contractually agreed sharing of control by the Bank with one or more parties where the strategic financial and operating decisions relating to the entities require unanimous consent of the parties sharing control.

The Bank's interest in joint venture is accounted for in the financial statements by the equity method of accounting. Equity accounting involves recognising the Bank's share of the post-acquisition results of jointly controlled entities in profit or loss and its share of post-acquisition changes of the investee's reserves in other comprehensive income. The cumulative post-acquisition changes are adjusted against the cost of the investment and include goodwill on acquisition (net of any accumulated impairment losses).

2. Summary of significant accounting policies (cont'd.)

(c) Joint venture (cont'd.)

The Bank recognises the portion of gains or losses on the sale of assets by the Bank to the joint venture that is attributable to the other venturers. The Bank does not recognise its share of profits or losses from the joint venture that result from the purchase of assets by the Bank from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

Where necessary, adjustments have been made to the financial statements of joint venture to ensure consistency of accounting policies with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognise an impairment loss on investment in its joint venture. At the end of each reporting period, the Bank determines whether there is objective evidence of impairment. If there is such evidence, the Bank calculates the impairment amount and recognises the loss as "share of loss of joint venture" in the statement of profit or loss.

(d) Intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial acquisition, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

Intangible assets with indefinite useful lives, or which are not yet available for use, are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Software licences

The useful life of software licences is assessed to be finite and is amortised on a straight-line basis over 5 years.

2. Summary of significant accounting policies (cont'd.)

(e) Property and equipment and depreciation

All items of property and equipment are initially recorded at cost. The cost of an item of property and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Bank Group and the cost of the item can be measured reliably.

Subsequent to recognition, property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. When significant parts of property and equipment are required to be replaced, the Bank Group recognises such parts as individual assets with specific useful lives and depreciation. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation of property and equipment is provided for on a straight-line basis to write down the cost of each asset to its residual value over the estimated useful life from the date they are available for use, at the following annual rates:

Building renovation	20%
Furniture and equipment	20%
Motor vehicles	20%
Data processing equipment	20%

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

The residual values, useful lives and depreciation methods are reviewed at end of the reporting period, and adjusted prospectively, if appropriate.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

(f) Investment property

Investment property, comprising only freehold land is held for capital appreciation, and is not occupied by the Bank.

The investment property is initially recognised at cost and subsequently at cost less accumulated impairment losses, if any. The carrying amount of the investment property is reviewed at the end of each reporting period to determine whether there is any indication of impairment based on market value determined by independent qualified valuers.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

2. Summary of significant accounting policies (cont'd.)

(g) Employee benefits

(i) Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Bank Group. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the Employees Provident Fund ("EPF"), a defined contribution pension scheme. Such contributions are recognised as an expense in profit or loss when incurred.

(h) Provisions

Provisions are recognised when the Bank Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(i) Cash and cash equivalents

Cash and short-term funds in the statements of financial position consist of cash and balances with banks and other financial instituitions, money at call and deposit placements with banks and other financial institutions which have an insignificant risk of changes in fair value with original maturities of one month or less.

For the purposes of the statements of cash flows, cash and cash equivalents consist of cash and short-term funds as defined above.

(j) Impairment of non-financial assets

The Bank Group assesses at the end of each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Bank Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, cash-generating unit ("CGU").

2. Summary of significant accounting policies (cont'd.)

(j) Impairment of non-financial assets (cont'd.)

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss.

An assessment is made at the end of each reporting period as to whether there is any indication that a previously recognised impairment loss may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation and/or amortisation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss. Impairment loss on goodwill is not reversed in a subsequent period.

(k) Financial instruments

Unless specifically disclosed, the Bank Group and the Bank generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments* , the Bank Group and the Bank have elected not to restate the comparatives.

(i) Recognition and initial measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Bank Group or the Bank becomes a party to the contractual provisions of the instrument.

Current financial year

A financial asset or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance.

2. Summary of significant accounting policies (cont'd.)

(k) Financial instruments (cont'd.)

(i) Recognition and initial measurement (cont'd.)

Previous financial year

Financial instrument was recognised initially, at its fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that were directly attributable to the acquisition or issue of the financial instrument.

(ii) Financial instrument categories and subsequent measurement

Financial assets

Current financial year

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

Financial assets are not reclassified subsequent to their recognition unless the Bank Group or the Bank changes its business model for managing assets.

a) Business model assessment

The Bank Group and the Bank make an assessment of the objective of the business model ("BM") in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The Bank Group and the Bank consider all relevant evidence that is available at the date of the assessment. Such relevant evidence includes, but is not limited to:

i) the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

ii) how the performance of the portfolio (and the financial assets held within) is evaluated and reported to the management;

2. Summary of significant accounting policies (cont'd.)

(k) Financial instruments (cont'd.)

(ii) Financial instrument categories and subsequent measurement (cont'd.)

Financial assets (cont'd.)

Current financial year (cont'd.)

a) Business model assessment (cont'd.)

iii) the risks that affect the performance of the portfolio (and the financial assets held within) and, in particular, the way that those risks are managed;

iv) how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

v) the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank Group's and the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

b) Assessment of whether contractual cash flows are solely payments of principal and profit ("SPPI")

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Profit’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank Group and the Bank consider the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank Group and the Bank consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank Group's and the Bank's claim to cash flows from specified assets (e.g. non-recourse financing); and
- features that modify consideration of the time value of money (e.g. periodical reset of profit rates).

2. Summary of significant accounting policies (cont'd.)

(k) Financial instruments (cont'd.)

(ii) Financial instrument categories and subsequent measurement (cont'd.)

Financial assets (cont'd.)

Current financial year (cont'd.)

c) Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective profit method. The amortised cost is reduced by impairment losses. Profit income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Profit income is recognised by applying effective profit rate to the gross carrying amount except for credit impaired financial assets where the effective profit rate is applied to the amortised cost.

d) Financial assets measured at fair value through other comprehensive income ("FVOCI")

(i) Debt investments

This category comprises debt investment where it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the debt investment, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding. The debt investment is not designated as at fair value through profit or loss. Profit income calculated using the effective profit method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

(ii) Equity investments

This category comprises investment in equity that is not held for trading, and the Bank Group and the Bank may irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income. This election is made on an investment by investment basis. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are not reclassified to profit or loss.

2. Summary of significant accounting policies (cont'd.)

(k) Financial instruments (cont'd.)

(ii) Financial instrument categories and subsequent measurement (cont'd.)

Financial assets (cont'd.)

Current financial year (cont'd.)

e) Financial assets measured at fair value through profit or loss ("FVTPL")

All financial assets not measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes derivative financial assets (except for a derivative that is a designated and effective hedging instrument). On initial recognition, the Bank Group or the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value. Net gains or losses, including any profit or dividend income, are recognised in the profit or loss.

All financial assets, except for those measured at fair value through profit or loss and equity investments measured at fair value through other comprehensive income, are subject to impairment assessment (Note 2(l)).

Previous financial year

In the previous financial year, financial assets of the Economic Entity and the Bank were classified and measured under MFRS 139*, Financial Instruments: Recognition and Measurement* as follows:

<u>Classification</u>

a) Fair value through profit or loss

Financial assets at fair value through profit or loss were financial assets held for trading. A financial asset was classified in this category if it was acquired or incurred principally for the purpose of selling or repurchasing it in the near term. It also included derivative instruments where currently applicable only to the Economic Entity's and the Bank's forward foreign exchange contracts.

b) Financial investments held-to-maturity

Financial investments held-to-maturity were non-derivative financial assets with fixed or determinable payments and fixed maturities that the Economic Entity's and the Bank’s management had the positive intention and ability to hold to maturity. If the Economic Entity and the Bank were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale.

2. Summary of significant accounting policies (cont'd.)

(k) Financial instruments (cont'd.)

(ii) Financial instrument categories and subsequent measurement (cont'd.)

Financial assets (cont'd.)

Previous financial year (cont'd.)

Classification (cont'd.)

c) Financing and advances

Financing and advances were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. These financial assets were in the form of Ijarah, Qard and Bai'.

These contracts were initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective profit method. The contracts were stated at net of unearned income and any amounts written off less any impairment loss.

d) Financial investments available-for-sale

Financial investments available-for-sale were non-derivatives that were either designated in this category or not classified in any of the other categories.

All financial assets, except for those measured at fair value through profit or loss were subject to impairment assessment.

Subsequent measurement – gain and losses

Financial investments available-for-sale and financial assets at fair value through profit or loss were subsequently carried at fair value. Financing and advances and financial investments held-to-maturity were subsequently carried at amortised cost using the effective profit method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, profit and dividend income were recognised in profit or loss in the period in which the changes arise. Changes in the fair value of financial investments available-for-sale were recognised in other comprehensive income, except for impairment losses (refer to accounting policy Note 2(l)) and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets were recognised in profit or loss, whereas exchange differences on non-monetary assets were recognised in other comprehensive income as part of fair value change.

Profit and dividend income on financial investments available-for-sale were recognised separately in profit or loss. Profit on financial investments available-for-sale calculated using the effective profit method was recognised in profit or loss. Dividend income on available-for-sale equity instruments were recognised in profit or loss when the Bank's right to receive payments was established.

2. Summary of significant accounting policies (cont'd.)

(k) Financial instruments (cont'd.)

(ii) Financial instrument categories and subsequent measurement (cont'd.)

Financial assets (cont'd.)

Previous financial year (cont'd.)

Subsequent measurement – gain and losses (cont'd.)

Derivatives were subsequently measured at fair value. Fair value was obtained from comparing with contracted rate. All derivatives were carried as assets when fair value was positive and liabilities when fair value was negative. Changes in fair value were recognised immediately in profit or loss.

Financial liabilities

Current financial year

The categories of financial liabilities at initial recognition are as follows:

a) Financial liabilities measured at amortised cost

Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective profit method.

Profit expense and foreign exchange gains and losses are recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the profit or loss.

b) Financial liabilities measured at fair value through profit or loss ("FVTPL")

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) and financial liabilities that are specifically designated into this category upon initial recognition.

On initial recognition, the Bank Group or the Bank may irrevocably designate a financial liability that otherwise meets the requirements to be measured at amortised cost as at fair value through profit or loss:

i) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise;

2. Summary of significant accounting policies (cont'd.)

(k) Financial instruments (cont'd.)

(ii) Financial instrument categories and subsequent measurement (cont'd.)

Financial liabilities (cont'd.)

Current financial year (cont'd.)

b) Financial liabilities measured at fair value through profit or loss ("FVTPL") (cont'd.)

ii) a group of financial liabilities or assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Bank Group’s key management personnel; or

iii) if a contract contains one or more embedded derivatives and the host is not a financial asset in the scope of MFRS 9, where the embedded derivative significantly modifies the cash flows and separation is not prohibited.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses, including any profit expense are recognised in the profit or loss.

For financial liabilities where it is designated as fair value through profit or loss upon initial recognition, the Bank Group and the Bank recognise the amount of change in fair value of the financial liability that is attributable to change in credit risk in the other comprehensive income and remaining amount of the change in fair value in the profit or loss, unless the treatment of the effects of changes in the liability’s credit risk would create or enlarge an accounting mismatch.

Previous financial year

Economic Entity's and the Bank’s holding in financial liabilities are recognised at amortised cost. Financial liabilites are derecognised when extinguished.

Financial liabilities measured at amortised cost

Financial liabilities that were not classified as at fair value through profit or loss fell into this category and were measured at amortised cost. Financial liabilities measured at amortised cost were deposits from customers, deposits and placements of banks and other financial institutions, and other payables.

2. Summary of significant accounting policies (cont'd.)

(k) Financial instruments (cont'd.)

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees issued are initially measured at fair value. Subsequently, they are measured at higher of:

(a) the amount of the loss allowance; and

(b) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance to the principles of MFRS 15, *Revenue from Contracts with Customers.*

Liabilities arising from financial guarantees are included within "expected credit losses for commitment and contingencies" under other payables.

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(v) Modifications of financial assets and financial liabilities

Financial assets

Modification of financial assets involves any modification made to the original payment terms and conditions of the financing facility following an increase in the credit risk of the customer. This includes but is not limited to an extension of tenure and flexible payment schedule including payment vacation, profit only payments, or capitalisation of principal or profit or both.

2. Summary of significant accounting policies (cont'd.)

(k) Financial instruments (cont'd.)

(v) Modifications of financial assets and financial liabilities (cont'd.)

Financial assets (cont'd.)

Once the financing assets have been modified, its satisfactory performance is monitored for a period of six months before it can be reclassified as non-credit impaired.

However, the financial assets will not be considered as modified if moratorium on financing repayments is granted or the financing is rescheduled/restructured by Agensi Kaunseling & Pengurusan Kredit ("AKPK").

The Bank Group and the Bank evaluates whether the cash flows of the modified asset are substantially different if the terms of a financial asset are modified.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost or FVOCI are not substantially different, the modification does not result in derecognition of the financial asset. In this case, the Bank Group and the Bank recalculates the gross carrying amount of the financial asset using the original effective profit rate of the asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as profit income, calculated using the effective profit rate method.

Financial liabilities

The Bank Group and the Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If the modification of a financial iability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective profit rate and the resulting gain or loss is recognised in profit or loss.

(vi) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Bank Group and the Bank currently have a legally enforceable right to set off the amounts and they intend either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

2. Summary of significant accounting policies (cont'd.)

(l) Impairment of financial assets

Unless specifically disclosed below, the Bank Group and the Bank generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, the Bank Group and the Bank elected not to restate the comparatives.

Current financial year

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of debt investments measured at fair value through other comprehensive income ("FVOCI") is recognised in profit or loss and the allowance account is recognised in other comprehensive income.

Measurement

The Bank Group and the Bank recognise loss allowances for expected credit losses ("ECL") on financial assets measured at amortised cost and financial investments measured at FVOCI (debt securities), but not on investments in equity instruments. ECL are a probability-weighted estimate of credit losses.

The Bank Group and the Bank measure loss allowances at an amount equal to lifetime ECL except for debt securities that are determined to have low credit risk at the reporting date and other financial instruments of which credit risk has not increased significantly since initial recognition, which are measured at 12-month ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Bank Group and the Bank consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank Group’s and the Bank's historical experience and informed credit assessment and including forward-looking information, where available.

The key inputs into the measurement of ECL are the term structure of the following variables:
- probability of default ("PD");
- loss given default ("LGD"); and
- exposure at default ("EAD").

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

PD provides an estimate of the likelihood that a borrower will be unable to meet its debt obligation or default over a particular time horizon, usually in the course of 1 year.

2. Summary of significant accounting policies (cont'd.)

(l) Impairment of financial assets (cont'd.)

Current financial year (cont'd.)

Measurement (cont'd.)

LGD is the magnitude of the likely loss if there is a default. The Bank Group and the Bank estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

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

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank Group and the Bank measure ECL considering the risk of default over the maximum contractual period (including any borrower’s extension options) over which they are exposed to credit risk, even if, for credit risk management purposes, the Bank Group and the Bank consider a longer period. The maximum contractual period extends to the date at which the Bank Group and the Bank have the right to require repayment of an advance or terminate a financing commitment or guarantee.

2. Summary of significant accounting policies (cont'd.)

(l) Impairment of financial assets (cont'd.)

Current financial year (cont'd.)

Measurement (cont'd.)

However, for facilities that include both a financing and an undrawn commitment component, the Bank Group and the Bank measure ECL over a period longer than the maximum contractual period if the Bank Group’s and the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank Group’s and the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure. The Bank Group and the Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank Group and the Bank become aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank Group and the Bank expect to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a financing with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include but not limited to:

- instrument type;
- credit risk gradings;
- collateral type;
- financing-to-value ("FTV") ratio for retail property financing;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous. For portfolios in respect of which the Bank Group has limited historical data, external benchmark information is used to supplement the internally available data.

2. Summary of significant accounting policies (cont'd.)

(l) Impairment of financial assets (cont'd.)

Current financial year (cont'd.)

Recognition

Lifetime ECL are the ECL that result from all possible default events over the expected life of the asset, while 12-month ECL are the portion of ECL that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating ECL is the maximum contractual period over which the Bank Group and the Bank are exposed to credit risk.

Financial assets are segregate into 3 stages depending on the changes in credit quality since initial recognition.

Stage 1 includes financial assets that do not have a significant increase in credit risk since initial recognition or those have low credit risk at reporting date. For these assets, 12-month ECL are recognised and profit income is calculated on the gross carrying amount of the assets.

Stage 2 includes financial assets that have a significant increase in credit risk since initial recognition but do not have objective evidence of impairment. For those assets, lifetime ECL is recognised and profit income is still calculated on the gross carrying amount of the asset.

Stage 3 includes financial assets that have objective evidence of impairment at reporting date. For these assets, lifetime ECL is recognised and profit income is calculated on the net carrying amount.

Significant increase in credit risk ("SICR")

Obligatory triggers applied by the Bank Group and the Bank in determining whether there has been a significant increase in credit risk is where the principal or profit or both of the financing assets are overdue for more than 1 month, after grace period, but less than 3 months or hit any of the qualitative indicators but not limited to increase in internal credit spread of an existing facility, breach of covenants and decrease in securities prices.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank Group’s and the Bank's credit risk management processes. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watchlist. Such qualitative factors are based on the management's expert judgement and relevant historical experiences.

The Bank Group and the Bank determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

2. Summary of significant accounting policies (cont'd.)

(l) Impairment of financial assets (cont'd.)

Current financial year (cont'd.)

Significant increase in credit risk ("SICR") (cont'd.)

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on a financial asset returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank Group and the Bank determine a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a financing have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

Credit impaired (Default)

At each reporting date, the Bank Group and the Bank assess whether financial assets carried at amortised cost and debt securities at fair value through other comprehensive income are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The Bank Group and the Bank consider a financial asset to be in default when:

(a) Payment conduct

- Where the principal or profit or both of the financing is past due for more than ninety (90) days or three (3) months;

- In the case of revolving facilities (e.g. revolving working capital or overdraft facilities), notwithstanding the first trigger above, where the outstanding amount has remained in excess of the approved limit for a period of more than ninety (90) days or three (3) months;

- Where payments are scheduled on intervals of three (3) months or longer, the account shall be classified as impaired as soon as a default occurs (i.e. when the customer is unable to meet the contractual payment terms), unless it does not exhibit any weakness that would render it classified as impaired according to the Bank Group’s and the Bank's credit risk grading framework.

(b) Restructured and rescheduled (“R&R”) financing; or

(c) Customer/Issuer is declared bankrupt/wound up

2. Summary of significant accounting policies (cont'd.)

(l) Impairment of financial assets (cont'd.)

Current financial year (cont'd.)

Credit impaired (Default) (cont'd.)

In assessing whether a borrower is in default, the Bank Group and the Bank consider indicators that are:

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

Inputs into the assessment of whether a financial asset is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Bank Group and the Bank for regulatory capital purposes.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

ECL for restructured financial assets that are not considered to be credit-impaired will be recognised on 12-month basis. However, if there is a significant increase in credit risk, the ECL will be recognised on a lifetime basis.

Incorporation of forward-looking information

MFRS 9 specifically requires measurement of ECL using not only past and current information, but also including forecast information. Hence, the ECL calculations include forward looking adjustment according to the expected future macroeconomic conditions. Forward looking adjustment incorporated within the ECL model is a combination of statistical analysis and expert judgements based on the availability of detailed information. External information considered includes economic data and forecasts published by external rating agencies.

2. Summary of significant accounting policies (cont'd.)

(l) Impairment of financial assets (cont'd.)

Current financial year (cont'd.)

Incorporation of forward-looking information (cont'd.)

Key macroeconomic variables (“MEV”) that are incorporated into the ECL calculations include, but not limited to House Price Index ("HPI") and Consumer Price Index ("CPI"). Forward-looking MEVs are supported with 3 economic scenarios i.e baseline, best and worst case scenarios for 10 years of forecast based on the available forecasts.

Methodology and assumptions including forecasts of future economic conditions are reviewed regularly.

Write-down/write-off

Financial assets and related impairment allowances are normally written down/written off, either partially or in full, when there is no realistic prospect of recovery of the financial assets. This is generally the case when the Bank Group and the Bank determine that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-down/write-off. This assessment is carried out at the individual asset level. Where financial assets are secured, the write-down/write-off is normally done after receipt of any proceeds from the realisation of security.

Financial assets that are written down/written off could still be subject to enforcement activities in order to comply with the Bank Group's and the Bank's procedures for recovery of amounts due.

Previous financial year

a) Assets carried at amortised cost

All financial assets (except for financial assets categorised as fair value through profit or loss) were assessed at the end of the reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

The criteria that the Economic Entity and the Bank used to determine that there was objective evidence of an impairment loss included:

- when an asset was non-performing;

- significant financial difficulty of the issuer or obligor;

- a breach of contract, such as a default or delinquency in profit or principal payments;

2. Summary of significant accounting policies (cont'd.)

(l) Impairment of financial assets (cont'd.)

Previous financial year (cont'd.)

a) Assets carried at amortised cost (cont'd.)

- the Economic Entity and the Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

- it became probable that the borrower would enter bankruptcy or other financial reorganisation;

- disappearance of an active market for that financial asset because of financial difficulties; or

- observable data indicating that there was a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease could not yet be identified with the individual financial assets in the portfolio, including:
  i) adverse changes in the payment status of borrowers in the portfolio; and
  ii) national or local economic conditions that correlated with defaults on the assets in the portfolio.

The amount of the impairment loss was measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset’s original effective profit rate. The asset’s carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If ‘financing and advances’ or ‘financial investments held-to-maturity’ had a variable profit rate, the discount rate for measuring any impairment loss was the current effective profit rate determined under the contract.

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

When an asset was uncollectible, it was written off against the related allowance account. Such assets were written off after all the necessary procedures had been completed and the amount of the loss had been determined.

For financing and advances, the Economic Entity and the Bank first assessed whether objective evidence of impairment existed individually for financing and advances that were individually significant, and individually or collectively for financing and advances that were not individually significant. If the Economic Entity and the Bank determined that no objective evidence of impairment existed for an individually assessed financing and advances, whether significant or not, they included the asset in a group of financing and advances with similar credit risk characteristics and collectively assessed them for impairment.

2. Summary of significant accounting policies (cont'd.)

(l) Impairment of financial assets (cont'd.)

Previous financial year (cont'd.)

a) Assets carried at amortised cost (cont'd.)

The Economic Entity and the Bank addressed impairment of financing and advances via either individually assessed allowance or collectively assessed allowance.

i) Individual impairment allowance

The Economic Entity and the Bank determined the allowance appropriate for each individual significant impaired financing and advances on an individual basis. The allowances were established based primarily on estimates of the realisable value of the collateral to secure the financing and advances and were measured as the difference between the carrying amount of the financing and advances and the present value of the expected future cash flows discounted at original effective profit rate of the financing and advances. All other financing and advances that had been individually evaluated, but not considered to be individually impaired were assessed collectively for impairment.

ii) Collective impairment allowance

Financing and advances which were not individually significant or those that had been individually assessed with no evidence of impairment loss were grouped together for portfolio impairment assessment. These financing and advances were grouped within similar credit risk characteristics for collective assessment, whereby data from the financing portfolio were taken into consideration. When there were insufficient historical data available, past information from the industry had been used instead.

b) Assets classified as available-for-sale

The Economic Entity and the Bank assessed at the end of the reporting period whether there was objective evidence that a financial asset or a group of financial assets was impaired.

For debt securities, the Economic Entity and the Bank used criteria and measurement of impairment loss applicable for 'assets carried at amortised cost' above. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increased and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss.

2. Summary of significant accounting policies (cont'd.)

(l) Impairment of financial assets (cont'd.)

Previous financial year (cont'd.)

b) Assets classified as available-for-sale (cont'd.)

In the case of equity securities classified as available-for-sale, in addition to the criteria for ‘assets carried at amortised cost’ above, a significant or prolonged decline in the fair value of the security below its cost was also considered as an indicator that the assets were impaired. If any such evidence existed for available-for-sale financial assets, the cumulative loss that had been recognised directly in equity was removed from equity and recognised in profit or loss. The amount of cumulative loss that was reclassified to profit or loss was the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale were not reversed through profit or loss.

(m) Equity instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised as a liability and deducted from equity in the period in which all relevant approvals have been obtained.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

(n) Recognition of income

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Bank Group and/or the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Profit income

Profit income is recognised in profit or loss for all profit-bearing assets using the effective profit method.

The effective profit method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the profit income or profit expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective profit rate, the Bank takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate, but not future credit losses.

2. Summary of significant accounting policies (cont'd.)

(n) Recognition of income (cont'd.)

(i) Profit income (cont'd.)

Profit on impaired financial assets is recognised using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss.

Murabahah income is recognised on effective profit rate basis over the period of the contract based on the financing amounts disbursed. Ijarah income is recognised on effective profit rate basis over the lease term of the financing amount. Tawarruq income is essentially Murabahah contract based income and therefore recognised on the same basis as Murabahah income. Istisna' income is also recognised on effective profit rate basis over the contractual period based on financing amount disbursed.

(ii) Fee income

Financing arrangement fees, commissions and insurance fees are recognised as income at the time the underlying transactions are completed and there are no other contingencies associated with the fees.

Commitment and processing fees are recognised as income based on the amortised cost method.

(iii) Dividend income

Dividend income is recognised when the Bank Group's and/or the Bank's right to receive payment is established.

(iv) Other income

Other income is recognised upon invoices being issued and services rendered.

(o) Income tax

(i) Current tax

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

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

2. Summary of significant accounting policies (cont'd.)

(o) Income tax (cont'd.)

(ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

2. Summary of significant accounting policies (cont'd.)

(o) Income tax (cont'd.)

(ii) Deferred tax (cont'd.)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(p) Zakat

This represents business zakat that is paid on the Bank's portion. It is an obligatory amount payable by the Bank Group and the Bank to comply with the rules and principles of Shariah. The zakat is computed based on working capital method at a rate of 2.5%. The beneficiaries of zakat fund include schools, mosques, universities and non-government organisations.

The obligation and responsibility of specific payment of zakat on deposit fund lies with the muslim depositors of the Bank. As such, no accrual of zakat expenses is recognised in the financial statements of the Bank.

(q) Earnings per ordinary share

The Bank Group and the Bank present the basic earnings per share ("EPS") data for their ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank Group and the Bank by the weighted average number of ordinary shares outstanding during the year.

2. Summary of significant accounting policies (cont'd.)

(r) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or

- in the absence of a principal market, in the most advantageous market for the asset or liability.

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

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank Group and the Bank use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the Bank Group can access at the measurement date;

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank Group and the Bank determine whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3. Changes in accounting policies

(a) MFRSs, interpretation and amendments effective for annual periods on or after 1 January 2018

On 1 January 2018, the Bank Group and the Bank adopted the following standards, interpretation and amendments to MFRSs mandatory for annual financial periods beginning on or after 1 January 2018:

- Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)
- MFRS 9, *Financial Instruments*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Transfer of Investment Property (Amendments to MFRS 140)

The adoption of the new and revised MFRSs and interpretation did not result in any significant impact on the financial statements of the Bank Group and of the Bank except for effects of adopting MFRS 9, *Financial Instruments* which is further discussed below.

Impact of application of MFRS 9, *Financial Instruments*

The Bank Group and the Bank adopted MFRS 9 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 MFRS 9, the Bank Group and the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of the financial assets and liabilities resulting from the adoption of MFRS 9 were recognised in accumulated losses brought forward as at 1 January 2018.

The adoption of MFRS 9 has resulted in changes in the accounting policies for classification and measurement of financial assets and liabilities and impairment of financial assets. The new accounting policies for financial instruments and impairment of financial assets are disclosed in Note 2(k) and Note 2(l) respectively.

3. Changes in accounting policies (cont'd.)

(a) MFRSs, interpretation and amendments effective for annual periods on or after 1 January 2018 (cont'd.)

Impact of application of MFRS 9, *Financial Instruments* (cont'd.)

Classification and measurement of financial instruments

1. Changes to classification of financial assets

The financial assets are reclassified to new categories under MFRS 9 from their previous categories under MFRS 139 which had been “retired” with no changes to measurement basis:

i) Those previously classified as available-for-sale are now classified as measured at FVOCI; and

ii) Those previously classified as financing and receivables are now classified as measured at amortised cost.

The business model for financial assets classified as FVOCI and as amortised cost are 'held to collect and sell' and 'held to collect' respectively. The instruments are held solely for collection of principal and profit and thus do not need to be classified as FVTPL.

2. Changes to measurement of financial assets

The new impairment requirements apply to financial assets measured at amortised cost and fair value through other comprehensive income ("FVOCI"). Impairment is computed based on the exposure at default (“EAD”), which is based on the amounts the Bank Group and the Bank expect to be outstanding at the time of default, over the next 12 months, or the remaining lifetime (“Lifetime EAD”).

At initial recognition, an impairment allowance is required for expected credit losses (“ECL”) resulting from default events that are possible within the next 12 months. In the event of a significant increase in credit risk, an allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument (“Lifetime ECL”). Financial assets where 12-month ECL is recognised are in “Stage 1”; financial assets which are considered to have a significant increase in credit risk are in “Stage 2”; and financial assets for which there is objective evidence of impairment and are considered as credit impaired are in “Stage 3”.

The estimation of ECL incorporates all available information relevant to the assessment, including information about past events, current conditions, and reasonable and supportable economic forecasts at the end of the reporting period. As a result, the recognition and measurement of impairment is intended to be more forward looking than under MFRS 139, and the resulting impairment change will tend to be more volatile.

For financing commitments and financial guarantee contracts, the allowance for expected credit losses is recognised as a provision under other payables in the financial statements of the Bank Group and the Bank.

Set out below are disclosures relating to the impact of adoption of MFRS 9.

3. Changes in accounting policies (cont'd.)

(a) MFRSs, interpretation and amendments effective for annual periods on or after 1 January 2018 (cont'd.)

Impact of application of MFRS 9, *Financial Instruments* (cont'd.)

Classification and measurement of financial instruments (cont'd.)

The measurement category and the carrying amounts of financial assets in accordance with MFRS 139 and MFRS 9 as at 1 January 2018 are as follows:

Economic Entity and Bank

	Measurement category		Original carrying amount	New carrying amount
	MFRS 139	**MFRS 9**	**MFRS 139 RM'000**	**MFRS 9 RM'000**
Cash and short-term funds	Financing and receivables	Amortised cost	478,674	478,674
Investment securities - Debt securities	Available-for-sale investments	FVOCI	227,086	227,086
Investment securities - Debt securities	Held-to-maturity investments	Amortised cost	600,600	600,600
Financing and advances	Financing and receivables	Amortised cost	1,035,668	1,019,721
Derivative financial assets	FVTPL	FVTPL	3,091	3,091
Statutory deposits with Bank Negara Malaysia	Financing and receivables	Amortised cost	26,774	26,774
Other receivables	Financing and receivables	Amortised cost	8,140	8,140
Deposit from customers	Amortised cost	Amortised cost	(1,198,676)	(1,198,676)
Deposit and placements of banks and other financial institutions	Amortised cost	Amortised cost	(681,268)	(681,268)
Derivatives financial liabilities	FVTPL	FVTPL	(777)	(777)
Other payables	Amortised cost	Amortised cost	(14,623)	(20,145)

There were no changes to the classification and measurement of financial liabilities and derivatives.

3. Changes in accounting policies (cont'd.)

(a) MFRSs, interpretation and amendments effective for annual periods on or after 1 January 2018 (cont'd.)

Impact of application of MFRS 9, *Financial Instruments* (cont'd.)

Classification and measurement of financial instruments (cont'd.)

Reconciliation of new carrying amounts under MFRS 9 as at 1 January 2018

The following table reconciles the carrying amounts of the assets and liabilities in the statement of financial position under MFRS 139 as at 31 December 2017 with the carrying amounts under MFRS 9 as at 1 January 2018 as well as the impact of adoption of MFRS 9 on income tax assets and liabilities and accumulated losses as at 1 January 2018.

Economic Entity and Bank Statement of Financial Position	MFRS 139 carrying amounts as at 31 December 2017	Effects of adopting MFRS 9 Reclassification	Remeasurement	Tax impact	MFRS 9 carrying amounts as at 1 January 2018
	RM'000	RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short-term funds	478,674	-	-	-	478,674
Derivative financial assets	3,091	-	-	-	3,091
Financial investments at fair value through other comprehensive income ("FVOCI")	-	227,086	-	-	227,086
Financial investments available-for-sale	227,086	(227,086)	-	-	-
Financial investments at amortised cost	-	600,600	-	-	600,600
Financial investments held-to-maturity	600,600	(600,600)	-	-	-
Financing and advances	1,035,668	-	(15,947)	-	1,019,721
Other receivables	8,140	-	-	-	8,140
Statutory deposits with Bank Negara Malaysia	26,774	-	-	-	26,774
Investment property	820	-	-	-	820
Property and equipment	965	-	-	-	965
Intangible assets	1,619	-	-	-	1,619
Deferred tax assets	626	-	-	5,153	5,779
Tax recoverable	5,750	-	-	-	5,750
Total assets	**2,389,813**	**-**	**(15,947)**	**5,153**	**2,379,019**
Liabilities					
Deposits from customers	1,198,676	-	-	-	1,198,676
Deposits and placements of banks and other financial institutions	681,268	-	-	-	681,268
Derivative financial liabilities	777	-	-	-	777
Other payables	14,623	-	5,522	-	20,145
Total liabilities	**1,895,344**	**-**	**5,522**	**-**	**1,900,866**
Equity					
Share capital	532,530	-	-	-	532,530
Reserves *	(38,061)	-	(21,469)	5,153	(54,377)
Total equity	**494,469**	**-**	**(21,469)**	**5,153**	**478,153**
Total liabilities and equity	**2,389,813**	**-**	**(15,947)**	**5,153**	**2,379,019**

* Net effect of adopting MFRS 9 (after tax) amounting to RM16,316,000 was recognised in accumulated losses brought forward as at 1 January 2018.

3. Changes in accounting policies (cont'd.)

(b) MFRSs, interpretations and amendments issued but not yet effective

The following are accounting standards, interpretations and amendments of the MFRSs that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Bank Group and the Bank:

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits - Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations - Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material*

MFRSs, intepretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

3. Changes in accounting policies (cont'd.)

(b) MFRSs, interpretations and amendments issued but not yet effective (cont'd.)

MFRSs, interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures - Sale or Contribution of assets between an investor and its Associate or Joint Venture*

The Directors of the Bank do not anticipate that the application of the above will have a material impact on the financial statements of the Bank Group and the Bank.

4. Significant accounting estimates and judgements

(a) Critical judgements made in applying accounting policies

The following are the judgements made by management in the process of applying the Bank Group's and the Bank's accounting policies that have the most significant effect on the amount recognised in the financial statements.

Assessment of derecognition of Islamic personal financing ("PFi") sold to Jana Kapital Sdn. Bhd. ("JKSB")

In determining if the sale meets the derecognition criteria, management has evaluated the extent to which the Bank retains the risks and rewards of ownership of the PFi. As the Principal Terms and Conditions require the replacement of defaulted PFi with performing PFi by the Bank, management had concluded that the risks and rewards of ownership of the PFi continue to be retained by the Bank. Accordingly, the sale of the PFi to JKSB does not meet the criteria for derecognition and has not been derecognised in the financial statements of the Bank. Instead, an amount equivalent to the carrying value of the pledged PFi has been recognised in the financial statements of the Bank as an amount due to JKSB included in other payables, and, conversely, in JKSB's books, an equivalent amount has been recognised as an amount due from the Bank. Management is of the opinion that the described accounting treatment provides a more comprehensive and accurate representation of the arrangement between the Bank and JKSB.

In line with the Principal Terms and Condition of the Sukuk-MBSB SC Murabahah programme of the Bank Group (as detailed in Note 12(a) and Note 12(b)), Sukuk-MBSB SC Murabahah and Sukuk Commodity Murabahah will be issued in tranches from time to time, as decided by management and each tranche is required to be backed by a portfolio of identified PFi held by JKSB.

The portfolio of identified PFi is purchased by JKSB from the Bank on an arm's length basis. Management has considered the derecognition criteria prescribed in MFRS 9, *Financial Instruments* , and concluded, as described above, that the sale of PFi by the Bank to JKSB has not met the derecognition criteria as stipulated in the standard.

4. Significant accounting estimates and judgements (cont'd.)

(b) Key source of estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that has a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, is discussed below:

Expected credit losses/Allowance for impairment of financing and advances and other receivables

The Bank Group's and the Bank's ECL calculations involve a number of underlying assumptions and estimates such as:
- criteria that determine if there has been a significant increase in credit risk; and
- development of ECL models which includes the choice of inputs relating to the macroeconomic variables.

The calculation of credit impairment provisions also involves expert credit judgements to be applied by the credit risk management team based upon counterparty information from various sources including relationship managers and external market information.

The Bank Group's and the Bank's significant accounting policies on the impairment of financial assets are diclosed in Note 2(l) and the amount of impairment losses provided by the Bank Group and the Bank is disclosed in Notes 9, 11, 13 and 23.

5. Cash and short-term funds and deposits and placements with banks and other financial institutions

		Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
(a)	Cash and balances with banks and other financial institutions	179,508	47,674	174,556	47,674
	Money at call and deposit placements maturing within one month	3,062,720	431,000	3,062,720	431,000
	Total cash and short-term funds	3,242,228	478,674	3,237,276	478,674
(b)	Deposits and placements with banks and other financial institutions with original maturity of more than one month				
	Licensed Islamic banks	776,739	-	1,842	-
	Total cash and short-term funds and deposits and placements with banks and other financial institutions	4,018,967	478,674	3,239,118	478,674

6. Derivative financial assets/(liabilities)

The following table summarises the contractual or underlying principal amounts of derivative financial instruments held at fair value through profit or loss. The principal or contractual amount of these instruments reflects the volume of transactions outstanding at financial position date, and do not represent amounts at risk.

Trading derivative financial instruments are revalued on a gross position and the unrealised gains or losses are reflected as derivative financial assets and liabilities respectively.

	Bank Group / Economic Entity and Bank					
	2018			2017		
	Notional amount RM'000	Fair value Assets RM'000	Fair value Liabilities RM'000	Notional amount RM'000	Fair value Assets RM'000	Fair value Liabilities RM'000
Trading derivatives						
Foreign exchange contracts:						
Currency forward						
- Less than one year	5,842	67	(2)	130,503	3,091	(777)

7. Financial investments at FVOCI

	Bank Group / Economic Entity and Bank	
	2018	2017
	RM'000	RM'000
At fair value		
Money Market Instruments		
Malaysian Government Investment Issues	2,154,192	-
Debt securities:		
In Malaysia		
Corporate sukuk	1,060,628	-
Government Guaranteed corporate sukuk	1,882,285	-
	5,097,105	-

8. Financial investments available-for-sale

	Bank Group / Economic Entity and Bank	
	2018	2017
	RM'000	RM'000
Quoted securities:		
In Malaysia		
Islamic Medium Term Notes	-	211,885
Corporate sukuk	-	15,201
	-	227,086

9. Financial investments at amortised cost

	Bank Group / Economic Entity and Bank	
	2018	2017
	RM'000	RM'000
At amortised cost		
Quoted securities:		
In Malaysia		
Islamic Medium Term Notes	20,356	-
Less: Impairment allowance		
- Stage 1	(6)	-
	20,350	-

10. Financial investments held-to-maturity

	Bank Group / Economic Entity and Bank	
	2018	2017
	RM'000	RM'000
At amortised cost		
Islamic Medium Term Notes	-	600,600

11. Financing and advances

	Bank Group / Economic Entity and Bank 2018 RM'000	2017 RM'000
(i) By type		
At amortised cost		
Term financing		
- Property financing	4,340,081	20,391
- Bridging financing	716,015	-
- Hire purchase receivables	781,118	-
- Auto financing	213,898	-
- Personal financing	20,562,117	12
- Other term financing	5,456,952	269,831
Trust receipts	51,525	-
Staff financing	41,277	307
Revolving credit	743,218	712,223
Others	138,473	86,029
Gross financing and advances	33,044,674	1,088,793
Less: Impairment allowance		
- Individual assessment allowance	-	(45,716)
- Collective assessment allowance	-	(7,409)
- Stage 1	(346,537)	-
- Stage 2	(455,639)	-
- Stage 3	(435,881)	-
Net financing and advances	31,806,617	1,035,668

Included in Islamic personal financing and property financing are financing that have been charged for credit facilities granted to the Bank Group and the Bank as shown below:

	Bank Group / Economic Entity and Bank 2018 RM'000	2017 RM'000
Islamic financing facility granted by:		
Cagamas Berhad - Recourse obligation on financing sold (Note 24)	2,042,743	-
Sukuk-MBSB SC Murabahah* (Note 12(b))	2,584,123	-

* Islamic personal financing ("PFi") charged to Sukuk-MBSB SC Murabahah relate to PFi sold to the Bank's subsidiary, Jana Kapital Sdn Bhd. However, the sale of the PFi does not meet the derecognition criteria as the risks and rewards of ownership of the PFi are retained by the Bank as mentioned under Note 4(a).

(ii) By residual contractual maturity

	Bank Group / Economic Entity and Bank 2018 RM'000	2017 RM'000
Maturity within one year	1,480,942	748,567
More than one year to three years	1,770,112	112,152
More than three years to five years	1,939,750	92,550
More than five years	27,853,870	135,524
	33,044,674	1,088,793

11. Financing and advances (cont'd.)

(iii) By economic purpose

	Bank Group / Economic Entity and Bank 2018 RM'000	2017 RM'000
Personal use	20,579,030	43
Working capital	3,517,473	884,527
Property development	4,115,803	-
Purchase of landed property:		
- Residential	4,121,981	19,556
- Non-residential	277,935	73,142
Purchase of transport vehicles	216,564	101
Others	215,888	111,424
	33,044,674	1,088,793

(iv) By type of customers

	Bank Group / Economic Entity and Bank 2018 RM'000	2017 RM'000
Domestic business enterprises		
- Small medium enterprise	2,421,177	341
- Government	240,301	242,261
- Non-bank financial institutions	536,644	-
- Others	4,770,904	824,853
Individuals	25,069,610	13,061
Foreign entities	6,038	8,277
	33,044,674	1,088,793

(v) By sector

	Bank Group / Economic Entity and Bank 2018 RM'000	2017 RM'000
Household sectors	25,075,711	21,340
Agriculture	236,677	160,378
Mining and quarrying	60,008	70,390
Manufacturing	262,010	129,759
Electricity, gas and water	233,110	60,130
Construction	5,395,247	153,895
Wholesale & retail trade and restaurants & hotels	164,657	104,963
Transport, storage and communication	122,120	62,950
Finance, insurance and business services	1,075,960	324,988
Education, health and others	419,174	-
	33,044,674	1,088,793

(vi) By profit rate sensitivity

	Bank Group / Economic Entity and Bank 2018 RM'000	2017 RM'000
Fixed rate:		
Property financing	564,967	-
Others	20,115,974	39,155
Variable rate:		
Property financing	3,796,380	20,567
Others	8,567,353	1,029,071
	33,044,674	1,088,793

11. Financing and advances (cont'd.)

(vii) By geographical distribution

	Bank Group / Economic Entity and Bank 2018 RM'000	2017 RM'000
Malaysia	33,044,540	1,088,352
United Kingdom	134	441
	33,044,674	1,088,793

(viii) Financing by types and Shariah contracts

Bank Group and Bank
2018

Type	Tawarruq RM'000	Bai' RM'000	Ijarah RM'000	Istisna' RM'000	Qard RM'000	Total financing and advances RM'000
Term financing	28,074,836	2,265,091	1,652,362	78,417	-	32,070,706
Property financing	2,149,257	2,187,949	3,316	-	-	4,340,522
Bridging financing	716,015	-	-	-	-	716,015
Hire purchase receivables	-	-	781,118	-	-	781,118
Auto financing	-	84	213,898	-	-	213,982
Personal financing	20,561,843	285	-	-	-	20,562,128
Other term financing	4,647,721	76,773	654,030	78,417	-	5,456,941
Trust receipts	-	51,525	-	-	-	51,525
Staff financing	37,982	190	2,580	-	-	40,752
Revolving credit	743,218	-	-	-	-	743,218
Others	138,473	-	-	-	-	138,473
	28,994,509	2,316,806	1,654,942	78,417	-	33,044,674

Economic Entity and Bank
2017

Type	Tawarruq RM'000	Bai' RM'000	Ijarah RM'000	Istisna' RM'000	Qard RM'000	Total financing and advances RM'000
Term financing	-	285,345	4,889	-	-	290,234
Property financing	-	18,031	2,360	-	-	20,391
Personal financing	-	12	-	-	-	12
Other term financing	-	267,302	2,529	-	-	269,831
Staff financing	-	99	176	-	32	307
Revolving credit	-	712,223	-	-	-	712,223
Others	-	86,029	-	-	-	86,029
	-	1,083,696	5,065	-	32	1,088,793

Movement of Qard financing:

	Bank Group / Economic Entity and Bank 2018 RM'000	2017 RM'000
At 1 January	32	321
New disbursement	-	182
Repayment	(32)	(471)
At 31 December	-	32
Source of Qard fund:		
Shareholder's fund	-	182
Use of Qard fund:		
Personal use	(32)	(471)

11. Financing and advances (cont'd.)

(ix) Movement in gross financing and advances

2018	Bank Group and Bank Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount upon adoption of MFRS 9 as at 1 January 2018	729,499	247,871	111,424	1,088,794
Vested from holding company on 2 April 2018 (Note 43(a))	27,853,305	3,060,833	735,137	31,649,275
Transfer to stage 1	686,430	(671,870)	(14,560)	-
Transfer to stage 2	(1,411,984)	1,491,251	(79,267)	-
Transfer to stage 3	(204,425)	(229,280)	433,705	-
New financing/disbursement during the year	3,686,809	534,453	32,166	4,253,428
Repayment during the year	(3,134,981)	(427,040)	(117,630)	(3,679,651)
Other movements	109,548	(69,114)	141,080	181,514
Write-offs	-	-	(566,315)	(566,315)
Transfer from financial assets held-for-sale (Note 44)	676	400	116,553	117,629
Gross carrying amount as at 31 December 2018	28,314,877	3,937,504	792,293	33,044,674

(x) Movement in impairment allowance for financing and advances

	Bank Group / Economic Entity and Bank 2018 RM'000	2017 RM'000
Individual Assessment Allowance		
At 1 January	45,716	37,823
- Effects of adopting MFRS 9	(45,716)	-
Restated at 1 January	-	37,823
Impairment made during the year	-	17,867
Amount written back	-	(115)
Amount written off	-	(9,859)
At 31 December	-	45,716
Collective Assessment Allowance		
At 1 January	7,409	12,399
- Effects of adopting MFRS 9	(7,409)	-
Restated at 1 January	-	12,399
Amount written back	-	(4,990)
At 31 December	-	7,409

2018	Bank Group and Bank Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Loss allowance upon adoption of MFRS 9 as at 1 January 2018 #	16,691	6,665	45,716	69,072
Vested from holding company	492,316	444,705	538,420	1,475,441
- ECL as at 2 April 2018 (Note 43(a))	454,139	432,125	538,420	1,424,684
- Subsequent adjustment of ECL*	38,177	12,580	-	50,757
Charged to profit or loss	(163,136)	3,584	310,952	151,400
Changes in the loss allowance:				
- Transfer to stage 1	12,696	(12,468)	(228)	-
- Transfer to stage 2	(164,406)	176,183	(11,777)	-
- Transfer to stage 3	(81,168)	(137,706)	218,874	-
New financing/disbursement during the year	72,027	43,512	26,587	142,126
Repayment during the year	(180,772)	(179,663)	(98,714)	(459,149)
Change in credit risk parameters	178,487	113,726	176,210	468,423
Write-offs	-	-	(566,315)	(566,315)
Transfer from financial assets held-for-sale (Note 44)	666	685	107,108	108,459
Loss allowance as at 31 December 2018	346,537	455,639	435,881	1,238,057

\# The incremental collective allowance (aggregate of Stage 1 and 2 allowance) as at 1 January 2018 is RM15,947,000 upon adoption of MFRS 9.

* The holding company has had a revision of ECL on the financing and advances vested to the Bank post the vesting of assets and liabilities. The adjustment of the ECL amounting to RM50,757,000 was borne by the holding company and subsequently recognised by the Bank.

11. Financing and advances (cont'd.)

(xi) Movement for impaired financing and advances

	Bank Group / Economic Entity and Bank	
	2018	**2017**
	RM'000	**RM'000**
Balance as at 1 January	111,424	124,935
Impaired financing vested from holding company	735,137	-
Classified as impaired during the year	465,871	2,963
Reclassified as non-impaired	(93,827)	(686)
Amount recovered	(117,630)	(5,930)
Amount written off	(566,315)	(9,858)
Other movements	141,080	-
Transfer from financial assets held-for-sale (Note 44)	116,553	-
Balance as at 31 December	792,293	111,424
Gross impaired financing and advances as a % of gross financing and advances	2.40%	10.23%

(xii) Impaired financing by sector

	Bank Group / Economic Entity and Bank	
	2018	**2017**
	RM'000	**RM'000**
Household sector	417,768	3,540
Agriculture	154	-
Mining and quarrying	38,891	70,391
Manufacturing	317	-
Finance, insurance and business services	11,603	37,493
Construction	213,827	-
Wholesale & retail trade and restaurants & hotels	21,115	-
Transport, storage and communication	287	-
Education, health and others	88,331	-
	792,293	111,424

(xiii) Impaired financing by geographical distribution

Malaysia	792,293	111,424

12. Sukuk Commodity Murabahah and Sukuk-MBSB Structured Covered ("SC") Murabahah

(a) Sukuk Commodity Murabahah

	Bank	
	2018	**2017**
	RM'000	**RM'000**
Sukuk Commodity Murabahah	2,924,734	-

(i) By tranche

	Bank	
	2018	**2017**
	RM'000	**RM'000**
Tranche 1	233,369	-
Tranche 2	564,411	-
Tranche 3	1,026,568	-
Tranche 4	1,100,386	-
	2,924,734	-

Sukuk Commodity Murabahah was vested to the Bank from the holding company, MBSB as part of the First Tranche Transfer of Shariah-compliant assets and liabilities on 2 April 2018 (refer Note 43(a)).

12. Sukuk Commodity Murabahah and Sukuk-MBSB Structured Covered ("SC") Murabahah (cont'd.)

(a) Sukuk Commodity Murabahah (cont'd.)

As part of the Bank's Sukuk-MBSB SC Murabahah programme ("the Programme"), Jana Kapital Sdn. Bhd. ("JKSB"), which is the Bank's subsidiary, issued an unconditional and irrevocable Covered Sukuk Guarantee to the holders of Sukuk-MBSB SC Murabahah. JKSB pledged an identified pool of PFi ("Tranche Cover Assets") sold by the Bank (refer Note 4(a)) as security for the Covered Sukuk Guarantee.

JKSB issued a Sukuk Commodity Murabahah to the Bank to raise funds necessary for the purchase of Tranche Cover Assets from the Bank. The salient terms of the Sukuk Commodity Murabahah are as follows:

(i) The Sukuk Commodity Murabahah will be issued in Tranches corresponding to each Tranche of Sukuk-MBSB SC Murabahah;

(ii) The tenure of the Sukuk Commodity Murabahah will be equivalent to the tenure of each Tranche of the Sukuk-MBSB SC Murabahah plus an additional year;

(iii) The profit rates of each Tranche of the Sukuk Commodity Murabahah will be equivalent to the profit rates of the corresponding Sukuk-MBSB SC Murabahah, payable semi-annually in arrears.

On 24 December 2013, the first drawdown of the Programme amounting to approximately RM495 million was made by the holding company, MBSB with an equivalent issuance by JKSB amounting to approximately RM624 million to the holding company, MBSB. The first Tranche is secured against Tranche Cover Assets amounting to RM570,637,000 sold to JKSB on 1 December 2013. The first Tranches of the Sukuk-MBSB SC Murabahah and the Sukuk Commodity Murabahah have a tenure of 8 and 9 years from their drawdown dates respectively and both instruments carry profit rates ranging from 3.84% to 4.68% per annum, payable semi-annually in arrears.

On 10 December 2014, the second drawdown of the Programme amounting to approximately RM700 million was made by the holding company, MBSB with an equivalent issuance by JKSB amounting to approximately RM931 million to the holding company, MBSB. The second Tranche is secured against Tranche Cover Assets amounting to RM833,045,000 sold to JKSB on 1 November 2014. The second Tranches of the Sukuk-MBSB SC Murabahah and the Sukuk Commodity Murabahah have a tenure of 10 and 11 years from their drawdown dates respectively and both instruments carry profit rates ranging from 4.00% to 5.00% per annum, payable semi-annually in arrears.

On 29 May 2015, the third drawdown of the Programme amounting to approximately RM900 million was made by the holding company, MBSB with an equivalent issuance by JKSB amounting to approximately RM1,510 million to the holding company, MBSB. The third Tranche is secured against Tranche Cover Assets amounting to RM1,232,642,000 sold to JKSB on 1 May 2015. The third Tranches of the Sukuk-MBSB SC Murabahah and the Sukuk Commodity Murabahah have a tenure of 10 and 11 years from their drawdown dates respectively and both instruments carry profit rates ranging from 4.30% to 5.20% per annum, payable semi-annually in arrears.

On 21 October 2015, the fourth drawdown of the Programme amounting to approximately RM900 million was made by the holding company, MBSB with an equivalent issuance by JKSB amounting to approximately RM900 million to the holding company, MBSB. The fourth Tranche is secured against Tranche Cover Assets amounting to RM1,239,677,000 sold to JKSB on 1 October 2015. The fourth Tranches of the Sukuk-MBSB SC Murabahah and the Sukuk Commodity Murabahah have a tenure of 12 and 13 years from their drawdown dates respectively and both instruments carry profit rates ranging from 4.30% to 5.50% per annum, payable semi-annually in arrears.

Included in Sukuk Commodity Murabahah are amount owing from JKSB of RM27,634,000 and amount granted to JKSB of RM350,877,000 which is repayable upon maturity of the Tranche 4 of Sukuk Commodity Murabahah. These amounts are granted to JKSB as part of the Programme to raise the necessary funds for the purchase of the Tranche Cover Assets and are unsecured.

12. Sukuk Commodity Murabahah and Sukuk-MBSB Structured Covered ("SC") Murabahah (cont'd.)

(b) Sukuk-MBSB SC Murabahah

	Bank Group / Economic Entity and Bank 2018 RM'000	2017 RM'000
Sukuk-MBSB SC Murabahah	1,968,075	-
Maturity of Sukuk-MBSB SC Murabahah:		
Within one year	308,864	-
More than one year	1,659,211	-
	1,968,075	-

Sukuk-MBSB SC Murabahah was vested to the Bank from the holding company, MBSB as part of the transfer of Shariah-compliant assets and liabilities on 2 April 2018 (refer Note 43(a)).

On 25 October 2013, MBSB's Sukuk-MBSB SC Murabahah programme ("the Programme") was approved by the Securities Commission of Malaysia. The salient terms of the Programme as prescribed in its Principal Terms and Conditions are as follows:

(i) The Programme is available for issue within a period of 5 years from the first issuance date and is issued in tranches ("Tranche") from time to time, at the discretion of the issuer;

(ii) Each Tranche consists of multiple series of Sukuk with different maturities;

(iii) Each Tranche is backed by an identified pool of Financing Receivables ("Tranche Cover Assets") held by JKSB; JKSB issued an unconditional and irrevocable Covered Sukuk Guarantee to the holders of the Sukuk-MBSB SC Murabahah;

(iv) Tranche Cover Assets is pledged by JKSB as security for the Covered Sukuk Guarantee. These Tranche Cover Assets are assigned to the Sukuk Trustee for this purpose;

(v) In the event of default as defined in the Principal Terms and Conditions, the Tranche Cover Assets will be liquidated by the Sukuk Trustee in favour of the holders of the Sukuk-MBSB SC Murabahah; and

(vi) From time to time, additional Tranche Cover Assets will be purchased by JKSB in line with additional Tranches drawndown by the Bank.

As at 31 December 2018, the carrying amount of Financing Receivables identified to back the outstanding Sukuk MBSB SC-Murabahah was RM2,584,123,000 as disclosed in Note 11(i).

13. Other receivables

		Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Amount due from subsidiary	(i)	-	-	30,069	-
Financing to related companies	(ii)	385,031	-	385,031	-
Amount due from holding company	(iii)	98,666	-	98,666	-
Prepayments and deposits		6,235	3,877	6,107	3,877
Sundry receivables		88,132	4,263	84,965	4,263
		578,064	8,140	604,838	8,140

(i) Amount due from subsidiary

The amount due from subsidiary was vested from the holding company on 2 April 2018. The amount is unsecured, subject to effective profit rate of 7.00% (2017: 6.75%) per annum and repayable on demand.

(ii) Financing to related companies

The financing to related companies were vested from holding company on 2 April 2018. The financing are repayable on demand and certain financing are secured against landed properties. The effective profit rate of financing to related companies at the reporting date is 7.00% (2017: 6.75%) per annum.

Included in financing to related companies is secured financing amounting to RM583,480,000 at gross.

	Bank Group and Bank 2018 RM'000
At gross	635,993
Less: Allowance for impairment - Stage 3	(250,962)
	385,031

Movements in the Stage 3 allowance for impairment are as follows:

Balance as at 1 January	-
Vested from holding company (Note 43(a))	203,375
Subsequent adjustment borne by holding company *	32,484
Charge for the year	15,103
Balance as at 31 December	250,962

* The holding company has had a revision of allowance for impairment on the financing to related companies vested to the Bank post the vesting of assets and liabilities. The adjustment of the allowance for impairment amounting to RM32,484,000 was borne by the holding company and subsequently recognised by the Bank.

(iii) Amount due from holding company

The amount due from holding company is unsecured, profit-free and repayable on demand.

14. Investment in subsidiary

	Bank 2018 RM'000	Bank 2017 RM'000
Unquoted shares at cost	*	-

* Represents RM2.

Jana Kapital Sdn. Bhd. ("JKSB") is the only subsidiary of the Bank. The subsidiary has been transferred to the Bank from the holding company as part of the merger exercise (refer Note 43(a)).

Details of the subsidiary is as follows:

Name of subsidiary	Effective interest held (%) 2018	Effective interest held (%) 2017	Principal activity
Jana Kapital Sdn. Bhd.	100	-	Investment holding

The subsidiary was incorporated in Malaysia.

15. Investment in joint venture

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Unquoted shares at cost	16,222	16,222	16,222	16,222
Less:				
Share of loss	(16,222)	(16,222)	-	-
Impairment	-	-	(16,222)	(16,222)
	-	-	-	-

The Bank invested RM16,222,000 in participating shares of Safeena (L) Ltd, representing a 50% equity interest in a joint controlled entity with AmanahRaya Investment Bank Ltd. This joint venture was incorporated in the Federal Territory of Labuan, Malaysia under the Labuan Companies Act, 1990. The principal activity of Safeena (L) Ltd is provision of funding for marine vessels.

15. Investment in joint venture (cont'd.)

(i) Management shares

The management shares carry the right to vote on any matter which is required under the Labuan Companies Act, 1990, and the right to return of capital paid-up on the management shares (after the return of capital paid-up on the participating shares) and rights to dividend or to share in surplus investments remaining after the return of capital paid up on the shares of Safeena (L) Ltd.

(ii) Participating shares

The principal features of the participating shares are as follows:

(a) The participating shares do not confer any rights of entitlements to vote at meetings of Safeena (L) Ltd.

(b) Safeena (L) Ltd may in a management shareholders' meeting declare dividends but no dividend shall exceed the amount recommended by the Board of Directors ("the Board") to be justified by the profits of Safeena (L) Ltd.

(c) The Board may from time to time if they think fit pay such interim dividends on the participating shares as appear to the Board to be justified by the profits of Safeena (L) Ltd.

(d) The Board may, with the affirmative votes of the management shareholders, distribute in kind among shareholders by way of dividend or otherwise any of the assets of Safeena (L) Ltd provided that no distribution shall be made with would amount to a reduction of capital except in a manner allowed by the Labuan Companies Act, 1990.

(e) The rights attached to the participating shareholders may be varied or abrogated with the consent in writing of the management shareholders provided always that the management shareholders act at all times in the interest of Safeena (L) Ltd.

(f) The participating shareholders do not have the right to require the redemption of any of their participating shares.

(g) The investments available for distribution amongst the shareholders shall be applied pari passu on the return of paid-up capital on management shares and participating shares.

(h) Any surplus investments of Safeena (L) Ltd shall be distributed pari passu amongst the participating shareholders and the Investment Advisors as performance fees in accordance with the provisions of the Investment Advisory Services Agreement.

16. Statutory deposits with BNM

The non-profit bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009, the amount of which are determined as set percentages of total eligible liabilities.

17. Investment property

	Bank Group / Economic Entity and Bank	
	2018	**2017**
	RM'000	**RM'000**
At cost		
Freehold land		
At 1 January	820	-
Addition	-	874
Impairment loss	-	(54)
At 31 December	820	820

The value of investment property of RM820,000 which is categorised under Level 3 fair value has been derived using the sales comparison approach. Sales price of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot of comparable properties.

18. Property and equipment

Bank Group and Bank

	Building renovation RM'000	Furniture and equipment RM'000	Motor vehicles RM'000	Data processing equipment RM'000	Work in progress RM'000	Total RM'000
Cost						
At 1 January 2018	5,315	1,799	88	5,741	-	12,943
Vested from holding company (Note 43(a))	24,357	17,591	578	36,969	-	79,495
Additions	1,154	960	-	7,801	5,133	15,048
Reclassification	-	-	-	2,546	(2,546)	-
Disposals	-	(24)	(6)	-	-	(30)
At 31 December 2018	30,826	20,326	660	53,057	2,587	107,456
Accumulated depreciation						
At 1 January 2018	5,315	1,728	86	4,849	-	11,978
Vested from holding company (Note 43(a))	21,831	16,060	502	32,103	-	70,496
Depreciation charge for the year (Note 32)	1,492	907	29	1,657	-	4,085
Disposals	-	(21)	(5)	-	-	(26)
At 31 December 2018	28,638	18,674	612	38,609	-	86,533
Net book value						
At 31 December 2018	2,188	1,652	48	14,448	2,587	20,923

18. Property and equipment (cont'd.)

Economic Entity and Bank

	Building renovation RM'000	Furniture and equipment RM'000	Motor vehicles RM'000	Data processing equipment RM'000	Work in progress RM'000	Total RM'000
Cost						
At 1 January 2017	5,315	1,765	764	5,470	-	13,314
Additions	-	62	-	289	-	351
Disposals	-	(28)	(676)	(18)	-	(722)
At 31 December 2017	5,315	1,799	88	5,741	-	12,943
Accumulated depreciation						
At 1 January 2017	5,279	1,701	754	4,558	-	12,292
Depreciation charge for the year (Note 32)	36	47	8	309	-	400
Disposals	-	(20)	(676)	(18)	-	(714)
At 31 December 2017	5,315	1,728	86	4,849	-	11,978
Net book value						
At 31 December 2017	-	71	2	892	-	965

19. Intangible assets

Bank Group/Economic Entity and Bank

	Software licences RM'000	Work in progress RM'000	Total RM'000
Cost			
At 1 January 2017	22,377	-	22,377
Additions	899	-	899
At 31 December 2017/1 January 2018	23,276	-	23,276
Vested from holding company (Note 43(c))	99,150	-	99,150
Additions	60,256	28,131	88,387
At 31 December 2018	182,682	28,131	210,813
Accumulated amortisation			
At 1 January 2017	20,858	-	20,858
Amortisation for the year (Note 32)	799	-	799
At 31 December 2017/1 January 2018	21,657	-	21,657
Vested from holding company (Note 43(c))	74,784	-	74,784
Amortisation for the year (Note 32)	9,680	-	9,680
At 31 December 2018	106,121	-	106,121
Net book value			
At 1 January 2017	1,519	-	1,519
At 31 December 2017/1 January 2018	1,619	-	1,619
At 31 December 2018	76,561	28,131	104,692

20. Deferred tax assets/(liabilities)

	Bank Group / Economic Entity and Bank	
	2018	**2017**
	RM'000	**RM'000**
At 1 January	626	349
Effect of adopting MFRS 9 (Note 3(a))	5,153	-
Restated at 1 January	5,779	349
Recognised in profit or loss (Note 34)	(43,962)	535
Recognised in other comprehensive income (Notes 26 and 34)	(3,369)	(258)
At 31 December	(41,552)	626

The movement in deferred tax assets and liabilities during the financial year comprises the following:

Bank Group / Economic Entity and Bank	**Fair value reserve RM'000**	**Capital allowances RM'000**	**Impairment allowances RM'000**	**Others RM'000**	**Total RM'000**
Deferred tax assets/(liabilities)					
At 1 January 2017	245	(391)	-	495	349
Recognised in profit or loss (Note 34)	-	125	-	410	535
Recognised in other comprehensive income (Notes 26 and 34)	(258)	-	-	-	(258)
At 31 December 2017	(13)	(266)	-	905	626
Effects of adopting MFRS 9 (Note 3(a))	-	-	5,153	-	5,153
Restated at 1 January	(13)	(266)	5,153	905	5,779
Recognised in profit or loss (Note 34)	-	(11,411)	(46,387)	13,836	(43,962)
Recognised in other comprehensive income (Notes 26 and 34)	(3,369)	-	-	-	(3,369)
At 31 December 2018	(3,382)	(11,677)	(41,234)	14,741	(41,552)

21. Deposits from customers

(i) **By type of deposit:**

	Bank Group / Economic Entity and Bank 2018 RM'000	Bank Group / Economic Entity and Bank 2017 RM'000
Non-Mudharabah Funds:		
Demand deposits:		
Tawarruq	225,520	-
Wadiah	-	70,796
Saving deposits:		
Tawarruq	76,558	-
Wadiah	-	1,821
Commodity Murabahah Term Deposits:		
Tawarruq	23,907,371	1,118,029
	24,209,449	1,190,646
Mudharabah Funds:		
Savings deposits	-	514
General investment deposits	-	7,516
	-	8,030
	24,209,449	1,198,676

(ii) **Maturity structure of term deposits are as follows:**

	Bank Group / Economic Entity and Bank 2018 RM'000	Bank Group / Economic Entity and Bank 2017 RM'000
Due within six months	17,172,705	915,397
More than six months to one year	4,818,107	67,624
More than one year to three years	723,813	142,524
More than three years	1,192,746	-
	23,907,371	1,125,545

(iii) **By type of customers:**

	Bank Group / Economic Entity and Bank 2018 RM'000	Bank Group / Economic Entity and Bank 2017 RM'000
Government and statutory bodies	14,746,960	336,488
Business enterprises	6,371,297	846,838
Individuals	3,091,192	15,350
	24,209,449	1,198,676

22. Deposits and placements of banks and other financial institutions

	Bank Group / Economic Entity and Bank 2018 RM'000	2017 RM'000
(i) By type of deposit:		
Non-Mudharabah Funds:		
Licensed Islamic banks	-	180,708
Other financial institutions	8,578,851	500,560
	8,578,851	681,268
(ii) By type of contract:		
Tawarruq	8,578,851	680,808
Wadiah	-	460
	8,578,851	681,268

23. Other payables

		Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Amount due to subsidiary	(i)	-	-	2,584,124	-
Amount due to related companies	(ii)	35,437	-	35,437	-
Al-Mudharabah security funds		123,401	-	123,401	-
Sundry creditors		168,112	8,633	168,112	8,633
Other provisions and accruals		82,292	5,990	81,394	5,990
Expected credit losses for commitments and contingencies	(iii)	93,943	-	93,943	-
Deferred income		12,649	-	12,649	-
		515,834	14,623	3,099,060	14,623

(i) Amount due to subsidiary

The amount due to subsidiary, JKSB was vested from the holding company on 2 April 2018. This amount relates to the sale of a portfolio of PFi that does not meet the derecognition criteria prescribed under MFRS 9 as detailed in Note 4(a).

(ii) Amount due to related companies

The amount due to related companies are unsecured, profit-free and repayable on demand.

23. Other payables (cont'd)

(iii) Expected credit losses for commitments and contigencies

Movement of expected credit losses for commitments and contingencies are as follows:

2018	Bank Group and Bank			
	Stage 1	Stage 2	Stage 3	Total
Loss allowance upon adoption of MFRS 9 as at 1 January 2018 (Note 3(a))	4,659	863	-	5,522
Vested from holding company on 2 April 2018 (Note 43(a))	69,751	35,157	1,515	106,423
Total charged to profit or loss	(21,693)	610	3,081	(18,002)
Changes in the impairment allowance				
- Transfer to stage 1	217	(217)	-	-
- Transfer to stage 2	(28,677)	28,677	-	-
- Transfer to stage 3	(3,008)	(501)	3,509	-
New financing/disbursement during the year	21,197	5,774	203	27,174
Repayment/drawdown to financing during the year	(22,531)	(20,795)	(619)	(43,945)
Changes in credit risk parameters	11,109	(12,328)	(12)	(1,231)
Loss allowance as at 31 December 2018	52,717	36,630	4,596	93,943

24. Recourse obligation on financing sold

	Bank Group / Economic Entity and Bank	
	2018 RM'000	2017 RM'000
Repayments due within 12 months	593,853	-
Repayments due after 12 months	1,541,665	-
	2,135,518	-

Recourse obligation on financing sold was vested to the Bank from the holding company, MBSB as part of the transfer of Shariah-compliant assets and liabilities on 2 April 2018 (refer Note 43(a)).

These amounts relate to proceeds received from the sale of Islamic property financing to Cagamas Berhad with recourse to the Bank. Under the agreement, the Bank undertakes to administer the financing on behalf of Cagamas Berhad and to buy back any financing which are regarded as defective based on a set of pre-determined criteria.

The recourse obligation on credit facilities granted by Cagamas Berhad are secured on a portfolio of financing amounting to RM2,042,743,000 as disclosed in Note 11(i).

25. Share Capital

Bank Group / Economic Entity and Bank	Number of Shares 2018 '000	Number of Shares 2017 '000	Amount 2018 RM'000	Amount 2017 RM'000
Ordinary shares				
Issued and fully paid :				
At 1 January	532,530	532,530	532,530	532,530
Issued during the year:				
Issue of ordinary shares pursuant to vesting of assets and liabilities (Note 43(a))	4,093,329	-	4,093,329	-
At 31 December	4,625,859	532,530	4,625,859	532,530

The holders of ordinary shares are entitled to receive dividends from time to time, and are entitiled to one vote per share at meetings of the Bank.

26. Reserves

Bank Group / Economic Entity	← Non-distributable Statutory reserve (i) RM'000	Regulatory reserve (ii) RM'000	Fair value reserve (iii) RM'000 →	Distributable (Accumulated losses)/ Retained profit RM'000	Total RM'000
Balance as at 1 January 2018	-	5,234	41	(43,336)	(38,061)
Effects of adopting MFRS 9, net of tax (Note 3(a))	-	-	-	(16,316)	(16,316)
	-	5,234	41	(59,652)	(54,377)
Profit for the year	-	-	-	383,878	383,878
Other comprehensive income for the year					
- changes in fair value	-	-	14,036	-	14,036
- income tax relating to component of other comprehensive income	-	-	(3,369)	-	(3,369)
	-	-	10,667	-	10,667
Adjustment arising from merger exercise (Note 43(b))	-	-	-	346,884	346,884
Balance as at 31 December 2018	-	5,234	10,708	671,110	687,052
Balance as at 1 January 2017	13,364	5,234	(777)	(53,094)	(35,273)
Loss for the year	-	-	-	(3,606)	(3,606)
Other comprehensive income for the year					
- changes in fair value	-	-	1,076	-	1,076
- income tax relating to component of other comprehensive income	-	-	(258)	-	(258)
	-	-	818	-	818
Transfer from statutory reserves	(13,364)	-	-	13,364	-
Balance as at 31 December 2017	-	5,234	41	(43,336)	(38,061)

26. Reserves (cont'd.)

	← Non-distributable		→	Distributable	
	Statutory reserve (i)	Regulatory reserve (ii)	Fair value reserve (iii)	(Accumulated losses)/ Retained profit	Total
Economic Entity and Bank	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Balance as at 1 January 2018	-	5,234	41	(43,336)	(38,061)
Effects of adopting MFRS 9, net of tax (Note 3(a))	-	-	-	(16,316)	(16,316)
	-	5,234	41	(59,652)	(54,377)
Profit for the year	-	-	-	319,195	319,195
Other comprehensive income for the year					
- changes in fair value	-	-	14,036	-	14,036
- income tax relating to component of other comprehensive income	-	-	(3,369)	-	(3,369)
	-	-	10,667	-	10,667
Balance as at 31 December 2018	-	5,234	10,708	259,543	275,485
Balance as at 1 January 2017	13,364	5,234	(777)	(53,094)	(35,273)
Loss for the year	-	-	-	(3,606)	(3,606)
Other comprehensive income for the year					
- changes in fair value	-	-	1,076	-	1,076
- income tax relating to component of other comprehensive income	-	-	(258)	-	(258)
	-	-	818	-	818
Transfer from statutory reserves	(13,364)	-	-	13,364	-
Balance as at 31 December 2017	-	5,234	41	(43,336)	(38,061)

26. Reserves (cont'd.)

(i) The statutory reserves were maintained in compliance with Section 12 of the Islamic Financial Services Act 2013 and were not distributable as cash dividends. The requirement to maintain a reserve fund has been removed pursuant to BNM's Guideline on Capital Funds for Islamic Banks issued 3 May 2017, following which the outstanding balance was transferred to accumulated losses.

(ii) The regulatory reserve is maintained in accordance with BNM's policy on Financial Reporting for Islamic Banking Institutions to 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.

(iii) The fair value reserve includes the cumulative net changes in the fair value of financial investments at FVOCI and the expected credit losses arising from financial investments at FVOCI, until the financial investments are derecognised. In prior year, the fair value reserve was in relation to financial investments available-for-sale.

27. Income derived from investment of depositors' funds

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Income derived from investment of:				
i) General investment deposit	9,732	417	10,129	417
ii) Other deposits	1,790,314	89,277	1,861,341	89,277
	1,800,046	89,694	1,871,470	89,694

i) Income derived from investment of general investment deposits

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
<u>Finance income and hibah:</u>				
Financing and advances	8,718	260	8,718	260
Financial investments held-for-trading	-	1	-	1
Financial investments at FVOCI	591	-	591	-
Financial investments available-for-sale	-	36	-	36
Financial investments at amortised cost	67	-	67	-
Financial investments held-to-maturity	-	77	-	77
Money at call and deposits with bank and other financial institutions	205	43	205	43
Profit on Sukuk Commodity Murabahah	-	-	397	-
Others	151	-	151	-
	9,732	417	10,129	417
of which:				
Financing income earned on impaired financing	125	-	125	-

27. Income derived from investment of depositors' funds (cont'd.)

ii) Income derived from investment of other deposits

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Finance income and hibah:				
Financing and advances	1,575,722	55,517	1,575,722	55,517
Financial investments held-for-trading	-	185	-	185
Financial investments at FVOCI	109,233	-	109,233	-
Financial investments available-for-sale	-	7,671	-	7,671
Financial investments at amortised cost	18,636	-	18,636	-
Financial investments held-to-maturity	-	16,488	-	16,488
Money at call and deposits with bank and other financial institutions	59,676	9,416	59,676	9,416
Profit on Sukuk Commodity Murabahah	-	-	71,027	-
Others	27,047	-	27,047	-
	1,790,314	89,277	1,861,341	89,277
of which:				
Financing Income earned on impaired financing	22,113	-	22,113	-

28. Income derived from investment of shareholders' funds

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Finance income and hibah:				
Financing and advances	195,411	13,714	195,411	13,714
Financial investments held-for-trading	-	48	-	48
Financial investments at FVOCI	14,333	-	14,333	-
Financial investments available-for-sale	-	1,900	-	1,900
Financial investments at amortised cost	5,035	-	5,035	-
Financial investments held-to-maturity	-	4,063	-	4,063
Money at call and deposits with bank and other financial institutions	35,636	2,314	16,105	2,314
Profit on Sukuk Commodity Murabahah	-	-	8,519	-
Others	1,955	-	3,244	-
	252,370	22,039	242,647	22,039
of which:				
Financing income earned on impaired financing	2,733	-	2,733	-
Other operating income:				
Financing related fees	(2,301)	4,909	(2,301)	4,909
Commission	8,117	577	8,117	577
Sundry expenses	(5,333)	-	(5,333)	-
Net gain on derivative foreign exchange contracts	65	2,314	65	2,314
	548	7,800	548	7,800
Grand total	252,918	29,839	243,195	29,839

29. Net allowance for impairment on financing and advances and other financial assets

Bank Group / Economic Entity and Bank

2018	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Financial investments at amortised cost (Note 9)	6	-	-	6
Financing and advances (Note 11(x))	(163,136)	3,584	310,952	151,400
Financial assest held-for-sale (Note 44)	665	(411)	(16,325)	(16,071)
Other receivables (Note 13(ii))	-	-	15,103	15,103
Financing commitments and financial guarantees (Note 23(iii))	(21,693)	610	3,081	(18,002)
	(184,158)	3,783	312,811	132,436
Impaired financing and advances:				
- Written off	-	-	6,452	6,452
- Recovered	-	-	(3,194)	(3,194)
Total	(184,158)	3,783	316,069	135,694

Economic Entity and Bank

2017	Individual assessment RM'000	Collective assessment RM'000	Total RM'000
Financing and advances, net	17,752	(4,990)	12,762
Impaired financing and advances:			
- Written off	-	-	-
- Recovered	(311)	-	(311)
Total	17,441	(4,990)	12,451

30. Income attributable to depositors and others

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
(a) Income attributable to depositors				
Deposits from customers:				
- Mudharabah funds	82	175	82	175
- Non-mudharabah funds	926,848	35,330	926,848	35,330
Deposits and placements of banks and other financial institutions:				
- Non-mudharabah funds	47,245	38,763	47,245	38,763
	974,175	74,268	974,175	74,268

30. Income attributable to depositors and others (cont'd.)

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
(b) Income attributable to securitisation	72,822	-	72,822	-
(c) Income attributable to sukuk	79,951	-	79,951	-
(d) Others	-	-	133,436	-
	1,126,948	74,268	1,260,384	74,268

31. Personnel expenses

	Bank Group / Economic Entity and Bank 2018 RM'000	Bank Group / Economic Entity and Bank 2017 RM'000
Salaries, allowances and bonuses	137,461	15,681
Contributions to Employees Provident Fund and SOCSO	23,603	1,752
Directors' remuneration (Note 33)	1,897	732
Shariah Advisory Committee members' remuneration (Note 33)	287	194
Other staff related expenses	17,208	1,505
	180,456	19,864

32. Other overhead expenses

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Establishment related expenses				
Depreciation of property and equipment	4,085	400	4,085	400
Amortisation of intangible assets	9,680	799	9,680	799
Rental of premises	7,097	1,946	7,097	1,946
Software and hardware maintenance	14,838	5,984	14,838	5,984
Rental of equipment and network line	55	275	55	275
Security expenses	1,006	434	1,006	434
Others	3,424	2,759	3,424	2,759
	40,185	12,597	40,185	12,597
Promotion and marketing related expenses				
Advertising and promotional activities	5,898	73	5,898	73
Others	8	86	8	86
	5,906	159	5,906	159
General administrative expenses				
License and association fees and levies	740	403	740	403
Travelling, transport and accomodation expenses	2,330	225	2,330	225
Printing, stationery, postage and clearing charges	3,473	339	3,473	339
Electricity and water	2,453	311	2,453	311

32. Other overhead expenses (cont'd.)

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
General administrative expenses (cont'd.)				
Other professional fees	28,586	1,101	28,586	1,101
Auditors' remuneration:				
- Audit fee	1,312	316	1,300	316
- Non-audit fee	150	111	150	111
Repair and maintenance of office equipment	700	-	700	-
Others	7,294	1,068	6,846	1,068
	47,038	3,874	46,578	3,874
Commission fees				
Commission fees	2,404	-	2,404	-
Angkasa charges	22,949	-	22,949	-
	25,353	-	25,353	-
Inter-company recharges	(26,610)	-	(28,454)	-
	91,872	16,630	89,568	16,630

33. CEO, Directors' and Shariah Advisory Committee Members' remuneration

	Bank Group / Economic Entity and Bank 2018 RM'000	Bank Group / Economic Entity and Bank 2017 RM'000
Chief Executive Officer		
Khalid Mahmood Bhaimia (Resigned on 16 March 2018)		
Salaries and bonus	308	808
Benefits-in-kind	34	-
	342	808
Datuk Seri Ahmad Zaini bin Othman (Appointed on 7 February 2018)		
Salaries and bonus	1,211	-
Other emoluments	188	-
	1,399	-
	1,741	808
Directors of the Bank		
Non-Executive:		
Fees and allowances	1,897	732
Shariah Advisory Committee members		
Fees and allowances	287	194
	3,925	1,734

33. CEO, Directors' and Shariah Advisory Committee Members' remuneration (cont'd.)

Details of the remuneration of each Director during the financial year ended 31 December 2018 are as follows:

2018		**Bank Group and Bank**		
Non-Executive Directors		**Fees RM'000**	**Allowance RM'000**	**Total RM'000**
1.	Tan Sri Abdul Halim bin Ali	128	57	185
2.	Datuk Azrulnizam bin Abdul Aziz	122	111	233
3.	Encik Aw Hong Boo	151	138	289
4.	Datuk Johar bin Che Mat	148	120	268
5.	Puan Lynette Yeow Su Yin	124	114	238
6.	Encik Sazaliza Zainuddin	110 *	87	197
7.	Tunku Alina binti Raja Muhd Alias	134	116	250
8.	Dr. Loh Leong Hua	92	79	171
9.	Dato' Dr. Md Khir bin Abdul Rahman	10	15	25
10.	Dato' Dr. Vaseehar Hassan bin Abdul Razack	6	10	16
11.	Encik Abdul Rahim Abdul Hamid	6	9	15
12.	Dr. Saleh Jameel Malaikah	2	6	8
13.	Encik Zakir Hussain Rizvi	2	-	2
		1,035	862	1,897

* 50% of the Director's fees are paid to the organisation to whom the Director represents.

Shariah Advisory Committee members		**Fees RM'000**	**Allowance RM'000**	**Total RM'000**
1.	Asst. Prof. Dr. Akhtarzaite binti Abdul Aziz	-	61	61
2.	Prof. Dr. Abdul Rahim bin Abdul Rahman	-	53	53
3.	Prof. Dato' Dr. Noor Inayah binti Ya'akub	-	57	57
4.	Encik Mohd Nasiruddin bin Mohd Kamaruddin	-	56	56
5.	Encik Mohd Bahroddin bin Badri	-	31	31
6.	Encik Nushi bin Mahfodz	2	12	14
7.	Prof. Dr. Ali Muhyealdin A Al-Quradaghi	4	-	4
8.	Dr. Waleed Mohammed H Sh Al-Mulla	4	-	4
9.	Dr. Abdul Sattar Abdul Karim	5	-	5
10.	Dr. Mohammad Zaini bin Yahaya	2	-	2
		17	270	287

33. CEO, Directors' and Shariah Advisory Committee Members' remuneration (cont'd.)

2017

		Economic Entity and Bank		
Non-Executive Directors		**Fees RM'000**	**Allowance RM'000**	**Total RM'000**
1.	Dato' Dr Md Khir Abdul Rahman	96	81	177
2.	Dr. Saleh Jameel Malaikah	24	21	45
3.	Dato' Dr. Vaseehar Hassan bin Abdul Razack	60	65	125
4.	Encik Abdul Rahim Abdul Hamid	65	59	124
5.	Encik Gourang Hemani	4	6	10
6.	Encik Rakesh Sanghvi	4	5	9
7.	Dr. Fouad Hayel Saeed Anam	4	7	11
8.	Encik Zakir Hussain Rizvi	24	19	43
9.	Encik Tarek Youssef Fawzi	4	2	6
10.	Dr. Loh Leong Hua	50	44	94
11.	Datuk Azrulnizam bin Abdul Aziz	50	34	84
12.	Datuk Johar bin Che Mat	-	4	4
		385	347	732

		Fees	Allowance	Total
Shariah Advisory Committee members		**RM'000**	**RM'000**	**RM'000**
1.	Dr. Mohammad Zaini bin Yahaya	24	-	24
2.	Encik Nushi bin Mahfodz	24	-	24
3.	Dr. Abdul Sattar Abdul Karim	49	-	49
4.	Dr. Waleed Mohammed H Sh Al-Mulla	48	-	48
5.	Prof. Dr. Ali Muhyealdin A Al-Quradaghi	49	-	49
		194	-	194

34. Taxation

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Malaysian income tax:				
Current income tax	77,057	339	72,370	339
Under provision in prior year	97	122	36	122
	77,154	461	72,406	461
Deferred tax (Note 20):				
Origination and reversal of temporary differences	43,484	(614)	43,484	(614)
Under provision in prior year	478	79	478	79
	43,962	(535)	43,962	(535)
Total income tax expense/(credit) for the year	121,116	(74)	116,368	(74)

A reconciliation of income tax expense applicable to profit / (loss) before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Bank Group and of the Bank is as follows:

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Profit/(Loss) before taxation and zakat	517,994	(3,680)	448,563	(3,680)
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	124,319	(883)	107,655	(883)
Effect of income not subject to tax	(32,026)	-	-	-
Effect of expenses not deductible for tax purposes	28,248	608	8,199	608
Under provision in prior years	575	201	514	201
	121,116	(74)	116,368	(74)
Tax recognised directly in equity:				
Fair value reserve (Note 20)	3,369	258	3,369	258

35. Commitments and contingencies

In the normal course of business, the Bank Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

	Principal amount RM'000	Gross positive fair value - derivative contract RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Bank Group and Bank				
2018				
Direct credit substitutes	187,785	-	187,785	187,659
Trade-related contingencies	254,488	-	90,927	90,927
Irrevocable commitments to extend credit:				
- one year or less	1,248,705	-	350,206	350,206
- over one year to five years	4,160,842	-	2,078,256	2,053,871
- over five years	220,817	-	110,408	110,408
Foreign exchange related contracts				
- one year or less	5,842	67	151	151
Total	6,078,479	67	2,817,733	2,793,222

	Principal amount RM'000	Gross positive fair value - derivative contract RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Economic Entity and Bank				
2017				
Direct credit substitutes	24,451	-	24,451	24,325
Trade-related contingencies	28,158	-	5,631	5,631
Irrevocable commitments to extend credit:				
- one year or less	349,819	-	174,909	172,233
- over one year to five years	14,314	-	7,157	7,151
- over five years	50,817	-	25,408	25,408
Foreign exchange related contracts				
- one year or less	130,503	3,091	4,271	1,247
Total	598,062	3,091	241,827	235,995

35. Commitments and contingencies (cont'd.)

35.1 Capital Commitments

Capital expenditure approved by Directors but not provided for in the financial statements are as follows:

	Bank Group / Economic Entity and Bank	
	2018	**2017**
	RM'000	**RM'000**
Property and equipment		
Contracted but not provided for	48,287	471

35.2 Lease Commitments

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

	Bank Group / Economic Entity and Bank	
	2018	**2017**
	RM'000	**RM'000**
Within one year	7,968	2,100
Between one to five years	4,680	3,189
	12,648	5,289

36. Earnings/(Loss) per share

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

	Bank Group 2018	**Economic Entity 2017**	**Bank 2018**	**Bank 2017**
Basic:				
Net profit/(loss) for the year (RM'000)	383,878	(3,606)	319,195	(3,606)
Weighted average number of ordinary shares in issue ('000)	3,605,331	532,530	3,605,331	532,530
Basic earnings/(loss) per share (sen)	10.65	(0.68)	8.85	(0.68)

The Bank Group and the Bank have no dilution in their earnings per share during the year.

37. Capital adequacy

The capital adequacy ratios have been computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks (Capital Components and Risk-Weighted Assets). The total risk-weighted assets are computed based on Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk.

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Common Equity Tier I ("CET I") Capital/Tier I Capital				
Ordinary share capital	4,625,859	532,530	4,625,859	532,530
Retained earnings/(Accumulated losses)	324,226	(43,336)	259,543	(43,336)
Other reserves	15,942	5,275	15,942	5,275
	4,966,027	494,469	4,901,344	494,469
Less : Regulatory adjustments				
Deferred tax assets	-	(626)	-	(626)
Cumulative gains of financial investments at FVOCI/available-for-sale	(8,152)	(30)	(8,152)	(30)
Regulatory reserve	(5,234)	(5,234)	(5,234)	(5,234)
Intangible assets	(104,692)	(1,620)	(104,692)	(1,620)
Total CET I Capital/Tier I Capital	4,847,949	486,959	4,783,266	486,959
Tier II Capital				
Collective impairment allowance and regulatory reserve ^	445,089	11,443	480,046	11,443
Total Tier II capital	445,089	11,443	480,046	11,443
Total capital base	5,293,038	498,402	5,263,312	498,402

^ Collective impairment allowance on non-credit impaired exposure and regulatory reserves is subject to a maximum of 1.25% of total credit RWA.

Breakdown of risk-weighted assets in various categories of risk weights are as follows:

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Total risk-weighted assets ("RWA")				
- Credit risk	35,607,133	1,511,252	38,403,661	1,511,252
- Market risk	2,136	9,836	2,136	9,836
- Operational risk	619,526	89,397	573,889	89,397
Total RWA	36,228,795	1,610,485	38,979,686	1,610,485
Capital adequacy ratios				
CET I capital ratio	13.381%	30.236%	12.271%	30.236%
Tier I capital ratio	13.381%	30.236%	12.271%	30.236%
Total capital ratio	14.610%	30.947%	13.503%	30.947%

38. Significant related party transactions/balances

(a) Transactions and balances with government-related entities are as follows:

EPF, the ultimate holding body, is a shareholder with control over the holding Company, MBSB, with direct shareholdings of 63.77% as at 31 December 2018 (2017: 65.40%). EPF is also a government-linked entity. EPF and entities directly controlled by and under the significant influence of EPF are collectively referred to as government-related entities to the Bank Group and the Bank.

All the transactions entered into by the Bank Group and the Bank with government-related entities are conducted in the ordinary course of the Bank Group's and the Bank's business on terms comparable to those with other entities that are not government-related.

(i) Individually significant transactions and balances with EPF are as follows:

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Expenses				
Profit expense paid on Sukuk to EPF	42,620	-	42,620	-
Profit expense paid on fixed deposit to EPF	3,847	-	3,847	-
Rental expense	216	-	216	-
Balances				
Sukuk MBSB-SC Murabahah	1,121,242	-	1,121,242	-
Accrued profit on sukuk due to EPF	7,824		7,824	
Fixed deposit from EPF	900,000	-	900,000	-
Accrued profit on fixed deposit due to EPF	1,025	-	1,025	-

38. Significant related party transactions/balances (cont'd.)

(a) Transactions and balances with government-related entities are as follows: (cont'd.)

(ii) Individually significant transactions and balances with the RHB Banking Group of companies, comprising RHB Bank Berhad and RHB Islamic Bank Berhad, being companies in which EPF has significant influence over, are as follows:

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Income/(Expenses)				
Profit income from deposit placements	23,177	-	-	-
Profit expense to depositors	(2,478)	-	(2,478)	-
Balances				
Cash and short-term funds	19,215	-	14,262	-
Deposits and placements with banks and other financial institutions	32	-	-	-

(iii) Collectively, but not individually, significant transactions and balances:

The Bank Group and the Bank have balances with other government-related entities including but not limited to provision of financing and advances, deposit placements and borrowings.

For the financial year ended 31 December 2018, the aggregate amount of the Bank Group's and the Bank's significant transactions and balances with other government-related entities other than the RHB Banking Group of companies are as disclosed below:

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Income/(Expenses)				
Profit income from financing	24,656	-	24,656	-
Profit expense to depositors	(6,724)	-	(6,724)	-
Balances				
Financing to customers	303,695	-	303,695	-
Deposits from customers	154,019	-	154,019	-

38. Significant related party transactions/balances (cont'd.)

(b) Transactions and balances with immediate holding company, a subsidiary and related companies of the Bank are as follows:

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Immediate holding company				
Income				
Inter-company recharges	25,119	-	25,119	-
Balances				
Amount due from holding company	98,666	-	98,666	-
Subsidiary				
Income/(Expenses)				
Profit income from Sukuk Commodity Murabahah	-	-	79,943	-
Profit income from amount due from subsidiary	-	-	1,314	-
Inter-company recharges	-	-	1,822	-
Profit expenses to subsidiary	-	-	(133,436)	-
Balances				
Sukuk Commodity Murabahah	-	-	2,924,734	-
Amount due from subsidiary	-	-	30,069	-
Amount due to subsidiary	-	-	2,584,124	-
Related companies				
Income/(Expenses)				
Profit income from financing	29,128	-	29,128	-
Inter-company recharges	3,643	-	3,643	-
Rental paid	(674)	-	(674)	-
Balances				
Gross financing to related companies	635,993	-	635,993	-
Amount due to related companies	35,437	-	35,437	-

The Directors are of the opinion that all the transactions and balances above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

(c) The remuneration of Directors and other members of key management during the year is as follows:

	Bank Group / Economic Entity and Bank 2018 RM'000	Bank Group / Economic Entity and Bank 2017 RM'000
Short-term employee benefits	4,213	1,734
Pension costs: EPF	316	-
	4,529	1,734

38. Significant related party transactions/balances (cont'd.)

(c) The remuneration of Directors and other members of key management during the year is as follows (cont'd.):

Included in the total key management personnel remuneration are:

	Bank Group / Economic Entity and Bank	
	2018 RM'000	2017 RM'000
Chief Executive Officer's remuneration comprising salary, bonus, allowances and other emoluments, including benefits-in-kind (Note 33)	1,741	808

(d) Transactions and balances with Directors, shareholders and key management:

	Bank Group / Economic Entity and Bank	
	2018 RM'000	2017 RM'000
Income/(Expenses)		
Profit income on financing	-	187
Other income	-	63
Profit expense incurred on savings and deposits	(77)	-
Balance		
Amount due to in respect of savings and deposits	2,851	330

39. Credit exposures arising from transactions with connected parties

	Bank Group / Economic Entity and Bank	
	2018 RM'000	2017 RM'000
Outstanding credit exposures with connected parties	**823,376**	**-**
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	**2.07%**	0.00%
Percentage of outstanding credit exposures to connected parties which is non-performing or in default	**0.68%**	0.00%

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

40. Financial risk management

The Bank Group and the Bank have exposure to one or more of the following risks:

(i) Market risk

Arising from fluctuations in the market value of the trading or investment exposure arising from changes to market risk factors such as profit rates, currency exchange rates, credit spreads, commodities prices and their associated volatility;

(ii) Credit risk

Arising from the possibility of losses due to an obligor or, market counterparty or issuer of securities or other instruments held, having failed to perform its contractual obligations to the Bank Group and the Bank;

(iii) Liquidity risk

Arising from the Bank Group’s and the Bank's ability to efficiently meet their present and future funding needs or regulatory obligations, when they come due, which may adversely affect their daily operations and incur unacceptable losses;

(iv) Operational risk

Arising from risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events;

(v) Profit rate/rate of return risk in the banking book

Current and potential risk to the Bank Group’s and the Bank's earning and economic value arising from movement in the profit rates/rate of return;

(vi) Capital risk

Arising from the failure to meet the minimum regulatory and internal requirements; and

(vii) Shariah non-compliance risk

Arising from possible failure to comply with the Shariah requirements as determined by Shariah Advisory Council ("SAC") of Bank Negara Malaysia ("BNM") and Securities Commission ("SC"), the Shariah Advisory Committee and other Shariah regulatory authorities.

(a) Financial risk management objectives and policies

Risk management forms an integral part of the Bank Group’s and the Bank's activities and remains an important feature in all their business, operations, delivery channels and decision-making processes. The extent to which the Bank Group and the Bank are able to identify, assess, monitor, manage and report each of the various types of risk is critical to their strength, soundness and profitability. The Bank Group’s and the Bank's risk management function is independent of their operating units. All new businesses, introduction of new products, engagement in new activities or entrance into new strategic alliances are subject to endorsement by the Risk Management Division and submitted to the Board Audit Committee (“BAC”), Board Risk Management and Compliance Committee ("BRMCC") and/or Board of Directors ("the Board") for approvals.

40. Financial risk management (cont'd.)

(a) Financial risk management objectives and policies (cont'd.)

In essence, the objectives of the Bank Group’s and the Bank's risk management activities are to:

(i) Identify and monitor the various risk exposures and risk requirements;

(ii) Ensure risk taking activities are consistent with the approved policies and the aggregated risk positions are within the risk appetite as approved by the Board; and

(iii) Help create shareholder value through proper allocation of risk and the facilitation of independent risk assessments of new business and products.

(b) Risk management framework

The Bank Group and the Bank employ an Enterprise-wide Risk Management Framework to manage their risks effectively. The framework involves an on-going process of identifying, evaluating, monitoring, managing and reporting significant risks affecting the Bank Group and the Bank which is implemented through a number of committees established by the Board. This framework provides the Board and the management with a tool to anticipate and manage both existing and potential risks, taking into consideration dynamic risk profiles as dictated by changes in business strategies, regulatory environment and functional activities throughout the year.

Key features of the Risk Management Framework include:

(i) Governance and organisation

A strong governance structure is important to ensure an effective and consistent implementation of the Risk Management Framework. The Board is ultimately responsible for the Bank Group’s strategic directions, which is supported by the risk appetite and Risk Management Frameworks, policies and procedures. The Board is assisted by various risk committees and control functions in ensuring that the Bank Group’s Risk Management Framework is effectively maintained.

(ii) Internal Capital Adequacy Assessment Process ("ICAAP")

The Bank Group’s ICAAP Framework ensures that all material risks are identified, measured and reported; and that adequate capital levels consistent with the risk profiles, including capital buffers, are maintained to support the current and projected demand for capital under existing and stressed conditions. For non-measurable risks, relevant framework and control mechanisms are implemented to mitigate and manage the same.

(iii) Risk appetite

It is defined as the amount and types of risk that the Bank Group is able and willing to accept in pursuit of its strategic and business objectives. The development of the risk appetite is integrated into the annual strategic planning process and is adaptable to changing business and market conditions. As the risk appetite is dynamic, the Board sets the risk appetite based on the business and financial targets, while incorporating macroeconomic and global outlook. The Board also considers the actual and targeted risk profile of the Bank Group proposed by senior management and business units when setting the risk appetite. The risk appetite is also being reviewed annually or as and when required.

40. Financial risk management (cont'd.)

(b) Risk management framework (cont'd.)

(iv) Risk Management Process

- Business planning: Risk Management Division ("RMD") is an element of the business planning process, which encompasses setting frameworks for risk appetite, risk structure and new product or new business activities.

- Risk identification: Risks are systematically identified through the robust application of the Bank Group’s Risk Management Framework, policies and procedures.

- Measure and assess: Risks are measured and aggregated using the group wide methodologies across each of the risk types, including stress testing.

- Manage and control: Controls and limits are used to manage risk exposures within the risk appetite set by the Board. Controls and limits are regularly monitored and reviewed in the face of evolving business needs, market conditions and regulatory changes. Corrective actions are taken to mitigate risks.

- Monitor and report: Risks on an individual as well as a portfolio basis are regularly monitored and reported to ensure they remain within the Bank Group’s risk appetite.

(v) Risk Management Infrastructure

- Risk policies, procedures and methodologies: Well-defined risk policies by risk type provide the principles by which the Bank Group manages its risks. Procedures provide guidance for day-to-day risk-taking activities. Methodologies provide specific requirements, rules or criteria that must be met to comply with the policies.

- People: Attracting the right talent and skills are the key to ensuring a well-functioning Risk Management Framework. The organisation continuously evolves and proactively responds to the increasing complexity of the Bank Group as well as the economic and regulatory environment.

- Technology and data: Appropriate technology and sound data management are enablers to support risk management activities.

(vi) Risk Culture

The Bank Group embraces risk management as an integral part of its culture and decision-making processes. The Bank Group’s risk management philosophy is embodied in the Three Lines of Defense approach, whereby risks are managed at the point of a risk-taking activity. There is clear accountability of risk ownership across the Bank Group. Guided by the said principle, the Bank Group has launched a Risk Awareness Culture which comprises training, awareness campaigns and roadshows within the Bank Group to promote a healthy risk culture. A strong risk culture minimises the Bank Group’s exposure to financial and non-financial risks including reputational impact, over time.

In addition, the Bank Group has implemented the Regional Compliance and Risk Officers (“RCRO”) and Designated Compliance and Risk Officers (“DCORO”) to cultivate proactive risk and compliance management and to establish a robust risk culture. The DCOROs are appointed at the respective branches, business and functional units across the Bank Group to provide real time advisory on risk and compliance matters.

40. Financial risk management (cont'd.)

(c) Risk organisation

At the apex of the Bank Group and the Bank's risk management structure is the Board of Directors ("the Board"), which comprises Non-Executive Directors. In line with best practices, the Board determines the risk policy objectives for the Bank Group and the Bank, and assumes responsibility for the supervision of risk management.

The day-to-day responsibility for risk management and control is delegated to the BRMCC which undertakes the oversight function for overall risk limits and ensures that the Bank Group and the Bank are within risk appetites as established by the Board. Other than the BRMCC, the Board is also supported by specialised and supervisory committees, the details of which are as follows:

(i) Board Investment and Credit Committee ("BICC"): The BICC assists the Board to consider and if deem fit to affirm or veto, all financing and investment applications, additional financing or investment, and/or request for changes to existing financing/investment accounts within the Committee’s discretionary authority. The BICC also considers and if deem fit to affirm or veto on waivers of penalty, profit or principal amount, rescheduling/restructuring of accounts and/or request for changes to existing non-performing financing/investment accounts within the Committee’s discretionary authority.

(ii) Asset and Liability Committee ("ALCO"): The ALCO is responsible for the Bank Group’s and the Bank's liquidity management by focusing on the maturity gap, liquidity position, financing portfolio concentration, deposits composition and depositors’ concentration. The ALCO also manages the profit rate exposures and profit margin of the Bank Group and the Bank by reviewing the lending rates, cost of funds, profit margin and the repricing gaps.

(iii) Management Investment and Credit Committee ("MICC"): The MICC deliberates and recommends to the Board or relevant Board Committees for Corporate Financing, Retail Financing and Investment accounts, and decides whether to proceed with the preparation of the Board/BICC paper based on completed credit assessment reports. The MICC also deliberates and recommends any appeal on variations to the terms and conditions as earlier approved by the Board or Board Committees and also deliberates and approves the submission of the relevant corporate rehabilitation papers for the Board or Board Committees.

(iv) Management Committee ("MANCO"): The MANCO deliberates the implementation of the Enterprise-wide Risk Management Framework which addresses credit, market and operational and strategic risks and also resolves operational issues within the policies established by the Board and recommends policy changes to the Board.

The Bank Group’s risk management approach is based on the ‘Three Lines of Defence’ concept.

1st line of defence - the risk owner or risk taking unit i.e. business or support unit is accountable for putting in place a robust control environment within their respective units. They are responsible for the day to day management of operational risk.

2nd line of defence - RMD is responsible for establishing and maintaining the Risk Management Framework, developing various risk management tools to facilitate the management of operational risk, monitoring the effectiveness of risk management, assessing operational risk issues from the risk owner and escalating the issues to the relevant governance level with recommendations on appropriate risk mitigation strategies. In creating a strong risk culture, RMD is also responsible to promote risk awareness across the Bank Group.

40. Financial risk management (cont'd.)

(c) Risk organisation (cont'd.)

Compliance Division is responsible for ensuring effective oversight on compliance-related risks such as regulatory compliance risk, compliance risk as well as money laundering and terrorism financing risks through proper classification of risks and developing, reviewing and enhancing compliance-related training programme as well as conducting training that promotes awareness creation.

3rd line of defence - Internal Audit Division provides independent assurance to the Board and senior management on the effectiveness of the risk management process.

(d) Risk reporting and monitoring

The Bank Group’s and the Bank's credit portfolios are monitored through early alert reporting to ensure credit deterioration is promptly detected and mitigated through the implementation of risk remediation strategies. All business units undertake regular and comprehensive analyses of their credit portfolios and report to the relevant committees and are overseen by RMD. RMD provides independent reporting to the business units and the Board to ensure independence in relation to the prompt identification and communication of emerging credit issues of the Bank Group and the Bank to the Board.

(e) Credit risk mitigation

All credit facilities are granted on the credit standing of respective borrowers, source of repayment, debt servicing ability and the collateral provided. The valuation of the collateral is conducted periodically. The main types of collateral taken by the Bank Group and the Bank are marketable securities, real estate, inventory and receivables. Personal guarantees are also taken as a part of the collateral to secure the moral commitment from the principal shareholders and directors of the borrowers. Corporate guarantees are often obtained when the borrower’s credit worthiness is insufficient to justify the granting of credit facilities.

(f) Concentration risk

Concentration of credit risk arises when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Bank Group and the Bank monitor their portfolios to identify and assess risk concentrations. The credit portfolios are monitored and periodically reviewed to identify, assess and safeguard against unacceptable risk concentrations. RMD also applies single customer counterparty limits to protect against unacceptably large exposures to single risk. RMD conducts analyses and reports concentration risk to the Board on a quarterly basis.

40. Financial risk management (cont'd.)

40.1 Credit risk

Credit risk is the risk of loss to the Bank Group and the Bank due to the deterioration in credit worthiness of their borrowers and, consequently, their ability to discharge their contractual obligations to the Bank Group and the Bank. Credit risk remains the most significant risk to which the Bank Group and the Bank are exposed. The purpose of credit risk management is to keep credit risk exposure to an acceptable level in line with the Bank Group’s and the Bank's risk appetite and to ensure that the returns are commensurate to the risk underwritten.

The primary objective of the Bank Group's and the Bank's credit platform is to enhance the efficiency and effectiveness of the credit oversight and credit approval processes for all retail and corporate financing. Credit proposals are submitted to the relevant credit committees for approval or concurrence, and are subsequently submitted to RMD for independent assessment. Credit exposures are evaluated by RMD and are monitored against approved limits on a periodic basis on a portfolio and individual basis.

(i) Maximum exposure to credit risk

The following analysis represents the Bank Group's and the Bank's maximum exposure to credit risk from on-balance sheet financial assets and off-balance sheet commitments and contingencies, excluding any collateral held or other credit enhancements. For on-balance sheet financial assets, the exposure to credit risk equals their carrying amount. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Bank Group and the Bank would have to pay if the obligations of the instruments issued are being called upon. For credit commitments, the maximum exposures to credit risk is the full amount of the undrawn credit facilities granted to customers.

	Bank Group 2018 RM'000	Economic Entity 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Credit exposure for on-balance sheet financial assets				
Cash and short-term funds	3,242,228	478,674	3,237,276	478,674
Deposits and placements with banks and other financial institutions	776,739	-	1,842	-
Derivative financial assets	67	3,091	67	3,091
Financial investments at FVOCI	5,097,105	-	5,097,105	-
Financial investments available-for-sale	-	227,086	-	227,086
Financial investments at amortised cost	20,350	-	20,350	-
Financial investments held-to-maturity	-	600,600	-	600,600
Financing and advances	31,806,617	1,035,668	31,806,617	1,035,668
Sukuk Commodity Murabahah	-	-	2,924,734	-
Statutory deposits with Bank Negara Malaysia	1,053,000	26,774	1,053,000	26,774
Other receivables *	571,829	4,263	598,731	4,263
	42,567,935	2,376,156	44,739,722	2,376,156

* Other receivables exclude prepayments and deposits as these items are classified as non-financial assets.

40. Financial risk management (cont'd.)

40.1 Credit risk (cont'd.)

(i) Maximum exposure to credit risk (cont'd.)

	Bank Group / Economic Entity and Bank	
	2018	**2017**
	RM'000	**RM'000**
Credit exposure for off-balance sheet items		
Direct credit substitutes	187,785	24,451
Trade-related contingencies	254,488	28,158
Irrevocable commitments	5,630,364	414,950
	6,072,637	467,559

(ii) Credit quality

(a) Financing and advances

Financing and advances are summarised as follows:

2018	**Bank Group and Bank**			
	Stage 1 RM'000	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Neither past due nor impaired				
Corporate financing				
Excellent	1,380	-	-	1,380
Good	3,484,483	273,974	-	3,758,457
Average	2,555,278	473,353	-	3,028,631
Below Average	225,842	7,862	-	233,704
Poor	31,389	3,864	-	35,253
Retail financing	22,016,505	1,393,970	-	23,410,475
Total neither past due nor impaired	28,314,877	2,153,023	-	30,467,900
Past due but not impaired				
Corporate financing				
Excellent	-	-	-	-
Good	-	90,649	-	90,649
Average	-	199,213	-	199,213
Below Average	-	58,833	-	58,833
Poor	-	113,287	-	113,287
Retail financing	-	1,322,499	-	1,322,499
Total past due but not impaired	-	1,784,481	-	1,784,481
Impaired	-	-	792,293	792,293
Gross financing and advances	28,314,877	3,937,504	792,293	33,044,674
Loss allowance	(346,537)	(455,639)	(435,881)	(1,238,057)
Net financing and advances	27,968,340	3,481,865	356,412	31,806,617

40. Financial risk management (cont'd.)

40.1 Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

(a) Financing and advances (cont'd.)

2018	**Bank Group and Bank**			
	Stage 1 RM'000	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Financing commitments				
Corporate financing				
Excellent	506	-	-	506
Good	1,937,849	202,108	-	2,139,957
Average	2,469,641	414,399	-	2,884,040
Below Average	241,195	363	-	241,558
Poor	-	12,630	152,248	164,878
Retail financing	182,677	10,849	5,899	199,425
Gross financing commitments	4,831,868	640,349	158,147	5,630,364
Loss allowance	(48,113)	(31,033)	(3,852)	(82,998)
Net financing commitments	4,783,755	609,316	154,295	5,547,366
Financial guarantees				
Corporate financing				
Excellent	-	-	-	-
Good	83,254	-	-	83,254
Average	255,955	76,170	-	332,125
Below Average	-	4,000	-	4,000
Poor	-	-	22,894	22,894
Gross financing guarantees	339,209	80,170	22,894	442,273
Loss allowance	(4,604)	(5,597)	(744)	(10,945)
Net financing guarantees	334,605	74,573	22,150	431,328

40. Financial risk management (cont'd.)

40.1 Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

(a) Financing and advances (cont'd.)

Internal rating definition for year 2018:

Risk Level	Description
Excellent	Superior capability for payment of financial commitments with little susceptibility to adverse effects to changes in circumstances and economic conditions.
Good	Strong capacity to meet financial commitments and are less susceptible to adverse effects to changes in circumstances and economic conditions.
Average	Moderate capacity to meet financial commitments and may be susceptible to adverse changes in circumstances and economic conditions.
Below Average	Weak in terms of overall credit risk, with some apparent risk of default. May face problems in meeting commitments in the long term.
Poor	Poor credit quality and high risk of default.

2017

	Economic Entity and Bank RM'000
Neither past due nor impaired	
Corporate financing	
CRR 1 - CRR 3	122,040
CRR 4 - CRR 6	822,801
CRR 7 - CRR 10	14,732
Retail financing	7,185
Total neither past due nor impaired	966,758
Past due but not impaired	
Corporate financing	-
Retail financing	10,611
Total past due but not impaired	10,611
Impaired	111,424
Gross financing and advances	1,088,793
Individual assessment allowance	(45,716)
Collective assessment allowance	(7,409)
Net financing and advances	1,035,668

40. Financial risk management (cont'd.)

40.1 Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

(a) Financing and advances (cont'd.)

Internal rating definition for year 2017:

Grade	Description	Brief explanation
CRR 1	Prime Quality	Customer with dynamic market presence, professional management and very strong financial position is evident. Undoubted for all its obligations.
CRR 2	Strong	Strong ability to pay debt obligations. Very good management team of professional background and experienced with excellent reputation and track record.
CRR 3	Good	Sound financial position evident with no difficulty foreseen in meeting its obligations. Good reputation and track record is unquestionable.
CRR 4	Favourable	Positive ability to pay debt obligations. Generally known to be of stable financial position and track record.
CRR 5	Satisfactory	Business is trading towards an acceptable level on a stable or upward trend. No difficulty in servicing its current debts.
CRR 6	Marginal	Adequate safety of meeting its obligations but more time is required to meet its obligation in full.
CRR 7	Watch-List	Inadequate safety of timely payment of profit and principal. Financial trends and / or market position has changed significantly requiring closer monitoring.
CRR 8	Sub-standard	High risks on profit and principal payments. Financial performance has continued to deteriorate possibly allied to significant adverse change in business environment giving increasing cause for concern.
CRR 9	Doubtful	Very high risk of default or already in default. The continuation of the business is in question and cash generated from business is low – provision for doubtful financing is justified.

40. Financial risk management (cont'd.)

40.1 Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

(a) Financing and advances (cont'd.)

Internal rating definition for year 2017 (cont'd.):

Grade	Description	Brief explanation
CRR 10	Bad	Unlikely that the business will survive – full provision for doubtful financing made for the unsecured portion of the exposure.

Past due but not impaired

	Bank Group / Economic Entity and Bank			
	2018		2017	
	RM'000	% to Gross Financing	RM'000	% to Gross Financing
By aging				
Months-in-arrears 1	1,237,110	3.74%	9,685	0.89%
Months-in-arrears 2	547,371	1.66%	926	0.09%
	1,784,481	5.40%	10,611	0.98%

Impaired

This refers to financing and advances for which exposures are considered impaired based on the Bank Group's and Bank's policies.

	Bank Group / Economic Entity and Bank	
	2018	2017
Impaired financing	RM'000	RM'000
Individually assessed of which:		
Months-in-arrears 0	12,900	-
Months-in-arrears 1	-	-
Months-in-arrears 2	3,567	-
Months-in-arrears 3 and above	144,294	70,391
Collectively assessed	631,532	41,033
	792,293	111,424

40. Financial risk management (cont'd.)

40.1 Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

(a) Financing and advances (cont'd.)

Impaired (cont'd.)

Impaired financing of which are rescheduled and restructured financing:

	Bank Group / Economic Entity and Bank	
	2018	**2017**
	RM'000	**RM'000**
Retail	79,393	37,493
Corporate	45,170	805
	124,563	38,298

Rescheduled or restructured financing are financing where the original contractual terms have been modified due to deterioration in the customers' financial positions and the Bank has made concessions that it would not otherwise consider. Once the financing is rescheduled or restructured, its satisfactory performance is monitored for a period of six months before it can be reclassified to non-credit impaired.

(b) Other financial assets

Credit quality of other financial assets by external rating is as follows:

Bank Group

Neither past due nor impaired

2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash and short-term funds				
AAA	3,119,394	-	-	3,119,394
AA and below	71,831	-	-	71,831
Unrated	51,003	-	-	51,003
	3,242,228	-	-	3,242,228
Debt investments				
AAA	969,308	-	-	969,308
AA and below	91,320	-	-	91,320
Unrated*	4,056,827	-	-	4,056,827
	5,117,455	-	-	5,117,455

*The unrated financial investments are all government guaranteed securities.

Other financial assets				
Unrated	186,798	-	385,031	571,829
	186,798	-	385,031	571,829

40. Financial risk management (cont'd.)

40.1 Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

(b) Other financial assets (cont'd.)

Bank

Neither past due nor impaired

2018	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Cash and short-term funds				
AAA	3,119,394	-	-	3,119,394
AA and below	66,879	-	-	66,879
Unrated	51,003	-	-	51,003
	3,237,276	-	-	3,237,276
Debt investments				
AAA	969,308	-	-	969,308
AA and below	91,320	-	-	91,320
Unrated*	4,056,827	-	-	4,056,827
	5,117,455	-	-	5,117,455

*The unrated financial investments are all government guaranteed securities.

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Other financial assets				
Unrated	213,700	-	385,031	598,731
	213,700	-	385,031	598,731

Economic Entity and Bank

2017	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Cash and short-term funds				
AAA	431,442	-	-	431,442
AA and below	45,890	-	-	45,890
Unrated	1,342	-	-	1,342
	478,674	-	-	478,674
Debt investments				
AAA	222,882	-	-	222,882
AA and below	181,064	-	-	181,064
Unrated*	423,740	-	-	423,740
	827,686	-	-	827,686

*The unrated financial investments are all government guaranteed securities.

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Other financial assets				
Unrated	4,263	-	-	4,263
	4,263	-	-	4,263

40. Financial Risk Management (cont'd.)

40.1 Credit risk (cont'd.)

(iii) Concentration of credit risk

Bank Group 2018	Cash and short-term funds and deposits and placements with financial institutions RM'000	Derivative financial assets RM'000	Financial investments at FVOCI RM'000	Financial investments at amortised cost RM'000	Financing and advances RM'000	Other receivables* RM'000	Statutory deposits with Bank Negara Malaysia RM'000	On balance sheet total RM'000	Financial guarantees RM'000	Commitment and contingencies^ RM'000
Government and central banks	3,067,814	-	2,154,192	-	-	-	1,053,000	6,275,006	-	-
Household sectors	-	-	-	-	24,219,170	-	-	24,219,170	-	360,172
Agriculture	-	-	-	-	207,514	-	-	207,514	24,680	145,137
Mining and quarrying	-	-	-	-	20,742	-	-	20,742	8,794	8,045
Manufacturing	-	-	10,119	-	255,752	-	-	265,871	5,528	127,135
Electricity, gas and water	-	-	502,630	20,350	228,155	-	-	751,135	95,000	357,138
Construction	-	-	585,001	-	5,190,184	337,781	-	6,112,966	299,546	3,498,069
Wholesale & retail trade and restaurants & hotels	-	-	-	-	158,783	47,250	-	206,033	4,791	69,123
Transport, storage and communication	-	-	206,977	-	119,964	-	-	326,941	2,000	836,007
Finance, insurance and business services	940,721	-	1,071,735	-	1,024,419	98,666	-	3,135,541	1,934	99,538
Education, health and others	-	-	439,709	-	381,934	-	-	821,643	-	130,000
Others	-	67	126,742	-	-	88,132	-	214,941	-	-
	4,008,535	67	5,097,105	20,350	31,806,617	571,829	1,053,000	42,557,503	442,273	5,630,364
Assets not subject to credit risk	10,432	-	-	-	-	-	-	10,432	-	-
	4,018,967	67	5,097,105	20,350	31,806,617	571,829	1,053,000	42,567,935	442,273	5,630,364

* Other receivables exclude prepayments and deposits as these items are classified as non-financial assets.

^ Commitments and contingencies excluding foreign exchange related contracts.

40. Financial Risk Management (cont'd.)

40.1 Credit risk (cont'd.)

(iii) Concentration of credit risk (cont'd.)

Bank 2018	**Cash and short-term funds and deposits and placements with financial institutions RM'000**	**Derivative financial assets RM'000**	**Financial investments at FVOCI RM'000**	**Financial investments at amortised cost RM'000**	**Financing and advances RM'000**	**Sukuk Commodity Murabahah RM'000**	**Other receivables* RM'000**	**Statutory deposits with Bank Negara Malaysia RM'000**	**On balance sheet total RM'000**	**Financial guarantees RM'000**	**Commitment and contingencies^ RM'000**
Government and central banks	3,067,814	-	2,154,192	-	-	-	-	1,053,000	6,275,006	-	-
Household sectors	-	-	-	-	24,219,170	-	-	-	24,219,170	-	360,172
Agriculture	-	-	-	-	207,514	-	-	-	207,514	24,680	145,137
Mining and quarrying	-	-	-	-	20,742	-	-	-	20,742	8,794	8,045
Manufacturing	-	-	10,119	-	255,752	-	-	-	265,871	5,528	127,135
Electricity, gas and water	-	-	502,630	20,350	228,155	-	-	-	751,135	95,000	357,138
Construction	-	-	585,001	-	5,190,184	-	337,781	-	6,112,966	299,546	3,498,069
Wholesale & retail trade and restaurants & hotels	-	-	-	-	158,783	-	47,250	-	206,033	4,791	69,123
Transport, storage and communication	-	-	206,977	-	119,964	-	-	-	326,941	2,000	836,007
Finance, insurance and business services	160,872	-	1,071,735	-	1,024,419	2,924,734	128,735	-	5,310,495	1,934	99,538
Education, health and others	-	-	439,709	-	381,934	-	-	-	821,643	-	130,000
Others	-	67	126,742	-	-	-	84,965	-	211,774	-	-
	3,228,686	67	5,097,105	20,350	31,806,617	2,924,734	598,731	1,053,000	44,729,290	442,273	5,630,364
Assets not subject to credit risk	10,432	-	-	-	-	-	-	-	10,432	-	-
	3,239,118	67	5,097,105	20,350	31,806,617	2,924,734	598,731	1,053,000	44,739,722	442,273	5,630,364

* Other receivables exclude prepayments and deposits as these items are classified as non-financial assets.
^ Commitments and contingencies excluding foreign exchange related contracts.

40. Financial Risk Management (cont'd.)

40.1 Credit risk (cont'd.)

(iii) Concentration of credit risk (cont'd.)

Economic Entity and Bank 2017	Cash and short-term funds and deposits and placements with financial institutions RM'000	Derivative financial assets RM'000	Financial investments available-for-sale RM'000	Financial investments held to maturity RM'000	Financing and advances RM'000	Other receivables* RM'000	Statutory deposits with Bank Negara Malaysia RM'000	On balance sheet total RM'000	Financial guarantees RM'000	Commitment and contingencies^ RM'000
Government and central banks	431,103	-	-	-	-	-	26,774	457,877	-	-
Household sectors	-	-	-	-	20,707	-	-	20,707	-	50
Agriculture	-	-	-	-	158,944	-	-	158,944	20,238	170,712
Mining and quarrying	-	-	-	-	25,224	-	-	25,224	-	10,704
Manufacturing	-	-	-	-	127,937	-	-	127,937	2,444	77,269
Electricity, gas and water	-	-	35,200	137,238	59,773	-	-	232,211	-	-
Construction	-	-	20,194	291,889	153,362	-	-	465,445	25,100	69,812
Wholesale & retail trade and restaurants & hotels	-	-	-	-	104,295	-	-	104,295	2,577	35,538
Transport, storage and communication	-	-	50,419	15,138	62,676	-	-	128,233	2,000	12,441
Finance, insurance and business services	46,271	-	121,273	70,382	322,750	-	-	560,676	250	38,424
Education, health and others	-	-	-	-	-	-	-	-	-	-
Others	-	3,091	-	85,953	-	4,263	-	93,307	-	-
	477,374	3,091	227,086	600,600	1,035,668	4,263	26,774	2,374,856	52,609	414,950
Assets not subject to credit risk	1,300	-	-	-	-	-	-	1,300	-	-
	478,674	3,091	227,086	600,600	1,035,668	4,263	26,774	2,376,156	52,609	414,950

* Other receivables exclude prepayments and deposits as these items are classified as non-financial assets.

^ Commitments and contingencies excluding foreign exchange related contracts.

40. Financial risk management (cont'd.)

40.1 Credit risk (cont'd.)

(iv) Collateral and other credit enhancements obtained

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

- For property financing - changes over the properties being financed;
- For auto financing - ownership claims over the vehicles being financed
- For other financing and advances - changes over business assets such as premises, inventories, trade receivables and/or cash deposits.

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements mitigate credit risk) held for gross financing and advances for the Bank Group and the Bank is 22.38% (2017: 32.13%) . The financial effect of collateral held for the remaining financial investments are not significant.

(v) Key macroeconomic variables

In computing the Excepted Credit Losses ("ECL") of financing and advances, the Bank Group and the Bank incorporate the impact of forward-looking key macroeconomic variables ("MEV") acording to the respective portfolio. The MEVs incorporated into the ECL calculations include, but not limited to House Price Index ("HPI") and Consumer Price Index ("CPI"). The forward-looking MEVs are supported with 3 economic scenarios i.e baseline, best and worst case scenarios.

	Base scenario		Best scenario		Worst scenario	
Macroeconomic Variables (MEV)	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
House Price Index ("HPI")	196.28	211.79	197.19	216.54	194.61	203.77
Consumer Price Index ("CPI") - Year-on-Year Change	1.38	2.11	2.04	2.57	1.11	1.8

Sensitivity analysis for macroeconomic variables

At the reporting date, if the forward-looking MEVs had changed by 10% favourable/non-favourable, with all other variables held constant, the Bank Group's and the Bank's net profit and shareholders' equity would have been increased/(decreased) as per the following table, arising as a result of changes in the probability of default.

		Bank Group and Bank	
	Tax rate	10% favourable RM'000	10% non-favourable RM'000
2018			
Sensitivity to MEV - HPI			
Impact to profit before tax		6,162	(5,997)
Impact to profit after tax and equity	24%	4,683	(4,558)
Sensitivity to MEV - CPI			
Impact to profit before tax		2,342	(2,297)
Impact to profit after tax and equity	24%	1,780	(1,746)

40. Financial risk management (cont'd.)

40.2 Market risk

Market risk is the risk of potential loss as a result of changes in the intrinsic value of financial instruments caused by movements in market variables such as profit rates and foreign exchange rates that will eventually affect the Bank Group's and the Bank's profitability and capital preservation.

The Bank Group's and the Bank's market risk management includes the monitoring of fluctuations in net profit income or investment value due to changes in relevant market risk factors. The ALCO monitors the exposure on a monthly basis through reports produced by the Treasury Division. The RMD, via its presence in the ALCO, provides advisory services and input on the Bank Group's and the Bank's market risk management.

(i) Profit rate risk

Rate of Return in the Banking Book

Rate of Return risk in the Banking Book ("RORBB") refers to the risk of the Bank Group and the Bank suffering deterioration in financial position (economic value loss) or financial losses due to the impact of changes in market profit rates over time on banking book exposure arising from activities such as deposits taking, financing and investment.

The Bank Group and the Bank use various tools including repricing gap reports and stress tests to measure their RORBB exposure. The impact on earnings and economic value are considered at all times in measuring the RORBB.

The table below shows the Bank's profit rate sensitivity to a 100 basis points parallel shift as at reporting date.

	2018		2017	
	+100 basis points RM'000	-100 basis points RM'000	+100 basis points RM'000	-100 basis points RM'000
Bank Group/Economic Entity and Bank				
Impact on Earnings-at-Risk ("EaR")	71,356	(71,356)	1,605	(1,605)
Impact on Economic Value Loss ("EVE")	(1,119,951)	1,119,951	(23,543)	23,543

40. Financial risk management (cont'd.)

40.2 Market risk (cont'd.)

(i) Profit rate risk (cont'd.)

The tables below summarise the Bank Group's and the Bank's exposure to profit rate risk. The tables indicate average profit rates at the reporting date and periods in which the financial instruments mature.

	<------------ Non-trading book ------------>							
Bank Group	**Up to 1 months**	**> 1-3 months**	**> 3-12 months**	**> 1-5 years**	**Over 5 years**	**Non-profit sensitive**	**Total**	**Effective profit rate**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**%**
2018								
Financial Assets								
Cash and short-term funds	3,062,720	-	-	-	-	179,508	3,242,228	3.27
Deposits and placements with financial institutions	1,874	-	774,865	-	-	-	776,739	3.65
Derivative financial assets	-	67	-	-	-	-	67	
Financial investments at FVOCI	5,097	192,538	373,038	2,548,826	1,977,606	-	5,097,105	4.09
Financial investments at amortised cost	-	-	-	20,350	-	-	20,350	4.22
Financing and advances								
- non-impaired	462,803	510,837	400,419	3,599,151	27,279,171	(802,176)	31,450,205	6.73
- impaired, net of loss allowances*	-	-	-	-	-	356,412	356,412	
Other receivables^	385,031	-	-	-	-	186,798	571,829	7.00
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,053,000	1,053,000	
Total financial assets	3,917,525	703,442	1,548,322	6,168,327	29,256,777	973,542	42,567,935	

* This is arrived after deducting impairment allowances from gross impaired financing.
^ Other receivables exclude prepayments and deposits as these items are classified as non-financial assets.

40. Financial risk management (cont'd.)

40.2 Market risk (cont'd.)

(i) Profit rate risk (cont'd.)

Bank Group	<------ Up to 1 months	> 1-3 months	> 3-12 months	Non-trading book > 1-5 years	Over 5 years	Non-profit sensitive	------> Total	Effective profit rate
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
2018								
Financial Liabilities								
Deposits from customers	6,789,658	7,171,717	8,154,246	1,863,692	52,867	177,269	24,209,449	4.08
Deposits and placements of banks and other financial institutions	2,102,970	2,783,187	2,812,625	871,613	-	8,456	8,578,851	4.05
Derivative financial liabilities	2	-	-	-	-	-	2	
Other payables #	-	-	-	-	-	420,893	420,893	
Recourse obligation on financing sold	7,597	20,511	565,745	1,541,665	-	-	2,135,518	4.51
Sukuk-MBSB Stuctured Covered ("SC") Murabahah	-	-	308,864	1,064,590	594,621	-	1,968,075	4.88
Total financial liabilities	8,900,227	9,975,415	11,841,480	5,341,560	647,488	606,618	37,312,788	
Total profit-sensitivity gap	(4,982,702)	(9,271,973)	(10,293,158)	826,767	28,609,289	366,924	5,255,147	

Other payables exclude other provisions and accruals and deferred income as these items are classified as non-financial liabilities.

40. Financial risk management (cont'd.)

40.2 Market risk (cont'd.)

(i) Profit rate risk (cont'd.)

Bank	<------	------	------	Non-trading book	------	------	------>	Effective profit rate
	Up to 1 months	> 1-3 months	> 3-12 months	> 1-5 years	Over 5 years	Non-profit sensitive	Total	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
2018								
Financial Assets								
Cash and short-term funds	3,062,720	-	-	-	-	174,556	3,237,276	3.27
Deposits and placements with financial institutions	1,842	-	-	-	-	-	1,842	3.30
Derivative financial assets	-	67	-	-	-	-	67	
Financial investments at FVOCI	5,097	192,538	373,038	2,548,826	1,977,606	-	5,097,105	4.09
Financial investments at amortised cost	-	-	-	20,350	-	-	20,350	4.22
Financing and advances								
- non-impaired	462,803	510,837	400,419	3,599,151	27,279,171	(802,176)	31,450,205	6.73
- impaired, net of loss allowances*	-	-	-	-	-	356,412	356,412	
Sukuk Commodity Murabahah	27,634	-	316,619	1,153,137	1,427,344	-	2,924,734	3.31
Other receivables^	415,100	-	-	-	-	183,631	598,731	7.00
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,053,000	1,053,000	
Total financial assets	3,975,196	703,442	1,090,076	7,321,464	30,684,121	965,423	44,739,722	

* This is arrived after deducting impairment allowances from gross impaired financing.
^ Other receivables exclude prepayments and deposits as these items are classified as non-financial assets.

40. Financial risk management (cont'd.)

40.2 Market risk (cont'd.)

(i) Profit rate risk (cont'd.)

Bank	<------------------ Up to 1 months	> 1-3 months	> 3-12 months	Non-trading book > 1-5 years	Over 5 years	------------------> Non-profit sensitive	Total	Effective profit rate
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
2018								
Financial Liabilities								
Deposits from customers	6,789,658	7,171,717	8,154,246	1,863,692	52,867	177,269	24,209,449	4.08
Deposits and placements of banks and other financial institutions	2,102,970	2,783,187	2,812,625	871,613	-	8,456	8,578,851	4.05
Derivative financial liabilities	2	-	-	-	-	-	2	
Other payables #	2,584,124	-	-	-	-	420,893	3,005,017	6.29
Recourse obligation on financing sold	7,597	20,511	565,745	1,541,665	-	-	2,135,518	4.51
Sukuk-MBSB Stuctured Covered ("SC") Murabahah	-	-	308,864	1,064,590	594,621	-	1,968,075	4.88
Total financial liabilities	11,484,351	9,975,415	11,841,480	5,341,560	647,488	606,618	39,896,912	
Total profit-sensitivity gap	(7,509,155)	(9,271,973)	(10,751,404)	1,979,904	30,036,633	358,805	4,842,810	

Other payables exclude other provisions and accruals and deferred income as these items are classified as non-financial liabilities.

40. Financial risk management (cont'd.)

40.2 Market risk (cont'd.)

(i) Profit rate risk (cont'd.)

Economic Entity and Bank	Up to 1 months	> 1-3 months	> 3-12 months	> 1-5 years	Over 5 years	Non-profit sensitive	Total	Effective profit rate
	<-------------	Non-trading book				------------->		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
2017								
Financial Assets								
Cash and short-term funds	431,000	-	-	-	-	47,674	478,674	3.01
Deposits and placements with financial institutions								
Derivative financial assets	2,845	246	-	-	-	-	3,091	
Financial investments available-for-sale	-	-	70,380	146,610	10,092	4	227,086	4.31
Financial investments held-to-maturity	-	-	50,120	450,103	100,377	-	600,600	4.25
Financing and advances								
- non-impaired	637,015	94,807	16,744	204,703	24,100	(7,409)	969,960	4.95
- impaired, net of loss allowances*	-	-	-	-	-	65,708	65,708	
Other receivables^	-	-	-	-	-	4,263	4,263	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	26,774	26,774	
Total financial assets	1,070,860	95,053	137,244	801,416	134,569	137,014	2,376,156	

* This is arrived after deducting impairment allowances from gross impaired financing.
^ Other receivables exclude prepayments and deposits as these items are classified as non-financial assets.

40. Financial risk management (cont'd.)

40.2 Market risk (cont'd.)

(i) Profit rate risk (cont'd.)

Economic Entity and Bank	<------ Non-trading book ------> Up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Non-profit sensitive	Total	Effective profit rate
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
2017								
Financial Liabilities								
Deposits from customers	219,927	508,817	254,277	142,524	-	73,131	1,198,676	3.54
Deposits and placements of banks and other financial institutions	297,152	269,747	110,745	-	-	3,624	681,268	3.80
Derivative financial liabilities	777	-	-	-	-	-	777	
Other payables #	-	-	-	-	-	8,633	8,633	
Total financial liabilities	517,856	778,564	365,022	142,524	-	85,388	1,889,354	
Total profit-sensitivity gap	553,004	(683,511)	(227,778)	658,892	134,569	51,626	486,802	

Other payables exclude other provisions and accruals as these items are classified as non-financial liabilities.

40. Financial risk management (cont'd.)

40.2 Market risk (cont'd.)

(ii) Foreign Exchange Risk

The Bank Group and the Bank are exposed to transactional foreign exchange exposures which are exposures on assets and liabilities denominated in currencies other than the functional currency of the transacting entity.

The Bank Group and the Bank take minimal exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on their financial position and cash flows. The Bank Group manages its exposure to foreign exchange currencies at each entity level.

As at the end of the reporting period, the financial assets and financial liabilities of the Bank Group and the Bank in the currency other than Ringgit Malaysia ("MYR") are not material, therefore the foreign exchange risk sensitivity analysis is not presented.

40.3 Liquidity risk

The Bank Group's and the Bank's liquidity risk management policy is to maintain high quality and well diversified portfolios of liquid assets and sources of funds under both normal business and stress conditions. Liquidity risk management of the Bank Group and the Bank is governed by established risk tolerance levels as defined in the Bank Group's and the Bank's Market Risk Framework. The ALCO would be informed by management action triggers to alert management to potential and emerging liquidity pressures. The Bank Group's and the Bank's early warning system and contingency funding plans are in place to alert and enable management to act effectively and efficiently during a liquidity crisis.

The ALCO meets at least once a month to discuss the liquidity risk and funding profile and is chaired by the Chief Executive Officer. The ALCO and Funding Unit, which is responsible for the independent monitoring of the Bank Group’s and the Bank's liquidity risk profile, works closely with the Treasury Division in the surveillance on market conditions and performs stress testing on liquidity positions.

40. Financial risk management (cont'd.)

40.3 Liquidity risk (cont'd.)

The tables below summarise the Bank Group's and the Bank's financial assets and financial liabilities based on remaining contractual maturities.

(a) Maturity analysis

Bank Group	**Less than 1 year**	**Over 1 - 5 years**	**Over 5 years**	**No specific maturity**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2018					
Financial Assets					
Cash and short-term funds	3,062,720	-	-	179,508	3,242,228
Deposits and placements with banks and other financial institutions	776,739	-	-	-	776,739
Derivative financial assets	67	-	-	-	67
Financial investments at FVOCI	570,673	2,548,826	1,977,606	-	5,097,105
Financial investments at amortised cost	-	20,350	-	-	20,350
Financing and advances *	1,369,303	3,574,952	26,862,362	-	31,806,617
Other receivables^	571,829	-	-	-	571,829
Statutory deposits with Bank Negara Malaysia	-	-	-	1,053,000	1,053,000
Total financial assets	6,351,331	6,144,128	28,839,968	1,232,508	42,567,935

* This is arrived after deducting impairment allowances from gross financing and advances.
^ Other receivables exclude prepayments and deposits as these items are classified as non-financial assets.

40. Financial risk management (cont'd.)

40.3 Liquidity risk (cont'd.)

(a) Maturity analysis (cont'd.)

Bank Group	Less than 1 year RM'000	Over 1 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
2018					
Financial Liabilities					
Deposits from customers	22,292,890	1,863,692	52,867	-	24,209,449
Deposits and placements of banks and other financial institutions	7,707,238	871,613	-	-	8,578,851
Derivative financial liabilities	2	-	-	-	2
Other payables #	420,893	-	-	-	420,893
Recourse obligation on financing sold	593,853	1,541,665	-	-	2,135,518
Sukuk-MBSB Stuctured Covered ("SC") Murabahah	308,864	1,064,590	594,621	-	1,968,075
Total financial liabilities	31,323,740	5,341,560	647,488	-	37,312,788
Net liquidity gap on Statement of Financial Position	(24,972,409)	802,568	28,192,480	1,232,508	5,255,147
Commitment and contingencies^	(1,481,955)	(4,369,865)	(220,817)	-	(6,072,637)
Net liquidity gap	(26,454,364)	(3,567,297)	27,971,663	1,232,508	(817,490)

Other payables exclude other provisions and accruals and deferred income as these items are classified as non-financial liabilities.

^ Commitments and contingencies exclude foreign exchange related contracts.

40. Financial risk management (cont'd.)

40.3 Liquidity risk (cont'd.)

(a) Maturity analysis (cont'd.)

Bank	Less than 1 year	Over 1 - 5 years	Over 5 years	No specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2018					
Financial Assets					
Cash and short-term funds	3,062,720	-	-	174,556	3,237,276
Deposits and placements with banks and other financial institutions	1,842	-	-	-	1,842
Derivative financial assets	67	-	-	-	67
Financial investments at FVOCI	570,673	2,548,826	1,977,606	-	5,097,105
Financial investments at amortised cost	-	20,350	-	-	20,350
Financing and advances *	1,369,303	3,574,952	26,862,362	-	31,806,617
Sukuk Commodity Murabahah	344,253	1,153,137	1,427,344		2,924,734
Other receivables^	598,731	-	-	-	598,731
Statutory deposits with Bank Negara Malaysia	-	-	-	1,053,000	1,053,000
Total financial assets	5,947,589	7,297,265	30,267,312	1,227,556	44,739,722

* This is arrived after deducting impairment allowances from gross financing and advances.
^ Other receivables exclude prepayments and deposits as these items are classified as non-financial assets.

40. Financial risk management (cont'd.)

40.3 Liquidity risk (cont'd.)

(a) Maturity analysis (cont'd.)

Bank	Less than 1 year	Over 1 - 5 years	Over 5 years	No specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2018					
Financial Liabilities					
Deposits from customers	22,292,890	1,863,692	52,867	-	24,209,449
Deposits and placements of banks and other financial institutions	7,707,238	871,613	-	-	8,578,851
Derivative financial liabilities	2	-	-	-	2
Other payables #	3,005,017	-	-	-	3,005,017
Recourse obligation on financing sold	593,853	1,541,665	-	-	2,135,518
Sukuk-MBSB Stuctured Covered ("SC") Murabahah	308,864	1,064,590	594,621	-	1,968,075
Total financial liabilities	33,907,864	5,341,560	647,488	-	39,896,912
Net liquidity gap on Statement of Financial Position	(27,960,275)	1,955,705	29,619,824	1,227,556	4,842,810
Commitment and contingencies^	(1,481,955)	(4,369,865)	(220,817)	-	(6,072,637)
Net liquidity gap	(29,442,230)	(2,414,160)	29,399,007	1,227,556	(1,229,827)

Other payables exclude other provisions and accruals and deferred income as these items are classified as non-financial liabilities.

^ Commitments and contingencies exclude foreign exchange related contracts.

40. Financial risk management (cont'd.)

40.3 Liquidity risk (cont'd.)

(a) Maturity analysis (cont'd.)

Economic Entity and Bank	Less than 1 year	Over 1 - 5 years	Over 5 years	No specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2017					
Financial Assets					
Cash and short-term funds	431,000	-	-	47,674	478,674
Derivative financial assets	3,091	-	-	-	3,091
Financial investments available-for-sale	70,384	146,610	10,092	-	227,086
Financial investments held-to-maturity	50,120	450,103	100,377	-	600,600
Financing and advances*	742,250	203,953	89,465	-	1,035,668
Other receivables^	4,263	-	-	-	4,263
Statutory deposits with Bank Negara Malaysia	-	-	-	26,774	26,774
Total financial assets	1,301,108	800,666	199,934	74,448	2,376,156

* This is arrived after deducting impairment allowances from gross financing and advances.
^ Other receivables exclude prepayments and deposits as these items are classified as non-financial assets.

40. Financial risk management (cont'd.)

40.3 Liquidity risk (cont'd.)

(a) Maturity analysis (cont'd.)

Economic Entity and Bank	Less than 1 year RM'000	Over 1 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
2017					
Financial Liabilities					
Deposits from customers	1,056,152	142,524	-	-	1,198,676
Deposits and placements of banks and other financial institutions	681,268	-	-	-	681,268
Derivative financial liabilities	777	-	-	-	777
Other payables #	8,633	-	-	-	8,633
Total financial liabilities	1,746,830	142,524	-	-	1,889,354
Net liquidity gap on Statement of Financial Position	(445,722)	658,142	199,934	74,448	486,802
Commitment and contingencies^	(393,960)	(22,782)	(50,817)	-	(467,559)
Net liquidity gap	(839,682)	635,360	149,117	74,448	19,243

Other payables exclude other provisions and accruals and deferred income as these items are classified as non-financial liabilities.
^ Commitments and contingencies exclude foreign exchange related contracts.

40. Financial risk management (cont'd.)

40.3 Liquidity risk (cont'd.)

(b) Contractual maturity of financial liabilities on an undiscounted basis

The tables below present the cash flows payable of the Bank Group and the Bank under financial liabilities by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flows.

Bank Group	Less than 1 year	Over 1 - 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000
2018				
Financial Liabilities				
Deposits from customers	22,555,954	2,138,159	69,698	24,763,811
Deposits and placements of banks and other financial institutions	7,788,977	1,031,993	-	8,820,970
Derivative financial liabilities	2	-	-	2
Other payables #	420,893	-	-	420,893
Recourse obligation on financing sold	675,578	1,717,725	-	2,393,303
Sukuk-MBSB Stuctured Covered ("SC") Murabahah	399,459	1,309,715	670,125	2,379,299
Total financial liabilities	31,840,863	6,197,592	739,823	38,778,278
Commitment and contingencies^				
Direct credit substitutes	83,156	104,629	-	187,785
Trade-related contingencies	150,094	104,394	-	254,488
Irrevocable commitments	1,248,705	4,160,842	220,817	5,630,364
	1,481,955	4,369,865	220,817	6,072,637

Other payables exclude other provisions and accruals and deferred income as these items are classified as non-financial liabilities.

^ Commitments and contingencies exclude foreign exchange related contracts.

40. Financial risk management (cont'd.)

40.3 Liquidity risk (cont'd.)

(b) Contractual maturity of financial liabilities on an undiscounted basis (cont'd.)

Bank	Less than 1 year	Over 1 - 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000
2018				
Financial Liabilities				
Deposits from customers	22,555,954	2,138,159	69,698	24,763,811
Deposits and placements of banks and other financial institutions	7,788,977	1,031,993	-	8,820,970
Derivative financial liabilities	2	-	-	2
Other payables #	3,005,017	-	-	3,005,017
Recourse obligation on financing sold	675,578	1,717,725	-	2,393,303
Sukuk-MBSB Stuctured Covered ("SC") Murabahah	399,459	1,309,715	670,125	2,379,299
Total financial liabilities	34,424,987	6,197,592	739,823	41,362,402
Commitment and contingencies^				
Direct credit substitutes	83,156	104,629	-	187,785
Trade-related contingencies	150,094	104,394	-	254,488
Irrevocable commitments	1,248,705	4,160,842	220,817	5,630,364
	1,481,955	4,369,865	220,817	6,072,637

Other payables exclude other provisions and accruals and deferred income as these items are classified as non-financial liabilities.

^ Commitments and contingencies exclude foreign exchange related contracts.

40. Financial risk management (cont'd.)

40.3 Liquidity risk (cont'd.)

(b) Contractual maturity of financial liabilities on an undiscounted basis (cont'd.)

Economic Entity and Bank	Less than 1 year	Over 1 - 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000
2017				
Financial Liabilities				
Deposits from customers	1,063,981	155,258	-	1,219,239
Deposits and placements of banks and other financial institutions	684,696	-	-	684,696
Derivative financial liabilities	777	-	-	777
Other payables #	8,633	-	-	8,633
Total financial liabilities	1,758,087	155,258	-	1,913,345
Commitment and contingencies^				
Direct credit substitutes	15,983	8,468	-	24,451
Trade-related contingencies	28,158	-	-	28,158
Irrevocable commitments	349,819	14,314	50,817	414,950
	393,960	22,782	50,817	467,559

Other payables exclude other provisions and accruals and deferred income as these items are classified as non-financial liabilities.

^ Commitments and contingencies exclude foreign exchange related contracts.

40. Financial risk management (cont'd.)

40.4 Operational risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems and external events, which includes legal risk and Shariah non-compliance risk but excludes strategic and reputational risk. The Bank Group recognises and emphasises the importance of operational risk management and manages this risk through a control-based environment where processes are documented, authorisation is independent, transactions are reconciled and monitored and business activities are carried out within the established guidelines, procedures and limits. The Bank Group's and the Bank’s governance approach in managing operational risk is premised on the Three Lines of Defense Approach as discussed under Note 40(c).

41. Fair value

The carrying amounts of cash and short-term funds, deposits and placements with financial institutions, other receivables (excluding prepayments and deposits) and other payables reasonably approximate their fair values due to the relatively short-term nature of these financial instruments.

The tables below analyse other financial instruments at fair value.

Bank Group	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2018										
Financial assets										
Derivative financial assets	-	67	-	67	-	-	-	-	67	67
Financial investments at FVOCI	-	5,097,105	-	5,097,105	-	-	-	-	5,097,105	5,097,105
Financial investments at amortised cost	-	-	-	-	-	20,145	-	20,145	20,145	20,350
Financing and advances	-	-	-	-	-	-	33,763,429	33,763,429	33,763,429	31,806,617
	-	5,097,172	-	5,097,172	-	20,145	33,763,429	33,783,574	38,880,746	36,924,139
Financial liabilities										
Deposits from customers	-	-	-	-	-	24,219,537	-	24,219,537	24,219,537	24,209,449
Deposits and placements of banks and other financial institutions	-	-	-	-	-	8,582,337	-	8,582,337	8,582,337	8,578,851
Derivative financial liabilities	-	2	-	2	-	-	-	-	2	2
Recourse obligation on financing sold	-	-	-	-	-	-	2,149,454	2,149,454	2,149,454	2,135,518
Sukuk-MBSB SC Murabahah	-	-	-	-	-	1,993,863	-	1,993,863	1,993,863	1,968,075
	-	2	-	2	-	34,795,737	2,149,454	36,945,191	36,945,193	36,891,895

41. Fair value (cont'd.)

The tables below analyse other financial instruments at fair value (cont'd.)

Bank	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2018										
Financial assets										
Derivative financial assets	-	67	-	67	-	-	-	-	67	67
Financial investments at FVOCI	-	5,097,105	-	5,097,105	-	-	-	-	5,097,105	5,097,105
Financial investments at amortised cost	-	-	-	-	-	20,145	-	20,145	20,145	20,350
Financing and advances	-	-	-	-	-	-	33,763,429	33,763,429	33,763,429	31,806,617
Sukuk Commodity Murabahah	-	-	-	-	-	-	2,965,716	2,965,716	2,965,716	2,924,734
	-	5,097,172	-	5,097,172	-	20,145	36,729,145	36,749,290	41,846,462	39,848,873
Financial liabilities										
Deposits from customers	-	-	-	-	-	24,219,537	-	24,219,537	24,219,537	24,209,449
Deposits and placements of banks and other financial institutions	-	-	-	-	-	8,582,337	-	8,582,337	8,582,337	8,578,851
Derivative financial liabilities	-	2	-	2	-	-	-	-	2	2
Recourse obligation on financing sold	-	-	-	-	-	-	2,149,454	2,149,454	2,149,454	2,135,518
Sukuk-MBSB SC Murabahah	-	-	-	-	-	1,993,863	-	1,993,863	1,993,863	1,968,075
	-	2	-	2	-	34,795,737	2,149,454	36,945,191	36,945,193	36,891,895

41. Fair value (cont'd.)

The tables below analyse other financial instruments at fair value (cont'd.)

Economic Entity and Bank	Fair value of financial instruments carried at fair value Level 1	Level 2	Level 3	Total	Fair value of financial instruments not carried at fair value Level 1	Level 2	Level 3	Total	Total fair value	Carrying amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017										
Financial assets										
Derivative financial assets		3,091	-	3,091	-	-	-	-	3,091	3,091
Financial investments available-for-sale	-	227,086	-	227,086	-	-	-	-	227,086	227,086
Financial investments held-to-maturity	-	-	-	-	-	599,666	-	599,666	599,666	600,600
Financing and advances	-	-	-	-	-	-	1,052,798	1,052,798	1,052,798	1,035,668
	-	230,177	-	230,177	-	599,666	1,052,798	1,652,464	1,882,641	1,866,445
Financial liabilities										
Deposits from customers	-	-	-	-	-	1,198,779	-	1,198,779	1,198,779	1,198,676
Deposits and placements of banks and other financial institutions	-	-	-	-	-	681,268	-	681,268	681,268	681,268
Derivative financial liabilities	-	777	-	777	-	-	-	-	777	777
	-	777	-	777	-	1,880,047	-	1,880,047	1,880,824	1,880,721

41. Fair value (cont'd.)

The fair values of the financial instruments not measured at fair value are based on the following methodologies and assumptions:

Financial investments at amortised cost

The estimated fair value is generally based on the quoted and observable market prices. Where there is no ready market in certain securities, the Bank Group and the Bank establish fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Financing and advances

The fair value of fixed rate financing with remaining maturities of less than one year and variable rate financing are estimated to approximate the carrying amount. For fixed rate financing with maturities of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments, discounted at prevailing rates offered for similar financing to new borrowers with similar credit profiles as at the reporting date.

The fair value of impaired fixed and variable rate financing is represented by their carrying amount, which are net of impairment allowances.

Sukuk Commodity Murabahah

The fair value is estimated by discounting expected future cash flows at the effective profit rate of similar instruments.

Deposits from customers
Deposits and placements of banks and other financial institutions

Deposits, placements and obligations which mature or reprice after one year are grouped by residual maturity. Fair value is estimated using discounted cash flows, applying either market rates, where applicable, or current rates offered for deposits of similar remaining maturities. The fair values of deposits repayable on demand and deposits and placements with remaining maturities of less than one year are approximated by their carrying values due to the relatively short maturity of these instruments.

Recourse obligation on financing sold

The fair values for recourse obligations on financing sold to Cagamas Berhad are determined based on discounted cash flows of future instalment payments at prevailing rates quoted by Cagamas Berhad as at reporting date.

Sukuk-MBSB SC Murabahah

The fair value of Sukuk-MBSB SC Murabahah is based on market prices.

42. Sources and uses of charity funds

	Bank Group / Economic Entity and Bank	
	2018 RM'000	**2017 RM'000**
Sources		
Gharamah from late payment charges		
Balance as at 1 January	1,867	1,700
Collection during the year	315	1,080
	2,182	2,780
Application		
Fund contribution for schools, mosques, universities and non-government organisations during the year	(803)	(913)
Balance as at 31 December	1,379	1,867

As a deterrent mechanism against cases of default by customers in discharging their financial obligation arising from Islamic contracts, the imposition of late payment charges by Islamic banking institutions under the concept of gharamah (fine or penalty) is allowable. Gharamah is not allowed to be recognised as income, and it must be channeled to specified charitable bodies.

43. Significant event

On 6 November 2017, Malaysia Building Society Berhad ("MBSB") entered into the Sale and Purchase Agreement with the shareholders of the Bank ("the Vendors") for the proposed acquisition by MBSB of the entire equity interest in the Bank for an aggregate purchase consideration of RM644,952,808 to be satisfied by way of cash amounting to RM396,894,036 and the issuance of 225,507,974 Consideration Shares at an issue price of RM1.10 per Consideration Share ("the Acquisition").

The acquisition was approved by the shareholders of MBSB on 23 January 2018. The shareholders also approved the transfer of Shariah-compliant assets and liabilities of MBSB to the Bank via a Members' Scheme of Arrangement.

Pursuant to the abovesaid approval and upon completion of the transfer of shares and the payment of the balance of the purchase consideration to the Vendors, the Bank became a wholly owned subsidiary of MBSB on 7 February 2018.

(a) On 2 April 2018, MBSB completed the transfer of its Shariah-compliant assets and liabilities ("Identified A&L") to the Bank ("the First Tranche Transfer"). The transfer of the Identified A&L was implemented through a Members' Scheme of Arrangement pursuant to Section 366 of the Companies Act 2016 by way of a Vesting Order dated 28 February 2018 from the High Court of Malaya of which can be completed within 3 years from 2 April 2018. The Identified A&L comprised the following:

	Bank
Identified assets	**RM'000**
Cash and short-term funds	6,269,184
Financing and advances	30,224,591
Gross stage 1	27,853,305
Gross stage 2	3,060,833
Gross stage 3	735,137
ECL stage 1	(454,139)
ECL stage 2	(432,125)
ECL stage 3	(538,420)
Financial investments at FVOCI	3,210,031
Sukuk Commodity Murabahah	3,273,199
Other receivables/other assets	538,017
Financing to related companies	311,386
Gross stage 3	514,761
ECL stage 3	(203,375)
Deposits and placements with banks and other financial institutions	54,813
Amount due from Jana Kapital Sdn Bhd ("JKSB")	21,915
Financial asset held-for-sale ("AHS")	18,363
Gross	1,155,396
ECL	(1,137,033)
Property and equipment	8,999
At cost	79,495
Accumulated depreciation	(70,496)
Investment in JKSB	*
	43,930,498
Identified liabilities	**RM'000**
Deposits from customers	31,964,367
Sukuk - MBSB SC Murabahah	2,316,020
Recourse obligation on financing sold	2,175,008
Amount due to JKSB	2,811,064
ECL on commitments and contingencies	106,423
Others payables	464,287
	39,837,169
Net assets transferred	**4,093,329**

** Represents RM2*

The consideration for the above transfer was satisfied by the issuance of 4,093,329,268 new ordinary shares by the Bank to MBSB at RM1 per ordinary share.

43. Significant events (cont'd.)

(b) In conjunction with the First Tranche Transfer, the Sukuk Exchange was also completed following the successful issuance of the Bank's Structured Covered Sukuk (debt nature) in exchange for MBSB Structured Covered Sukuk held by MBSB Sukukholders. Accordingly, the entire equity interest in Jana Kapital Sdn Bhd ("JKSB"), the special purpose vehicle for the Sukuk programme, an investment being part of the Identified A&L was transferred by MBSB to the Bank for RM2. As a result, upon consolidation at the Bank Group level, an adjustment arising from merger exercise of RM346,883,863 representing the difference between the net assets of JKSB acquired of RM346,883,865 and cost of investment of RM2 was recognised into the Bank Group's retained earnings.

(c) Subsequent to the First Tranche Transfer and up to the end of the reporting period, MBSB has progressively transferred the following assets and liabilities to the Bank:

		Bank RM'000
i)	Intangible assets transferred in April 2018	
	Cost	99,150
	Accumulated amortisation	(74,784)
	Net Book Value	24,366
ii)	Mortgage converted to Islamic property financing	
	Converted on 29 May 2018	248,015
	Converted on 24 October 2018	602
	Converted on 24 November 2018	84,607
iii)	Conventional deposit converted to Islamic deposit on 14 July 2018	20,222

44. Financial assets held-for-sale

Financial asset held-for-sale has been vested down from the holding company to the Bank on 2 April 2018 and the sale was concluded on 28 December 2018. Gains/losses in relation to completion of debt sale exercise belongs to the holding company.

	Bank Group and Bank			
2018	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Gross carrying amount as at 1 January 2018	-	-	-	-
Vested from holding company on 2 April 2018	438	9,752	1,145,206	1,155,396
Disposal during the year	(460)	(251)	(1,017,796)	(1,018,507)
Transfer to financing and advances (Note 11(ix))	(676)	(400)	(116,553)	(117,629)
Other movement	698	(9,101)	(10,857)	(19,260)
Gross carrying amount as at 31 December 2018	-	-	-	-
Less: Loss allowance				
Loss allowance as at 1 January 2018	-	-	-	-
Vested from holding company on 2 April 2018	21	1,157	1,135,855	1,137,033
Charged to profit or loss (Note 29)	665	(411)	(16,325)	(16,071)
Change in credit risk parameters	665	(411)	(16,325)	(16,071)
Disposal during the year	(20)	(60)	(1,012,422)	(1,012,503)
Transfer to financing and advances (Note 11(x))	(666)	(685)	(107,108)	(108,459)
Loss allowance as at 31 December 2018	-	-	-	-
Net financial assets held-for-sale	-	-	-	-

45. Change of name

On 2 April 2018, the Bank changed its name from Asian Finance Bank Berhad to MBSB Bank Berhad.