1. Corporate information

The Bank is a public limited liability company, incorporated and domiciled in Malaysia. The Bank is granted consent in writing by the Minister of Finance to incorporate the word 'Bank' into its name.

The registered office of the Bank is situated at 10th Floor, SDB Tower, Wisma Tun Fuad Stephens, Kilometre 2.4, Jalan Tuaran, 88300 Kota Kinabalu, Sabah, Malaysia.

The Bank is a wholly-owned subsidiary of SDB Corporation Sdn. Bhd., a company incorporated in Malaysia. SDB Corporation Sdn. Bhd. is a wholly-owned subsidiary of Sabah Development Berhad, a company incorporated in Malaysia, which is wholly-owned by the State Government of Sabah.

The principal activity of the Bank is the provision of finance for development projects. The principal activities of the subsidiaries are stated in Note 22 to the financial statements.

2. Summary of significant accounting policies

2.1 Basis of preparation

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

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below. The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

The financial statements incorporate all activities relating to the Islamic banking which have been undertaken by the Group and by the Bank. Islamic banking activities refer generally to the acceptance of deposits, granting of financing and dealing in Islamic Securities under the Shariah principles.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as discussed below.

On 1 January 2019, the Group and the Bank adopted the following amended MFRSs mandatory for annual financial periods beginning on or after 1 January 2019.

2. Summary of significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

Description	Effective for annual periods beginning or after
MFRS 16 *Leases*	1 January 2019
IC Interpretation 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to MFRS 9: *Prepayment Features with Negative Compensation*	1 January 2019
Amendments to MFRS 119: *Plan Amendment, Curtailment or Settlement*	1 January 2019
Amendments to MFRS 128: *Long-term Interests in Associates and Joint Ventures*	1 January 2019
Annual Improvements to MFRSs 2015-2017 Cycle	1 January 2019

The main effects of the adoption of MFRSs, Amendments to MFRSs and IC Interpretation above are summarised below:

MFRS 16 *Leases* ("MFRS 16")

MFRS 16 will replace MFRS 117 *'Leases'*, IC Interpretation 4 *'Determining whether an Arrangement contains a Lease'*, IC Interpretation 115 *'Operating Lease-Incentives'* and IC Interpretation 127 *'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'*. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

Classification of cash flows will also be affected as operating lease payments under MFRS 117 are presented as operating cash flows, whereas under MFRS 16, the lease payments will be split into a principal (which will be presented as financing cash flows) and an interest portion (which will be presented as operating cash flows).

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases. MFRS 16 also requires lessees and lessors to make more extensive disclosures than under MFRS 117.

2. Summary of significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

MFRS 16 *Leases* ("MFRS 16") (continued)

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

On 1 January 2019, the Group and the Bank has applied MFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised as an adjustment to retained earnings. The Group and the bank have elected to recognise the right-of-use assets of the amount equal to the lease liabilities, hence there was no impact to the retained earnings brought forward as at 1 January 2019.

At transition date, commitments resulting from initial recognition of right-of-use assets were identified as follows:

	1 Jan 2019 RM'000
Office building	1,287

The Group and the Bank made use of exemptions consisting in excluding low value assets and short-term leases from the scope of MFRS 16.

The discount rate used at transition for calculating the net present value of outstanding lease payments was an estimate of the Bank's incremental borrowing rate on the date of initial application (in the absence of knowledge of the lessor's implicit rates).

2.3 Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and of the Bank's financial statements are disclosed below. The Group and the Bank intend to adopt these standards, if applicable, when they become effective.

2. Summary of significant accounting policies (continued)

2.3 Standards issued but not yet effective (continued)

Description	Effective for annual periods beginning on or after
Amendments to MFRS 3: *Definition of a Business*	1 January 2020
Amendments to MFRS 101: *Definition of Material*	1 January 2020
Amendments to MFRS 108: *Definition of Material*	1 January 2020
MFRS 17 *Insurance Contracts*	1 January 2021
Amendments to MFRS 10 and MFRS 128: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Deferred

The directors expect that the adoption of the above MFRSs, Amendments to MFRSs, Annual Improvements and IC Interpretation are either not applicable or are not expected to have any significant effect on the financial performance of position of the Group and of the Bank.

A brief description of the new MFRSs, Amendments to MFRSs, Annual Improvements and IC Interpretation above that have been issued is set out below:

Amendments to MFRS 3: Definition of a Business

Under MFRS 3, the amendments to the definition of a business is to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarify the following:
a) Minimum requirements to be a business;
b) Market participants' ability to replace missing elements;
c) Assessing whether an acquired process is substantive;
d) Narrowed the definitions of outputs; and
e) Introduced an optional concentration test.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed.

2. **Summary of significant accounting policies (continued)**

2.3 Standards issued but not yet effective (continued)

Amendments to MFRS 101 and MFRS 108: Definition of Material

Under MFRS 101 and MFRS 108, the amendments were made to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

Effective for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively. Early application is permitted and must be disclosed.

MFRS 17 *Insurance Contracts*

MFRS 17 will replace MFRS 4 *'Insurance Contracts'*. MFRS 17 applies to all types of insurance contracts (i.e life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The overall objective of MFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in MFRS 4, which are largely based on grandfathering previous local accounting policies, MFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of MFRS 17 is the general model, supplemented by:

a) A specific adaptation for contracts with direct participation features (known as the variable fee approach); and
b) A simplified approach (or known as the premium allocation approach) mainly for short-duration contracts.

MFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies MFRS 9 and MFRS 15 on or before the date it first applies MFRS 17. This standard is not applicable to the Group and the Bank.

2. Summary of significant accounting policies (continued)

2.3 Standards issued but not yet effective (continued)

Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify that:

a) Gains and losses resulting from transactions involving assets that do not constitute a business, between investor and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture; and

b) Gains and losses resulting from transactions involving the sale or contribution of assets to an associate or a joint venture that constitute a business is recognised in full.

The amendments are to be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined by the Malaysian Accounting Standards Board. Earlier application is permitted.

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Bank. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The Bank controls an investee if and only if the Bank has all the following:

(i) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
(ii) exposure, or rights, to variable returns from its investment with the investee; and
(iii) the ability to use its power over the investee to affect its returns.

When the Bank has less than a majority of the voting rights of an investee, the Bank considers the following in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power over the investee:

(i) the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
(ii) potential voting rights held by the Bank, other vote holders or other parties;
(iii) rights arising from other contractual arrangements; and
(iv) any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

2. Summary of significant accounting policies (continued)

2.4 Basis of consolidation (continued)

Subsidiaries are consolidated when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. The resulting difference is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, a gain or loss calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interest, is recognised in profit or loss. The subsidiary's cumulative gain or loss which has been recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss or where applicable, transferred directly to retained earnings. The fair value of any investment retained in the former subsidiary at the date control is lost is regarded as the cost on initial recognition of the investment.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. The Group elects on a transaction-by-transaction basis whether to measure the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

2. Summary of significant accounting policies (continued)

2.4 Basis of consolidation (continued)

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of MFRS 9, is measured at fair value with the changes in fair value recognised in profit or loss in accordance with MFRS 9. Other contingent consideration that is not within the scope of MFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss as a gain.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Bank, and is presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Bank.

Changes in the Bank owners' ownership 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 relative 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 equity and attributed to owners of the parent.

2.5 Foreign currency

a) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Bank's functional currency.

2. Summary of significant accounting policies (continued)

2.5 Foreign currency (continued)

b) Foreign currency transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Bank and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss. Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

2.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

a) Financial assets

i) Initial recognition and measurement

Financial assets are recognised when the Group and the Bank become a party to the contractual provisions of the financial instrument. At initial recognition, the Group and the Bank measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Management also determines the classification of a financial asset at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group and the Bank commit to purchase or sell the asset.

2. Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

a) Financial assets (continued)

ii) Classification and subsequent measurement

The Group and the Bank classify all of its financial assets based on the business model for managing the assets and the asset's contractual cash flow characteristics, measured at either:
a) Amortised cost;
b) Fair value through other comprehensive income ("FVOCI"); and
c) Fair value through profit or loss ("FVTPL").

Financial assets at amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVTPL, are measured at amortised cost using the effective interest method. The carrying amount of these assets is adjusted by impairment losses recognised and measured using the expected credit loss models. Interest income on financial assets measured at amortised cost is recognised in 'interest income' in the statement of profit or loss. The losses arising from impairment on loans, advances and financing are recognised in the statement of profit or loss as 'allowance for impairment on loans, advances and financing'.

Fair value through other comprehensive income ("FVOCI")

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. The changes in the fair value are recognised through other comprehensive income, except for the recognition of impairment losses measured using the expected credit loss models, interest income and foreign exchange gains or losses on the financial assets' amortised cost which are recognised in profit or loss. Interest earned whilst holding the assets are reported as 'interest income' using the effective interest method. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss.

2. Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

a) Financial assets (continued)

ii) Classification and subsequent measurement (continued)

Fair value through other comprehensive income ("FVOCI") (continued)

Equity instruments are normally measured at FVTPL. However, for non-traded equity instruments, with an irrevocable option at inception, the Group and the Bank measure the changes through FVOCI (without recycling profit or loss upon derecognition). Such classification is determined on an instrument-by-instrument basis. When this election is used, fair value gains or losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Dividends earned whilst holding the equity investment are recognised in profit or loss when the right to the payment has been established.

Fair value through profit or loss ("FVTPL")

Financial assets that do not meet the criteria for amortised cost or FVOCI, including financial assets held-for-trading and derivatives, are measured at FVTPL. Upon derecognition, the gain or loss on a financial asset that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss. Interest earned whilst holding the assets are reported as 'interest income' using the effective interest method.

Business model assessment

The Group and the Bank make an assessment of the objective of a business model in which an asset is held at a portfolio level which best reflects the way the business is managed and information is provided to management. The factors considered includes policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest 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. Other factors considered also include the frequency, volume and timing of sales in prior periods, how the asset's performance is evaluated and reported to key management personnel, and how risks are assessed and managed.

2. Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

a) Financial assets (continued)

ii) Classification and subsequent measurement (continued)

The SPPI test

Where the business model is to hold the financial assets to collect contractual cash flows, or to collect contractual cash flows and sell, the Group and the Bank assess whether the financial assets' contractual cash flows represent solely payment of principal and interest. In applying the SPPI test, the Group and the Bank consider whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

iii) **Impairment**

The MFRS 9 impairment requirements are based on an expected credit loss ("ECL") model that replaces the incurred loss model under the MFRS 139. The ECL model applies to financial assets measured at amortised cost or at FVOCI, irrevocable loan commitments and financial guarantee contracts, which include loans, advances and financing and debt instruments held by the Group and the Bank. The ECL model also applies to contract assets under MFRS 15 '*Revenue from Contracts with Customers*' and lease receivables under MFRS 16 '*Leases*'.

2. Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

a) Financial assets (continued)

iii) Impairment (continued)

Significant increase in credit risk

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

The Group and the Bank apply a three-stage approach based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL – not credit-impaired

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

Stage 2: Lifetime ECL – not credit-impaired

For exposures where there has been a significant increase in credit risk since initial recognition but that are not credit-impaired, a lifetime ECL will be recognised.

Stage 3: Lifetime ECL – credit-impaired

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

2. Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

a) Financial assets (continued)

iii) Impairment (continued)

ECL measurement

There are three main components to measure ECL which are a probability of default model ("PD"), a loss given default model ("LGD") and the exposure at default model ("EAD"). These parameters are derived from internally developed statistical models and adjusted to reflect forward-looking information as described below.

MFRS 9 does not distinguish between individual assessment and collective assessment. Therefore, the Group and the Bank have decided to continue measuring the impairment mainly on an individual transaction basis for financial assets that are deemed to be individually significant, and collectively assess for other financial assets per Group's policy.

The 12-month and lifetime PD represent the expected point-in-time probability of default over the next 12 months and remaining lifetime of the financial instrument respectively, based on conditions existing at the reporting date and future economic conditions that affect credit risk. The LGD represents the expected loss if a default event occurs at a given time, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money. The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdown of a facility.

The 12-month ECL is equal to the discounted sum over the next 12 months of monthly PD multiplied by LGD and EAD. Lifetime ECL is calculated using the discounted sum of monthly PD over the remaining life multiplied by LGD and EAD. The discount rate used in the ECL measurement is the original effective interest rate or an approximation thereof.

2. Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

a) Financial assets (continued)

iii) Impairment (continued)

ECL measurement (continued)

Forward looking information

The Group and the Bank have developed methodologies for the application of forward macro-economic variables ("MEV") which comprise economic indicators and industry statistics in the measurement of ECL. This involves the incorporation of MEVs into the estimation of the PD and LGD via an application of a scale. The process of formulating a scale involves developing the correlation of MEVs to default rates and recovery rates for various portfolios of financial assets based on analysis of historical data. This correlation is then used to form the predicted effect between the MEVs and PD as well as LGD, taking into account the projection of MEVs.

The carrying amount of the asset (other than debt instrument measured at FVOCI) is reduced through the use of an allowance account and the loss is recognised in profit or loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

The impairment loss for a debt instrument measured at FVOCI does not reduce the carrying amount of the financial asset which remains at fair value. Instead, an amount equal to the allowance that would arise if the asset was measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit or loss upon the derecognition of the financial asset.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as allowance for impairment on loan commitments and financial guarantees which is reported under 'other liabilities' in the statement of financial position.

2. Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

a) Financial assets (continued)

iii) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

a) The rights to receive cash flows from the asset have expired; or
b) The Group and the Bank have transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (i) the Group and the Bank have transferred substantially all the risks and rewards of the asset, or (b) the Group and the Bank have neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group and the Bank have transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group and the Bank continue to recognise the transferred asset to the extent of the Group's and the Bank's continuing involvement. In that case, the Group and the Bank also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group and the Bank have retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Bank could be required to repay.

b) Financial liabilities

i) Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

2. Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

b) Financial liabilities (continued)

i) **Initial recognition and measurement (continued)**

The Group's and the Bank's financial liabilities include other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

ii) **Subsequent measurement**

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group and the Bank that are not designated as hedging instruments in hedge relationships as defined by MFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in MFRS 9 are satisfied. The Group and the Bank have not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in profit or loss.

2. Summary of significant accounting policies (continued)

2.6 Financial instruments (continued)

b) Financial liabilities (continued)

iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2.7 Cash and cash equivalents

Cash and cash equivalents comprise cast at bank and on hand, and short-term deposits with maturity not more than one month that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

2.8 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequently, property, plant and equipment other than freehold land are measured at cost less accumulated depreciation and accumulated impairment losses.

Freehold land has an unlimited useful life and therefore is not depreciated.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

a) Leasehold improvements and office renovation	4 to 10 years
b) Motor vehicles	4 to 7 years
c) Office equipment, furniture and fittings	3 to 10 years
d) Computer equipment and software	4 years

Assets under construction included in property, plant and equipment are not depreciated as these assets are not yet available for use.

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

2. Summary of significant accounting policies (continued)

2.8 Property, plant and equipment (continued)

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant 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 the profit or loss in the year the asset is derecognised.

2.9 Investment properties

Investment properties are properties that are either owned by the Group and the Bank or leased under a finance lease that are held to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services, or for administrative purposes, or in the ordinary course of business. Investment properties comprise completed investment properties and properties that are being constructed or developed for future use as investment properties.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment losses. The depreciation policy for investment properties is in accordance with that for depreciable property, plant and equipment as described in Note 2.8.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use.

2.10 Investments in subsidiaries

A subsidiary is an entity over which the Bank has all the following:
a) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
b) Exposure, or rights, to variable returns from its investment with the investee; and
c) The ability to use its power over the investee to affect its returns.

In the Bank's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

2. Summary of significant accounting policies (continued)

2.11 Investment in associate

An associate is an entity in which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

On acquisition of an investment in associate, any excess of the cost of investment over the Bank's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill and included in the carrying amount of the investment. Any excess of the Bank's share of the net fair value of the identifiable assets and liabilities of the investee over the cost of investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Bank's share of the associate's profit or loss for the period in which the investment is acquired.

An associate is equity accounted for from the date on which the investee becomes an associate.

Under the equity method, on initial recognition the investment in an associate is recognised at cost, and the carrying amount is increased or decreased to recognise the Bank's share of the profit or loss and other comprehensive income of the associate or joint venture after the date of acquisition. When the Bank's share of losses in an associate equal or exceeds its interest in the associate, the Bank does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Profits and losses resulting from upstream and downstream transactions between the Bank and its associate are recognised in the Group's financial statements only to the extent of unrelated investors' interests in the associate. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The financial statements of the associates are prepared as of the same reporting date as the Bank. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

2.12 Impairment of non-financial assets

The Group and the Bank assess at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Group and the Bank make an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash generating unit'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 units ("CGU")).

2. Summary of significant accounting policies (continued)

2.12 Impairment of non-financial assets (continued)

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated to reduce the carrying amount of the assets in the unit or groups of units on a pro-rata basis.

The Group and the Bank base its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's and the Bank's CGU to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in profit or loss.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exist, the Group and the Bank estimate the asset's or CGU's recoverable amount. 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, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

2.13 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:

a) in the principal market for the asset or liability; or
b) in the absence of a principal market, in the most advantageous market for the asset of liability.

The principal or the most advantageous market must be accessible to the Group and the Bank.

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.

2. Summary of significant accounting policies (continued)

2.13 Fair value measurement (continued)

A 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 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, 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;
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- 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 at fair value on a recurring basis, the 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.

2.14 Provisions

Provisions are recognised when the Group and the Bank have a present obligation, either 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 each reporting date 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.

2. Summary of significant accounting policies (continued)

2.15 Financial guarantee

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 terms of a debt instruments.

Financial guarantees are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, financial guarantees are recognised as income in profit or loss over the period of the guarantee. If it is probable that the liability will be higher than the amount initially recognized less amortization, the liability is recorded at the higher amount with the difference charged to profit or loss.

2.16 Employee benefits

a) Defined contribution plan

The Group and the Bank participate in the national pension schemes as defined by the laws of the countries in which it has operations. The Malaysian companies in the Group and the Bank make contributions to the Employee Provident Fund in Malaysia, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

b) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to the employees. The estimated liability for leave is recognised for services rendered by employees up to the reporting date.

c) Defined benefit plan

The Group and the Bank operates an unfunded defined benefit retirement plan. The benefit plan becomes vested after ten years of service. The costs of defined benefit plan are determined based on employees' basic salary and the number of completed years of service.

2. Summary of significant accounting policies (continued)

2.17 Leases

a) **Definition of lease**

A contract contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset. This may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset;

- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

- the customer has the right to direct the use of the asset. The customer has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the Bank is a lessee, it has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

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

b) **Recognition and initial measurement**

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

2. Summary of significant accounting policies (continued)

2.17 Leases (continued)

b) Recognition and initial measurement (continued)

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate as the discount rate. Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments less any incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Bank is reasonably certain to exercise; and
- penalties for early termination of a lease unless the Bank is reasonably
- certain not to terminate early.

(i) Rights-of-use assets

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

(ii) Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and the payments of penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate.

2. Summary of significant accounting policies (continued)

2.17 Leases (continued)

b) Recognition and initial measurement (continued)

(ii) Lease liabilities (continued)

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Bank uses its incremental borrowing rate at the lease commencement date because the profit rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of profit and reduced for the lease payments made. The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (i.e changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

c) **Subsequent measurement**

(i) **Rights-of-use assets**

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

(ii) **Lease liabilities**

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The lease liability is measured at amortised cost using effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a revision of in-substance fixed lease payments, or if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

2. Summary of significant accounting policies (continued)

2.18 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the Bank and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

a) Interest income

For all financial assets measured at amortised cost, interest income for all interest-bearing financial assets are recognised within 'interest income' in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest 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.

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

b) Income from Islamic Banking business

Income from Islamic Banking business is recognised on an accrual basis in accordance with the principles of Shariah.

c) Fee and other income

Loan arrangement, management and participation fees are recognised upfront upon entering into contractual arrangement.

d) Guarantee fee

Guarantee fee is recognised as income upon issuance of guarantees.

e) Dividend income

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

f) Fund management service fees

Fund management service fees are recognised when services are rendered.

2. Summary of significant accounting policies (continued)

2.18 Revenue (continued)

g) Insurance commissions

Insurance commissions received and receivable are recognised at the prescribed rates on gross premiums received.

2.19 Taxes

a) **Current income tax**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

b) Deferred tax

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

Deferred tax liabilities are recognised for all temporary differences, except:
i) 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
ii) in respect of taxable temporary differences associated with investments in subsidiaries and associates, 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, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

i) 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

2. Summary of significant accounting policies (continued)

2.19 Taxes (continued)

b) Deferred tax (continued)

ii) in respect of deductible temporary differences associated with investments in subsidiaries and associates, 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 profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date 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 asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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 reporting date.

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.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

2. Summary of significant accounting policies (continued)

2.20 Share capital and share issuance expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Bank after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

2.21 Contingencies

A contingent liability is:

a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group and the Bank; or
b) a present obligation that arises from past events but is not recognised because:
    i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
    ii) the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group and the Bank.

Contingent liabilities and assets are not recognised in the Group's and the Bank's statements of financial position.

3. Significant accounting judgements and estimates

The preparation of the Group's and the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

3.1 Judgements made in applying accounting policies

In the process of applying the Group's and the Bank's accounting policies, the management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Significant influence over Progressive Insurance Berhad

As disclosed in Note 23, the directors consider that the Group and the Bank have significant influence over Progressive Insurance Berhad even though it is not the registered shareholder of Progressive Insurance Berhad as the Group and the Bank have the power to participate in the financial and operating policy decisions of Progressive Insurance Berhad via its representative(s) on the Board of Directors of Progressive Insurance Berhad.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment losses on loans, advances and financing

The Group and the Bank review its individually significant loans, advances and financing at each statement of financial position date to assess whether an impairment loss should be recorded in the profit or loss. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group and the Bank make judgements about the borrower's or the customer's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, result in future changes to the allowances.

3. Significant accounting judgements and estimates (continued)

3.2 Key sources of estimation uncertainty (continued)

Impairment losses on loans, advances and financing (continued)

The Group's and the Bank's ECL calculations under MFRS 9 are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their independencies. A number of significant judgements are also required in applying the accounting requirements for measuring impairment losses, such as determining criteria for significant increase in credit risk, choosing appropriate models and assumptions for the measurement of impairment losses, establishing the segmentation of loans for purposes of measuring impairment losses on a collective basis, determining the number of economic inputs as well as the effects on default rates and recovery rates, and selecting forward-looking macroeconomic scenarios and determining its probability weightings.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

4. Interest income

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Loans, advances and financing	438,247	453,511	438,247	453,511
Money at call, and deposits and placements with financial institutions	27,996	1,716	27,963	1,675
Other loans and receivables	-	117	-	117
Other interest income	10,147	10,740	10,147	10,740
	476,390	466,084	476,357	466,043

5. Interest expense

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Deposits from customers	75,720	72,306	76,199	72,685
Borrowings	218,851	176,852	218,851	176,852
	294,571	249,158	295,050	249,537

6. Other income

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Fee income:				
Commissions	6,556	7,609	6,037	7,048
Fund management services fees	50	51	-	-
Investment advisory fee	1,074	-	-	-
Other fee income	6,805	5,555	6,805	5,555
	14,485	13,215	12,842	12,603
Income from financial instruments:				
Net (loss)/gain on disposals	(1,091)	33	(1,091)	33
Gross dividend income	212	2,177	212	2,177
Investment income	126	-	126	-
Unrealised fair value gain/(loss) on securities at fair value through profit or loss	1,775	(5,424)	1,775	(5,424)
	1,022	(3,214)	1,022	(3,214)

6. Other income (continued)

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Others:				
Dividend income from associate	-	-	1,361	5,025
Dividend income from investment	1,805	-	1,805	-
Gain on disposal of property, plant and equipment	-	136	-	136
Miscellaneous income	516	123	516	123
	2,321	259	3,682	5,284
	17,828	10,260	17,546	14,673

7. Other expenses

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Employee benefits expense (Notes 9 and 10)	9,058	12,677	8,292	13,354
Direct cost, administrative and other overhead expense	5,147	5,433	5,022	5,229
	14,205	18,110	13,314	18,583

8. Allowance for impairment losses on loans, advances and financing

		Group and Bank	
		2019 RM'000	2018 RM'000
Expected credit losses:			
Loans, advances and financing (Note 18)			
- net 12-month ECL (Stage 1)	18(d)	42,496	2,281
- net Lifetime ECL not credit impaired (Stage 2)	18(d)	(22,036)	(17,617)
- net Lifetime ECL credit-impaired (Stage 3)	18(d)	21,852	124,998
Loan/financing commitments and financial guarantees			
- net 12-month ECL (Stage 1)	33	4,312	(6,769)
- net Lifetime ECL not credit-impaired (Stage 2)		-	(901)
		46,624	101,992

9. Profit before tax

The following items have been included in arriving at profit before tax:

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Auditors' remunerations:				
- Statutory audit	189	171	173	155
- Advisory services	-	200	-	200
- Other services	20	25	-	10
Depreciation of investment properties (Note 21)	26	26	26	26
Depreciation of property, plant and equipment (Note 19)	1,004	250	1,003	248
Depreciation of right-of-use of assets (Note 20)	429	-	429	-
Interest charges on lease liabilities (Note 20)	6	-	6	-
Employee benefits expense (Notes 7 and 10)	9,058	12,677	8,292	13,354
Non-executive directors' remuneration (Note 11)	658	767	621	716
Rental of premises payable to:				
- Holding entity (Note 34)	-	433	-	433
- Third parties	44	42	40	38
Rental of equipment	13	11	13	11

10. Employee benefits expense

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Wages and salaries	5,947	9,853	5,319	9,516
EPF and social security contributions	1,082	1,524	988	1,477
Defined benefit obligations	690	869	646	869
Other benefits and expenses	1,339	1,492	1,339	1,492
	9,058	13,738	8,292	13,354
Reversal of executive director's remuneration	-	(1,061)	-	-
	9,058	12,677	8,292	13,354

Included in employee benefits expense of the Group and the Bank are executive directors' remuneration amounting to RM1,100,000 (2018: RM1,836,000) and RM778,000 (2018: RM2,897,000) respectively.

11. Directors' remuneration

The details of remuneration receivable by directors of the Bank and its subsidiaries during the year are as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Executive:				
Salaries and other emoluments	927	1,497	647	2,420
EPF and social security contributions	131	197	89	335
Retirement gratuity	42	142	42	142
	1,100	1,836	778	2,897
Non-executive:				
Fee	217	175	183	126
Other emoluments	441	592	438	590
	658	767	621	716
	1,758	2,603	1,399	3,613

12. Income tax expense

Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
Statement of comprehensive income:				
Current income tax:				
- Malaysian income tax	33,913	42,555	33,658	42,337
- Under/(Over) provision in respect of previous year	2,543	(38)	2,544	(220)
	36,456	42,517	36,202	42,117
Deferred income tax (Note 24):				
- Origination and reversal of temporary differences	5,880	(10,429)	5,888	(10,427)
- Under provision in respect of previous year	783	(15)	783	-
	6,663	(10,444)	6,671	(10,427)
Income tax expense recognised in profit or loss	43,119	32,073	42,873	31,690

12. Income tax expense (continued)

Reconciliation between tax expense and accounting profit

The reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2019 and 2018 are as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Profit before tax	149,040	110,893	139,217	111,599
Tax at Malaysian statutory tax rate of 24% (2018: 24%)	35,770	26,614	33,412	26,784
Adjustments:				
Non-deductible expenses	6,758	6,843	6,511	6,789
Income not subject to taxation	(296)	(458)	(377)	(1,663)
Deferred tax asset not recognised	-	57	-	-
Utilisation of previously unrecognised deferred tax assets	(58)	(255)	-	-
Under/(Over) provision in respect of previous year:				
- Current tax	2,543	(38)	2,544	(220)
- Deferred tax	783	(15)	783	-
Share of results of associate	(2,381)	(675)	-	-
Income tax expense recognised in profit or loss	43,119	32,073	42,873	31,690

Income tax is calculated at the Malaysian statutory tax rate of 24% (2018: 24%) of the estimated assessable profit for the year.

13. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the year, net of tax, attributable to owner of the Bank by the weighted average number of ordinary shares outstanding during the financial year.

The following tables reflect the profit and share data used in the computation of basic earnings per share for the years ended 31 December:

	Group	
	2019 RM'000	2018 RM'000
Profit net of tax attributable to owner of the Bank	105,921	78,820
	Numbers of shares '000	Numbers of shares '000
Weighted average number of ordinary shares for basic earnings per share computation	562,000	562,000

14. Cash and short-term funds

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash and bank balances with banks and other financial institutions	315,641	347,488	314,848	347,316

Cash at banks and money at call earns interest at rates based on daily bank deposit rates.

For the purpose of the statements of cash flows, cash and cash equivalents comprise the following at the reporting date:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash and bank balances with banks and other financial institutions	315,641	347,488	314,848	347,316
Deposits and placement with financial institutions maturing within one month (Note 15)	320,726	41,678	319,679	41,678
	636,367	389,166	634,527	388,994

15. Deposits and placements with financial institutions

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Financial institutions:				
Deposits and placements maturing within one month	320,726	41,678	319,679	41,678
Deposits and placements maturing one month or more	2,260	2,079	2,260	1,065
Mudharabah placements	10	27,240	10	27,240
	322,996	70,997	321,949	69,983

Deposits and placements are made for varying periods of between one day and one year depending on the cash requirements of the Group and the Bank, and earn interests at the respective short-term deposit and placement rates.

The weighted average effective interest rate of the Group and of the Bank is 3.3% (2018: 3.4%) and 3.2% (2017: 3.3%) per annum respectively.

16. Securities at fair value through profit or loss ("FVTPL")

	Group and Bank	
	2019 RM'000	2018 RM'000
Shares, warrants and loan stocks, quoted in Malaysia	50,250	32,665
Shares, quoted outside Malaysia	-	7,205
	50,250	39,870

17. Securities at fair value through other comprehensive income ("FVOCI")

	Group and Bank	
	2019 RM'000	2018 RM'000
Shares, quoted in Malaysia	-	6,060
Shares, unquoted in Malaysia	1	1
	1	6,061

18. Loans, advances and financing

	Group and Bank	
	2019	2018
	RM '000	RM '000
Gross loans, advances and financing at amortised cost	6,371,785	6,164,225
Less:		
Allowance for impairment:		
- Stage 1 ECL, net	(82,311)	(39,815)
- Stage 2 ECL, net	-	(22,036)
- Stage 3 ECL, net	(592,931)	(563,923)
	(675,242)	(625,774)
Net loans, advances and financing	5,696,543	5,538,451

18. Loans, advances and financing (continued)

a) Loans, advances and financing analysed by facilities are as follows:

	Group and Bank 2019 RM'000	2018 RM'000
Revolving credits	1,320,882	1,288,973
Short-term advances	74,146	72,961
Term loans	4,975,870	4,801,473
Other loans	488	340
Staff loans	399	479
	6,371,785	6,164,226
Unearned income	-	(1)
Gross loans, advances and financing	6,371,785	6,164,225
Less:		
Allowance for impairment:		
- Stage 1 ECL, net	(82,311)	(39,815)
- Stage 2 ECL, net	-	(22,036)
- Stage 3 ECL, net	(592,931)	(563,923)
	(675,242)	(625,774)
Net loans, advances and financing	5,696,543	5,538,451

Included in loans, advances and financing of the Group and the Bank are the following outstanding amounts due from related companies:

	Group and Bank 2019 RM'000	2018 RM'000
Revolving credits	1,029,997	988,358
Short-term advances	7,226	6,979
Term loans	773,131	718,549

The weighted average effective interest rate for these loans, advances and financing granted to the related companies as at 31 December 2019 is 7.5% (2018: 7.5%) per annum. Revolving credits and short-term advances are repayable within the next 12 months.

Loans, advances and financing granted to a related company totaling RM1,810,353,939 (2018: RM1,085,043,000) are secured against assets of related companies.

18. Loans, advances and financing (continued)

b) Loans, advances and financing analysed by their economic purposes are as follows:

	Group and Bank 2019 RM'000	Group and Bank 2018 RM'000
Real estate and construction	3,063,810	3,057,968
Manufacturing	240,665	236,007
Finance, insurance and business services	4,894	4,888
Agriculture, mining and quarrying	2,064,490	1,871,059
Education, health and others	25,989	27,600
Electricity, gas and water supply	492,236	494,521
Wholesale & retail trade, restaurants	83,509	76,227
Transport, storage and communication	60,053	68,809
Others	336,139	317,977
Gross loans, advances and financing	6,371,785	6,164,225

c) The maturity structures of gross loans, advances and financing are as follows:

	Group and Bank 2019 RM'000	Group and Bank 2018 RM'000
Maturing within one year	4,659,275	4,742,988
One year to three years	1,442,378	807,422
Three years to five years	176,162	448,755
Over five years	93,970	165,060
	6,371,785	6,164,225

18. Loans, advances and financing (continued)

d) Movements in allowance for impairment of loans, advances and financing are as follows:

As at 31 December 2019	Stage 1 ECL RM'000	Stage 2 ECL RM'000	Stage 3 ECL RM'000	Total ECL RM'000
Group and Bank				
At 1 January 2019	39,815	22,036	563,923	625,774
Transferred to Stage 1	5,606	(2,916)	(2,690)	-
Transferred to Stage 2	(3,343)	3,343	-	-
Transferred to Stage 3	(2,712)	(15,418)	18,130	-
Additional during the year	45,697	(4,647)	7,895	48,945
Loans, advances and financing derecognised	(2,752)	(2,398)	(1,482)	(6,632)
Net remeasurement of allowances during the year (Note 8)	42,496	(22,036)	21,853	42,313
Unwinding of interest	-	-	20,552	20,552
Amount written off	-	-	(13,397)	(13,397)
At 31 December 2019	82,311	-	592,931	675,242

As at 31 December 2018	Stage 1 ECL RM'000	Stage 2 ECL RM'000	Stage 3 ECL RM'000	Total ECL RM'000
Group and Bank				
At 1 January 2018				
- as previously stated	-	-	-	578,577
- effect of adopting MFRS 9 (Note 41)	-	-	-	143,962
At 1 January 2018, as restated	37,534	39,653	645,352	722,539
Transferred to Stage 1	31,788	(15,868)	(15,920)	-
Transferred to Stage 2	(2,120)	8,962	(6,842)	-
Transferred to Stage 3	(14,486)	(13,529)	28,015	-
Additional during the year	(12,519)	3,001	119,745	110,227
Loans, advances and financing derecognised	(382)	(183)	-	(565)
Net remeasurement of allowances during the year (Note 8)	2,281	(17,617)	124,998	109,662
Amount written off	-	-	(206,427)	(206,427)
At 31 December 2018	39,815	22,036	563,923	625,774

19. Property, plant and equipment

	Leasehold improvements RM'000	Motor vehicles RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Total RM'000
Group					
Cost:					
At 1 January 2018	2,042	1,530	1,482	1,287	6,341
Additions	-	949	15	3,125	4,089
Disposals/write off	-	(1,089)	(20)	(199)	(1,308)
At 31 December 2018 and 1 January 2019	2,042	1,390	1,477	4,213	9,122
Additions	-	-	6	11	17
Disposals/write off	-	-	(6)	(3)	(9)
At 31 December 2019	2,042	1,390	1,477	4,221	9,130
Accumulated depreciation:					
At 1 January 2018	2,041	1,529	1,451	1,191	6,212
Depreciation charge for the year (Note 9)	-	160	15	75	250
Disposals/write off	-	(1,089)	(20)	(198)	(1,307)
At 31 December 2018 and 1 January 2019	2,041	600	1,446	1,068	5,155
Depreciation charge for the year (Note 9)	-	190	14	801	1,005
Disposals/write off	-	-	(6)	(2)	(8)
At 31 December 2019	2,041	790	1,454	1,867	6,152
Net carrying amount:					
At 31 December 2019	1	600	23	2,354	2,978
At 31 December 2018	1	790	31	3,145	3,967

19. Property, plant and equipment (continued)

	Leasehold improvements RM'000	Motor vehicles RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Total RM'000
Bank					
Cost:					
At 1 January 2018	2,042	1,530	1,452	1,109	6,133
Additions	-	949	15	3,125	4,089
Disposals/write off	-	(1,089)	(20)	(199)	(1,308)
At 31 December 2018 and 1 January 2019	2,042	1,390	1,447	4,035	8,914
Additions	-	-	2	2	4
Disposals/write off	-	-	(6)	-	(6)
At 31 December 2019	2,042	1,390	1,443	4,037	8,912
Accumulated depreciation:					
At 1 January 2018	2,041	1,529	1,423	1,018	6,011
Depreciation charge for the year (Note 9)	-	160	14	74	248
Disposals/write off	-	(1,089)	(20)	(198)	(1,307)
At 31 December 2018 and 1 January 2019	2,041	600	1,417	894	4,952
Depreciation charge for the year (Note 9)	-	190	13	800	1,003
Disposals/write off	-	-	(6)	-	(6)
At 31 December 2019	2,041	790	1,424	1,694	5,949
Net carrying amount:					
At 31 December 2019	1	600	19	2,343	2,963
At 31 December 2018	1	790	30	3,141	3,962

The cash outflow on acquisition of plant and equipment of the Group and of the Bank amounted to RM15,000 (2018: RM4,089,000) and RM2,000 (2018: RM4,089,000) respectively.

20. Right-of-use asset/Lease liabilities

The Bank has lease contract for office building with lease terms between 1 and 5 years.

Set out below are the carrying amount of right-of-use assets recognised and the movements during the financial year:

	Office building RM'000
Group and Bank	
Cost:	
At 1 January 2019	-
- Effect of adopting MFRS 16	1,287
At 1 January 2019, restated	1,287
Additions	-
At 31 December 2019	1,287
Accumulated depreciation:	
At 1 January 2019	-
Depreciation charge for the year	(429)
At 31 December 2019	(429)
Net carrying amount:	
At 31 December 2019	858

Variation of lease liabilities value during the financial year:

Group and Bank	**2019 RM'000**
At 1 January 2019	1,287
Additions	-
Interest expense	6
Lease obligation repayment	(432)
At 31 December 2019	861

21. Investment properties

	Long-term leasehold land RM'000
Group and Bank	
At cost	
At 31 December 2018 and 31 December 2019	2,050
Accumulated depreciation	
At 1 January 2018	287
Depreciation for the year (Note 9)	26
At 31 December 2018 and 1 January 2019	313
Depreciation for the year (Note 9)	26
At 31 December 2019	339
Net carrying amount	
At 31 December 2019	1,711
At 31 December 2018	1,737

22. Investments in subsidiaries

	Bank 2019 RM'000	Bank 2018 RM'000
Unquoted shares, at cost	4,358	4,358

Name	Country of incorporation/ principal place of business	Principal activities	Proportion (%) of ownership interest# Held by the Group 2019	Held by the Group 2018	Held by non-controlling interests 2019	Held by non-controlling interests 2018
Sabah Development Nominees (Tempatan) Sdn. Bhd.*	Malaysia	Nominee services and insurance agency	100	100	-	-
SDB Asset Management Sdn. Bhd.*	Malaysia	Management fund services	100	100	-	-

* Audited by Ernst & Young PLT, Malaysia.
# Equals to the proportion of voting rights held.

23. Investment in associate

	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
Unquoted shares, at cost	38,652	38,652	38,652	38,652
Share of post-acquisition reserves	63,799	56,532	-	-
	102,451	93,209	38,652	38,652

23. Investment in associate (continued)

a) Details of the Group's associate are as follows:

Name	Country of incorporation/ principal place of business	Principal activities	% of ownership interest held by the Group 2019#	2018#	Accounting model applied
Held by the State Government of Sabah					
Progressive Insurance Berhad*	Malaysia	Underwriting of all classes of general insurance business	38.65	38.65	Equity method

* Audited by Ernst & Young PLT, Malaysia.
# Equals to the proportion of voting rights held.

The associate has the same reporting period as the Group.

In 2001, the Bank had made payment of RM38,652,080 to the State Government of Sabah for the investment in 38,652,080 ordinary shares of Progressive Insurance Berhad. The State Government of Sabah invested on the Bank's behalf in 38.65% equity interest in Progressive Insurance Berhad and became the registered shareholder of 38,652,080 ordinary shares of Progressive Insurance Berhad.

Since 2001, the State Government of Sabah has made payments to the Bank for dividends received from Progressive Insurance Berhad (as the registered shareholder) in respect of the 38,652,080 ordinary shares and the Bank has nominated representative(s) to the Board of Directors of Progressive Insurance Berhad. As such, the directors are of the opinion that the Bank has significant influence over Progressive Insurance Berhad with the power to participate in the financial and operating policy decisions of Progressive Insurance Berhad since the investment in 2001.

23. Investment in associate (continued)

b) Summarised financial information in respect of the Group's material associate

The summarised financial information represents the amounts in the adjusted MFRS financial statements of the associate and not the Group's share of those amounts.

(i) Summarised statements of financial position

	Progressive Insurance Berhad 2019 RM'000	2018 RM'000
Total assets	566,225	500,620
Total liabilities	(297,017)	(255,563)
Equity	269,208	245,057

(ii) Summarised statements of comprehensive income

	2019 RM'000	2018 RM'000
Revenue	147,901	148,901
Profit before tax	31,465	7,294
Profit for the year	25,665	7,456
Other comprehensive income	1,772	610
Total comprehensive income	27,437	8,066
Less: Non-controlling interest	(264)	(176)
Group's share of profit for the year	9,920	2,814
Group's share of other comprehensive income	685	234
Group's share of total comprehensive income	10,605	3,048
Dividend received from the associate during the year	1,360	5,025

(iii) Reconciliation of the summarised financial information presented above to the carrying amount of the Group's interest in material associate

	2019	2018
Interest in associates	38.652%	38.652%
Group's share in equity	102,451	93,209
Carrying amount of Group's interest in associate	102,451	93,209

24. Deferred tax

Deferred income tax as at 31 December relates to the following:

	As at 1 January 2018 RM'000	Recognised in profit or loss RM'000	Recognised in equity RM'000	As at 31 December 2018 RM'000	Recognised in profit or loss RM'000	Recognised in equity RM'000	As at 31 December 2019 RM'000
Group							
Deferred tax liability:							
Property, plant and equipment	(1)	-	-	(1)	-	-	(1)
Deferred tax assets:							
Securities at fair value through profit or loss	(1,481)	940	-	(541)	(990)	-	(1,531)
Securities at fair value through other comprehensive income	65	371	266	702	(1,139)	-	(437)
Loans, advances and financing	73,831	14,015	-	87,846	(4,137)	-	83,709
Property, plant and equipment	24	(396)	-	(372)	(284)	-	(656)
Other liabilities	406	21	-	427	(98)	-	329
Defined benefit obligations	1,870	(130)	-	1,740	182	-	1,922
Others	4,394	(4,377)	-	17	(197)	-	(180)
	79,109	10,444	266	89,819	(6,663)	-	83,156
	79,108	10,444	266	89,818	(6,663)	-	83,155

24. Deferred tax (continued)

	As at 1 January 2018 RM'000	Recognised in profit or loss RM'000	Recognised in equity RM'000	As at 31 December 2018 RM'000	Recognised in profit or loss RM'000	Recognised in equity RM'000	As at 31 December 2019 RM'000
Bank							
Deferred tax assets:							
Securities at fair value through profit or loss	(1,481)	940	-	(541)	(990)	-	(1,531)
Securities at fair value through other comprehensive income	65	371	266	702	(1,139)	-	(437)
Loans, advances and financing	73,831	14,015	-	87,846	(4,137)	-	83,709
Property, plant and equipment	24	(396)	-	(372)	(284)	-	(656)
Other liabilities	406	21	-	427	(98)	-	329
Defined benefit obligations	1,870	(130)	-	1,740	182	-	1,922
Others	4,394	(4,394)	-	-	(205)	-	(205)
	79,109	10,427	266	89,802	(6,671)	-	83,131

Presented after appropriate offsetting as follows:

	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
Deferred tax assets	83,156	89,819	83,131	89,802
Deferred tax liabilities	(1)	(1)	-	-
	83,155	89,818	83,131	89,802

25. Other assets

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Interest receivable	269	61	281	54
Other receivables	318	42	290	36
Dividends receivable	18,309	14,799	18,309	14,799
Deposits	178	178	175	175
Premium receivable	1,098	1,119	-	-
Amount due from ultimate holding company	152	152	152	117
Amounts due from related companies	577,669	576,594	576,594	576,594
	597,993	592,945	595,801	603,382
Prepaid operating expenses	3,193	4,511	3,184	4,503
Income tax refundable	3,192	106	3,114	-
	604,378	597,562	602,099	596,313

Amounts due from ultimate holding company and related companies are unsecured, non-interest bearing and are repayable upon demand.

26. Deposits from customers

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Fixed deposits	1,385,987	1,969,241	1,400,054	1,983,593

The maturity structure of fixed deposits are as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
One year or less	1,385,973	1,419,241	1,400,040	1,433,593
More than one year	14	550,000	14	550,000
	1,385,987	1,969,241	1,400,054	1,983,593

26. Deposits from customers (continued)

The deposits are sourced from the following types of customers:

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
State Government of Sabah	810,000	1,624,643	810,000	1,624,643
Government-owned companies	473,865	322,581	473,821	322,581
Statutory bodies	87,166	17,044	87,166	17,044
Subsidiaries		-	-	14,352
Associate	-	-	-	-
Related companies	14,956	4,973	29,067	4,973
	1,385,987	1,969,241	1,400,054	1,983,593

27. Borrowings

	Group and Bank	
	2019	**2018**
	RM'000	**RM'000**
Non-current		
Unsecured:		
Medium Term Notes:		
- Y2008 CP/MTN Programmes	595,000	530,000
- Y2011 CP/MTN Programmes	2,785,000	395,000
- Y2012 CP/MTN Programmes	300,000	480,000
- Y2013 CP/MTN Programmes	-	75,000
	3,680,000	1,480,000
Current		
Unsecured:		
Medium Term Notes:		
- Y2008 CP/MTN Programmes	-	400,000
- Y2011 CP/MTN Programmes	100,000	320,000
- Y2012 CP/MTN Programmes	180,000	300,000
- Y2013 CP/MTN Programmes	75,000	-
Commercial Papers:		
- Y2011 CP/MTN Programmes	-	-
- Y2012 CP/MTN Programmes	-	220,000
- Y2013 CP/MTN Programmes	365,000	898,000
Revolving credits		
- RM facilities	100,000	-
	820,000	2,138,000
Total borrowings	4,500,000	3,618,000

27. Borrowings (continued)

a) **Medium Term Notes and Commercial Papers**

RM1,000 million CP and/or MTN Programmes (within line, RM500 million CP Programme) ("Y2008 CP/MTN Programmes")

In February 2008, the Bank established a RM500 million nominal value Commercial Papers ("CP") Programme and RM1,000 million nominal value Medium Term Notes ("MTN") Programme with the aggregate outstanding of CP and/or MTN not exceeding RM1,000 million in nominal value at any point in time. Under these programmes, the Bank may from time to time issue CP and/or MTN, denominated in RM. However, the CP Programme has expired since 23 April 2015.

During the financial year, the Bank issued RM65 million MTN and redeemed RM400 million MTN.

As at 31 December 2019, the MTN issued under this programme due from 2019 to 2023 (2018: 2019 to 2023) and bore interest ranging from 5.05% to 5.30% (2018: 4.78% to 5.30%) per annum.

RM3.0 billion CP and/or MTN Programmes (within line, RM3.0 billion CP Programme) ("Y2011 CP/MTN Programmes")

In January 2011, the Bank established a RM1.0 billion nominal value Commercial Papers ("CP") Programme and RM1.0 billion nominal value Medium Term Notes ("MTN") Programme with the aggregate outstanding of CP and/or MTN not exceeding RM1.0 billion in nominal value at any point in time. In year 2016, the said CP and/or MTN Programmes were upsized to RM3.0 billion in nominal value. Under these programmes, the Bank may from time to time issue CP/MTN in series or tranches, denominated in RM. However, the CP Programme has expired since 29 February 2019.

During the financial year, the Bank issued RM2,490 million MTN and redeemed RM320 million MTN.

As at 31 December 2019, MTN issued under this programme due from 2019 to 2022 (2019: 2019 to 2022) and bore interest ranging from 4.45% to 5.50% (2018: 4.78% to 5.30%) per annum.

27. Borrowings (continued)

a) **Medium Term Notes and Commercial Papers (continued)**

RM1.0 billion CP and/or MTN Programmes (within line, RM1.0 billion CP Programme) ("Y2012 CP/MTN Programme")

In July 2012, the Bank established a RM1.0 billion nominal value Commercial Papers ("CP") Programme and RM1.0 billion nominal value Medium Term Notes ("MTN") Programme with the aggregate outstanding of CP and/or MTN not exceeding RM1.0 billion in nominal value at any point in time. Under these programmes, the Bank may from time to time issue CP and/or MTN, denominated in RM.

During the financial year, the Bank redeemed RM300 million MTN. The Bank issued a total of RM110 million CP and redeemed RM330 million CP as at 31 December 2019.

As at 31 December 2019, MTN issued under this programme due from 2019 to 2022 (2018: 2019 to 2022) and bore interest ranging from 4.55% to 5.15% (2018: 4.30% to 5.15%) per annum.

As at 31 December 2019, CP issued under this programme due in 2019 is NIL (2018: nil) bore interest ranging from NIL (2017: nil) per annum.

RM1.5 billion CP and/or MTN Programmes (within line, RM1.5 billion CP Programme) ("Y2013 CP/MTN Programme")

In November 2013, the Bank established a RM1.5 billion nominal value Commercial Papers ("CP") Programme and RM1.5 billion nominal value Medium Term Notes ("MTN") Programme with the aggregate outstanding of CP and/or MTN not exceeding RM1.5 billion in nominal value at any point in time. Under these programmes, the Bank may from time to time issue CP and/or MTN, denominated in RM.

As at 31 December 2019, MTN issued under this programme due in 2020 (2018: 2020) and bore interest ranging from 4.60% to 5.15% (2018: 4.60% to 5.15%) per annum.

As at 31 December 2019, CP issued under this programme due in 2020 and bore interest of 4.45% (2018: 4.10% to 4.45%per annum and had maturity of less than three months.

b) **Revolving credits**

As at 31 December 2019, revolving credit has total outstanding balance of RM100 million (2018: nil).

27. Borrowings (continued)

A reconciliation of liabilities arising from financing activities is as follows:

	2018 RM'000	Cash flows: Proceeds from borrowings RM'000	Cash flows: Repayment of borrowings RM'000	Non-cash changes: Others RM'000	2019 RM'000
Group and Bank					
Medium Term Notes					
- current	1,020,000	-	(1,020,000)	355,000	355,000
- non-current	1,480,000	2,555,000	-	(355,000)	3,680,000
Commercial Papers					
- current	1,118,000	1,901,000	(2,654,000)	-	365,000
Revolving credits					
- current	-	100,000	-	-	100,000
Total	3,618,000	4,556,000	(3,674,000)	-	4,500,000

	2017 RM'000	Cash flows: Proceeds from borrowings RM'000	Cash flows: Repayment of borrowings RM'000	Non-cash changes: Others RM'000	2018 RM'000
Group and Bank					
Medium Term Notes					
- current	291,000	-	(291,000)	1,020,000	1,020,000
- non-current	1,960,000	540,000	-	(1,020,000)	1,480,000
Commercial Papers					
- current	1,681,000	5,922,000	(6,485,000)	-	1,118,000
Revolving credits					
- current	-	474,000	(474,000)	-	-
Total	3,932,000	6,936,000	(7,250,000)	-	3,618,000

The 'others' column related to reclassification of non-current portion of borrowings due to passage of time.

28. Other liabilities

	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
Amount due to holding entity	22,073	16,933	22,218	16,933
Amount due to immediate holding company	18,775	48,775	18,775	48,775
Amount due to related companies	1,187	1,185		
Amounts due to directors	322	-	-	-
Interest payable	67,572	53,101	67,572	53,218
Other payables	8,801	3,545	8,521	3,556
Accrued expenses	2,267	4,550	2,236	4,517
Income tax payable	59	9,119	-	8,828
Allowance for impairment on loan/financing commitments and financial guarantees	4,312	4,804	4,312	4,804
	125,368	142,012	123,634	140,631

a) **Amounts due to related parties**
These amounts are unsecured, non-interest bearing and are repayable upon demand.

b) **Other payables**
Other payables are non-interest bearing. Other payables are normally settled on 30-day to 60-day (2018: 30-day to 60-day) terms.

29. Employee defined benefit liability

	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
At 1 January	7,881	7,791	7,881	7,791
Current service costs	690	509	646	509
Interest cost	-	360	-	360
Benefits paid	(518)	(1,296)	(518)	(1,296)
At 31 December	8,053	7,364	8,009	7,364
Recognised in other comprehensive income:				
Remeasurement of the net defined benefit liability:				
Actuarial loss/(gain) arising due to:				
- Changes of financial assumption	-	1,552	-	1,552
- Experience judgement	-	(1,035)	-	(1,035)
	8,053	7,881	8,009	7,881

29. Employee defined benefit liability (continued)

The Group and the Bank operate an unfunded defined benefit retirement plan. The benefit plan become vested after ten years of service. The costs of defined benefit plan are determined based on employees' basic salary and the number of completed years of service.

30. Share capital

	Number of ordinary shares		Amount	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Issued and fully paid-up share capital				
At 1 January/ 31 December	562,000	562,000	562,000	562,000

The holder of ordinary shares is entitled to receive dividends as and when declared by the Bank. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Bank's residual assets.

31. Other reserves

Fair value adjustment reserve
This represents the cumulative fair value changes, net of tax, of financial assets measured at fair value through other comprehensive income.

Defined benefit reserve
This represents the cumulative gain or loss from remeasurements of the net employee defined benefit liability or asset.

32. Retained earnings

The Bank may distribute dividends out of its entire retained earnings as at 31 December 2019 and 31 December 2018 under the single tier system.

33. Commitments and contingencies

In the normal course of business, the 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.

a) The commitments and contingencies constitute the following:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Capital expenditure:				
- Approved but not contracted for	-	49	-	41
Irrevocable commitments to extend credit with maturity exceeding one year	10,642	174,672	10,642	174,672
Guarantees issued	669,050	678,771	669,050	678,771
	679,692	853,492	679,692	853,484

b) Allowances for commitments and contingencies are as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Allowances for commitments and contingencies:				
- Stage 1 ECL, net	(4,312)	(4,469)	(4,312)	(4,469)
- Stage 2 ECL, net	-	(335)	-	(335)
	(4,312)	(4,804)	(4,312)	(4,804)

34. Related party transactions

a) Sale and purchase of services

In addition to the related party information disclosed detailed elsewhere in the financial statements, the following significant transactions between the Group and the Bank and related parties took place at terms agreed between the parties during the financial year:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Interest payable to:				
- holding entity	57,565	61,362	57,565	61,362
- subsidiaries	-	-	479	379
- an associate	-	123	-	123
- related companies	-	172	-	172
Investment advisory fee receivable from a related company	183	-	183	-
Dividend receivable from related company	-	-	-	-
Service fee payable to an associate of ultimate holding company	127	127	127	127
Rental expense payable to holding entity	433	433	433	433

b) Compensation of key management personnel

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Short-term employee benefits	2,114	2,449	1,797	3,321
EPF and social security contributions	202	320	160	458
Other short-term benefits	171	280	94	280
	2,487	3,049	2,051	4,059

35. Fair value of financial instruments

a) Liabilities not carried at fair value but for which fair value is disclosed

The following table shows an analysis of the Group's and the Bank's financial liabilities not measured at fair value at the reporting date but for which fair value is disclosed:

	Fair value measurements at the reporting period using				
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Carrying amount RM'000
Group and Bank					
Financial liabilities (non-current)					
Borrowings					
- 2019	-	3,980,969	-	3,980,969	3,680,000
- 2018	-	1,501,536	-	1,501,536	1,480,000

b) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

The estimated fair values of those on-balance sheet financial assets and financial liabilities as at the reporting date approximate their carrying amounts as shown in the statement of financial position, except for the financial assets and financial liabilities as discussed below.

The fair value of financial assets and liabilities by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value are as follows:

		2019		2018	
	Note	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Group and Bank					
Financial liabilities:					
Borrowings (non-current)	28	3,680,000	3,980,969	1,480,000	1,501,536

36. Financial risk management objectives and policies

The Group's and the Bank's risk management objectives and policies are to provide adcquate emphasis to sound risk control, identify risks and recommend strategies to manage or mitigate losses and assist the management and the directors to steer the Group and the Bank in line with the regulatory requirements in Malaysia.

The Group and the Bank are exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and market price risk.

The Board of Directors reviews and agrees policies and procedures for the management of these risks, which are executed by the officers appointed by the management. The audit committee provides independent oversight to the effectiveness of the risk management process.

The following sections provide details regarding the Group's and the Bank's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

36. Financial risk management objectives and policies (continued)

a) Financial instruments by category

Group 2019	Fair value through profit or loss RM'000	Fair value through compreh-ensive income RM'000	At Amortised cost RM'000	Sub-total RM'000	Asset not in scope of MFRS 9 RM'000	Total RM'000
Assets						
Cash and short-term funds	-	-	315,641	315,641	-	315,641
Deposits and placements with financial institutions	-	-	322,996	322,996	-	322,996
Financial Investment portfolio	50,250	1	-	50,251	-	50,251
Loans, advances and financing	-	-	5,696,543	5,696,543	-	5,696,543
Other assets	-	-	597,815	597,815	-	597,815
Total Assets	**50,250**	**1**	**6,932,995**	**6,983,246**	**-**	**6,983,246**
Liabilities						
Deposits from customers	-	-	1,385,987	1,385,987	-	1,385,987
Borrowings	-	-	4,500,000	4,500,000	-	4,500,000
Other liabilities	-	-	124,987	124,987	-	124,987
Total Liabilities	**-**	**-**	**6,010,974**	**6,010,974**	**-**	**6,010,974**

36. Financial risk management objectives and policies (continued)

a) Financial instruments by category (continued)

Group 2018	Fair value through profit or loss RM'000	Fair value through compreh-ensive income RM'000	At Amortised cost RM'000	Sub-total RM'000	Asset not in scope of MFRS 9 RM'000	Total RM'000
Assets						
Cash and short-term funds	-	-	347,488	347,488	-	347,488
Deposits and placements with financial institutions	-	-	70,997	70,997	-	70,997
Financial Investment portfolio	39,870	6,061	-	45,931	-	45,931
Loans, advances and financing	-	-	5,538,451	5,538,451	-	5,538,451
Other assets	-	-	592,945	592,945	-	592,945
Total Assets	**39,870**	**6,061**	**6,549,881**	**6,595,812**	**-**	**6,595,812**
Liabilities						
Deposits from customers	-	-	1,969,241	1,969,241	-	1,969,241
Borrowings	-	-	3,618,000	3,618,000	-	3,618,000
Other liabilities	-	-	132,893	132,893	-	132,893
Total Liabilities	**-**	**-**	**5,720,134**	**5,720,134**	**-**	**5,720,134**

36. Financial risk management objectives and policies (continued)

a) Financial instruments by category (continued)

Bank 2019	Fair value through profit or loss RM'000	Fair value through compreh-ensive income RM'000	At Amortised cost RM'000	Sub-total RM'000	Asset not in scope of MFRS 9 RM'000	Total RM'000
Assets						
Cash and short-term funds	-	-	314,848	314,848	-	314,848
Deposits and placements with financial institutions	-	-	321,949	321,949	-	321,949
Financial Investment portfolio	50,250	1	-	50,251	-	50,251
Loans, advances and financing	-	-	5,696,543	5,696,543	-	5,696,543
Other assets	-	-	595,626	595,626	-	595,626
Total Assets	**50,250**	**1**	**6,928,966**	**6,979,217**	**-**	**6,979,217**
Liabilities						
Deposits from customers	-	-	1,400,054	1,400,054	-	1,400,054
Borrowings	-	-	4,500,000	4,500,000	-	4,500,000
Other liabilities	-	-	123,634	123,634	-	123,634
Total Liabilities	**-**	**-**	**6,023,688**	**6,023,688**	**-**	**6,023,688**

36. Financial risk management objectives and policies (continued)

a) Financial instruments by category (continued)

Bank 2018	Fair value through profit or loss RM'000	Fair value through compreh-ensive income RM'000	At Amortised cost RM'000	Sub-total RM'000	Asset not in scope of MFRS 9 RM'000	Total RM'000
Assets						
Cash and short-term funds	-	-	347,316	347,316	-	347,316
Deposits and placements with financial institutions	-	-	69,983	69,983	-	69,983
Financial Investment portfolio	39,870	6,061	-	45,931	-	45,931
Loans, advances and financing	-	-	5,538,451	5,538,451	-	5,538,451
Other assets	-	-	591,810	591,810	-	591,810
Total Assets	**39,870**	**6,061**	**6,547,560**	**6,593,491**	**-**	**6,593,491**
Liabilities						
Deposits from customers	-	-	1,983,593	1,983,593	-	1,983,593
Borrowings	-	-	3,618,000	3,618,000	-	3,618,000
Other liabilities	-	-	131,803	131,803	-	131,803
Total Liabilities	**-**	**-**	**5,733,396**	**5,733,396**	**-**	**5,733,396**

36. Financial risk management objectives and policies (continued)

b) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Bank's exposure to credit risk arises primarily from lending, trade finance, investments and other credit-related activities undertaken by the Group and the Bank. For other financial assets (including investment securities, cash and bank balances), the Group and the Bank minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's and the Bank's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure.

The Group's and the Bank's policy is to manage their credit risk through the application of good credit approvals, credit limits, monitoring procedures and credit assessment.

The directors are responsible for assessing credit risk recommended by the management. They are also responsible for providing directions and timely guidance on lending to different economic sectors and industries.

In general, the Group and the Bank monitor the levels of credit risk they undertake through regular review by the management, with independent oversight of their credit concentration and portfolio quality by the directors.

In respect of their lending-related activities, the management regularly reviews the amount of risk accepted in relation to one borrower or groups of borrowers, economic sectors and industry segments, types of acceptable security, level of non-performing loans and adequacy of provisioning requirements.

Exposure to credit risk

At the reporting date, the Group's and the Bank's maximum exposure to credit risk is represented by:
- the carrying amount of each class of financial assets recognised in the statements of financial position, including derivatives with positive fair values; and
- guarantees issued in favour of customers.

The following analysis represents the Group's and the Bank's maximum exposure to credit risk of on-balance sheet financial assets and off-balance sheet exposure, without taking into account of any collateral held or other credit enhancements. For on-balance sheet financial assets, the exposure to credit risk equals their carrying amount. For off-balance sheet exposures, the maximum exposure to credit risk is the maximum amount that the Group and the Bank would have to pay if the obligations of the instruments issued are called upon and/or the full amount of the undrawn credit facilities granted to customers.

36. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Credit exposure for on-balance sheet items:				
Cash and short-term funds	315,641	347,488	314,848	347,316
Deposits and placements with financial institutions	322,996	70,997	321,949	69,983
Securities at fair value through profit or loss	50,250	39,870	50,250	39,870
Securities at fair value through other comprehensive income	1	6,061	1	6,061
Loans, advances and financing	5,696,543	5,538,451	5,696,543	5,538,451
Other assets	597,815	592,945	595,626	596,313
	6,983,246	6,595,812	6,979,217	6,597,994
Credit exposure for off-balance sheet items:				
Irrevocable commitments to extend credit	10,642	174,672	10,642	174,672
Guarantees issued	669,050	678,771	669,050	678,771
	679,692	853,443	679,692	853,443
Total maximum credit risk exposure	7,662,938	7,449,255	7,658,909	7,451,387

Collaterals

Exposure to credit risk is also managed in part by obtaining collateral or right to call for collateral when certain exposure thresholds are exceeded, the right to terminate transactions upon the occurrence of unfavourable events, the right to reset the terms of transactions after specified time periods or upon the occurrence of unfavourable events, and entering into netting agreements with counterparties that permit the Group and the Bank to offset receivables and payables with such counterparties.

36. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Collaterals (continued)

The main types of collateral obtained by the Group and the Bank to mitigate credit risk are as follows:
- for construction and real estate loans – charges over the project land being financed;
- for share margin financing – pledges over securities from listed exchange;
- for other loans – charges over landed properties and other assets;
- for staff housing loans – charges over residential properties; and
- for staff car loans – ownership claims over vehicles financed.

Credit Quality of Financial Assets

There are seven (7) categories of loan classification as set out and defined below, from Loss to Excellent, which describe the credit quality of the Bank's lending.

The Loan Classification is as described below:

(i) Excellent

Credit is entirely acceptable to the highest quality borrower. A well-structured credit to a company in existence for many years of consecutive profits and dividend payments, with a strong equity position, good liquidity, excellent debt service ability, and unblemished past performance. This would also include a reasonably strong borrower supported by a strong guarantor and/or fully secured by collateral of unquestioned value that is readily marketable.

(ii) Above Average

Credit is acceptable to a borrower not as strong and established as in above. No apparent weaknesses but analysis reveals leverage, liquidity, or debt service ability to be less than optimum. This would also include a borrower not strong enough to sustain any major setbacks, but is supported by collateral with established value and marketability within a reasonable length of time.

(iii) Average

Credit is acceptable but borrower is not strong enough to sustain any major setbacks. Loan is properly structured and borrower has performed but is weak in one area or another (company relatively new, liquidity or equity not strong, profitability volatile, too much dependence on guarantors).

36. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Credit Quality of Financial Assets (continued)

(iv) Marginal

A marginal loan is a satisfactory bank asset having certain inherent weaknesses or the borrower is exhibiting an adverse financial trend such as continued losses, declining sales, increasing liquidity problems, deteriorating leverage, etc.

(v) Substandard

Loans so classified must have identifiable well-defined weakness or weaknesses which jeopardise the liquidation of the debt. While the length of time the debt has existed is not the primary determinant in justifying the classification, the reason for the extended time may in a given case provide a basis for placing the loan in this category. Namely, as a result of a fundamental weakness, the passage of time has increased that risk. Defined in a general way, a substandard loan is a bank asset inadequately protected by the current sound worth and paying capacity of the obligor, or pledged collateral, if any.

(vi) Doubtful

A loan subject to this classification has all of the weaknesses inherent in an asset classified substandard with the added proviso that the weaknesses are pronounced to a point where collection or liquidation in full, on the basis of currently existing facts, conditions and values, is highly questionable and improbable. The probability of total or substantial loss is high but extraneous factors might make possible the strengthening or liquidation of the asset. The length of time an asset may be classified doubtful is a matter of judgment. However, only in infrequent instances can extraneous circumstances not be resolved in a relatively short period of time, thereby necessitating the loan's writing off, reduction in severity of criticism or elimination from an adverse classification.

(vii) Loss

Loans classified loss are considered uncollectable and of such little value that their continuance as active assets of the bank is not warranted. Assets classified as loss shall be eventually written off. Assignment of this classification does not mean that an asset has absolutely no recovery or salvage value, but simply that it is not practicable or desirable to defer writing off a basically worthless asset even though partial recovery may be effected in the future.

36. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Credit Quality of Financial Assets (continued)

The following table sets out information about the credit quality of financial assets of the Bank. Unless otherwise stated, for financial assets, the amounts in the table represent gross carrying amount.

Group and Bank 2019	**Stage 1 12 month ECL RM'000**	**Stage 2 Lifetime ECL not credit impaired RM'000**	**Stage 3 Lifetime ECL credit impaired RM'000**	**Total RM'000**
Excellent	386,059	-	-	386,059
Above average	324,986	2,971	-	327,957
Average	652,729	1,869,130	53,114	2,574,973
Marginal	26,102	23,484	1,014,696	1,064,282
Substandard	-	-	1,030,740	1,030,740
Doubtful	-	-	812,292	812,292
Loss	-	-	175,482	175,482
	1,389,876	1,895,585	3,086,324	6,371,785
Less:				
Expected credit loss	(82,311)	-	(592,931)	(675,242)
Net carrying amount	**1,307,565**	**1,895,585**	**2,493,393**	**5,696,543**

36. Financial risk management objectives and policies (continued)

c) Credit risk (continued)

Credit Quality of Financial Assets (continued)

Group and Bank 2018	Stage 1 12 month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
Excellent	33,773	2,209	-	35,982
Above average	646,898	30,698	-	677,596
Average	177,341	1,555,985	138,360	1,871,686
Marginal	8,966	129,404	1,893,698	2,032,068
Substandard	-	252,993	958,984	1,211,977
Doubtful	-	-	329,503	329,503
Loss	-	-	5,413	5,413
	866,978	1,971,289	3,325,958	6,164,225
Less:				
Expected credit loss	(39,815)	(22,036)	(563,923)	(625,774)
Net carrying amount	**827,163**	**1,949,253**	**2,762,035**	**5,538,451**

36. Financial risk management objectives and policies (continued)

c) Liquidity risk (continued)

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Bank's financial assets and financial liabilities at the reporting date based on remaining contractual maturities.

2019	Less than 1 year RM'000	More than 1 and less than 2 years RM'000	More than 2 and less than 5 years RM'000	More than 5 years RM'000	Total RM'000
Group					
Financial assets					
Cash and short-term funds	315,641	-	-	-	315,641
Deposits and placements with financial institutions	322,996	-	-	-	322,996
Securities at fair value through profit or loss	50,250	-	-	-	50,250
Securities at fair value through other comprehensive income	1	-	-	-	1
Loans, advances and financing	4,046,651	1,286,559	261,834	101,499	5,696,543
Other assets	591,810	-	-	-	591,810
	5,327,349	1,286,559	261,834	101,499	6,977,241
Financial liabilities					
Deposits from customers	1,385,987	-	-	-	1,385,987
Borrowings	820,000	-	2,145,000	1,535,000	4,500,000
Other liabilities	125,368	-	-	-	125,368
	2,331,355	-	2,145,000	1,535,000	6,011,355
	2,995,994	1,286,559	(1,883,166)	(1,433,501)	965,886

36. Financial risk management objectives and policies (continued)

c) Liquidity risk (continued)

Analysis of financial instruments by remaining contractual maturities (continued)

2018	Less than 1 year RM'000	More than 1 and less than 2 years RM'000	More than 2 and less than 5 years RM'000	More than 5 years RM'000	Total RM'000
Group					
Financial assets					
Cash and short-term funds	347,488	-	-	-	347,488
Deposits and placements with financial institutions	70,997	-	-	-	70,997
Securities at fair value through profit or loss	39,870	-	-	-	39,870
Securities at fair value through other comprehensive income	6,061	-	-	-	6,061
Loans, advances and financing	4,117,214	403,744	852,432	165,061	5,538,451
Other assets	592,767	-	-	178	592,945
	5,174,397	403,744	852,432	165,239	6,595,812
Financial liabilities					
Deposits from customers	1,969,241	-	-	-	1,969,241
Borrowings	2,138,000	355,000	1,125,000	-	3,618,000
Other liabilities	132,893	-	-	-	132,893
	4,240,134	355,000	1,125,000	-	5,720,134
	934,263	48,744	(272,568)	165,239	875,678

36. Financial risk management objectives and policies (continued)

c) Liquidity risk (continued)

Analysis of financial instruments by remaining contractual maturities (continued)

2019	Less than 1 month RM'000	1-3 months RM'000	3 months to 1 year RM'000	More than 1 and less than 2 years RM'000	More than 2 and less than 5 years RM'000	More than 5 years RM'000	Total RM'000
Bank							
Financial assets							
Cash and short-term funds	314,848	-	-	-	-	-	314,848
Deposits and placements with financial institutions	321,949	-	-	-	-	-	321,949
Securities at fair value through profit or loss	50,250	-	-	-	-	-	50,250
Securities at fair value through other comprehensive income	1	-	-	-	-	-	1
Loans, advances and financing	3,718,382	49,537	278,732	1,286,559	261,834	101,499	5,696,543
Other assets	602,098	-	-	-	-	-	602,098
	5,007,528	49,537	278,732	1,286,559	261,834	101,499	6,985,689
Financial liabilities							
Deposits from customers	265,054	178,589	956,411	-	-	-	1,400,054
Borrowings	100,000	365,000	355,000	-	2,145,000	1,535,000	4,500,000
Other liabilities	123,633	-	-	-	-	-	123,633
	488,687	543,589	1,311,411	-	2,145,000	1,535,000	6,023,687
	4,518,841	(494,052)	(1,032,679)	1,286,559	(1,883,166)	(1,433,501)	962,002

36. Financial risk management objectives and policies (continued)

c) Liquidity risk (continued)

Analysis of financial instruments by remaining contractual maturities (continued)

2018	Less than 1 month RM'000	1-3 months RM'000	3 months to 1 year RM'000	More than 1 and less than 2 years RM'000	More than 2 and less than 5 years RM'000	More than 5 years RM'000	Total RM'000
Bank							
Financial assets							
Cash and short-term funds	347,316	-	-	-	-	-	347,316
Deposits and placements with financial institutions	68,917	1,036	30	-	-	-	69,983
Securities at fair value through profit or loss	39,870	-	-	-	-	-	39,870
Securities at fair value through other comprehensive income	-	-	-	-	-	6,061	6,061
Loans, advances and financing	3,501,215	-	615,999	403,744	852,432	165,061	5,538,451
Other assets	591,599	36	-	-	-	175	591,810
	4,548,917	1,072	616,029	403,744	852,432	171,297	6,593,491
Financial liabilities							
Deposits from customers	407,279	572,850	1,003,464	-	-	-	1,983,593
Borrowings	802,000	316,000	1,020,000	355,000	1,125,000	-	3,618,000
Other liabilities	93,602	29,648	8,553	-	-	-	131,803
	1,302,881	918,498	2,032,017	355,000	1,125,000	-	5,733,396
	3,246,036	(917,426)	(1,415,988)	48,744	(272,568)	171,297	860,095

36. Financial risk management objectives and policies (continued)

d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Bank's financial instruments will fluctuate because of changes in market interest rates.

The Group's and the Bank's exposure to interest rate risk arises primarily from their money at call and deposits and placements with financial institutions, loans, advances and financing, deposits from customers, borrowings and derivative financial liabilities.

The Group's and the Bank's policy is to manage their interest cost by maintaining a mix of fixed and floating rate borrowings and by spreading out the timing of interest rate fixing. In addition, the Group's and the Bank's interest-bearing financial liabilities are hedged by interest-bearing financial assets, such as money at call, deposits and placements with financial institutions, deposit from customers and loans, advances and financing.

<u>Sensitivity analysis for interest rate risk</u>

At the reporting date, if interest rates had been 10 basis points higher/lower, with all other variables held constant, the Group's and the Bank's profit net of tax would have been RM988,0,000 (2018: RM1,460,000) and RM988,000 (2018: RM1,460,000) higher/lower respectively, arising mainly as a result of the Group's and the Bank's exposure to interest rates on their variable rate financial assets and financial liabilities. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

e) Market price risk

Market price risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market prices (other than interest or exchange rates).

The Group and the Bank are exposed to equity price risk arising from their investment in quoted equity instruments. The quoted equity instruments in Malaysia are listed on the Bursa Malaysia, whereas the quoted equity instruments outside Malaysia are listed on foreign stock exchanges. These instruments are classified as held for trading and available-for-sale financial assets. The Group does not have exposure to commodity price risk.

Market risk is monitored through the market risk management system with the establishment of relevant overseeing committees as part of the overall risk management of the Group and the Bank.

36. Financial risk management objectives and policies (continued)

e) Market price risk (continued)

Sensitivity analysis for equity price risk

At the reporting date, if the market prices of the quoted equity instruments had been 5% higher/lower, with all other variables held constant, the Group's and the Bank's profit net of tax would have been RM1,910,000 (2018: RM1,515,000) and RM1,910,000 (2018: RM1,515,000) higher/lower respectively, arising mainly as a result of higher/lower fair value gains on held for trading investments in equity instruments, and the Group's and the Bank's other reserve in equity would have been RM nil (2018: RM230,000) and RM nil (2018: RM230,000) higher/lower, arising as a result of an increase/decrease in the fair value of equity instruments classified as available-for-sale.

37. Capital management

The primary objective of the Group's and the Bank's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group and the Bank manage its capital to ensure that entities in the Group and the Bank will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's and the Bank's overall strategy remains unchanged from 2017.

The capital structure of the Group and the Bank consists of net debt (borrowings offset by cash and short-term funds) and equity of the Group and the Bank (comprising issued capital, reserves, retained earnings and non-controlling interests).

The Group and the Bank manage its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group and the Bank may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017.

The Group and the Bank are not subject to any externally imposed capital requirements.

The Group and the Bank monitor capital using a gearing ratio, which is debt divided by total capital plus debt. The Group's and the Bank's policy is to keep the gearing ratio between 50% and 100%.

37. Capital management (continued)

	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
Debt - borrowings	4,500,000	3,618,000	4,500,000	3,618,000
Capital - total equity	1,165,596	1,052,026	1,084,805	986,400
Less: Other reserves	(4,536)	(1,790)	(3,561)	(1,500)
Total capital	1,161,060	1,050,236	1,081,244	984,900
Capital and net debt	5,661,060	4,668,236	5,581,244	4,602,900
Gearing ratio	79%	78%	81%	79%

38. Islamic Banking business

The financial performance for the financial year ended 31 December 2019 and the financial position as of that date under the Islamic Banking business of the Bank included in the financial statements of the Group and of the Bank are summarised as follows:

Statement of comprehensive income for the year ended 31 December

	Note	Group and Bank 2019 RM'000	Group and Bank 2018 RM'000
Income	(a)	302	995
Writeback of allowance for impairment losses on loans and financing		-	1
Total income		302	996
Other expense		-	-
Profit for the year		302	996
Other comprehensive income		-	-
Total comprehensive income for the year		302	996
Retained earnings brought forward		15,640	14,644
Retained earnings carried forward	(b)	15,942	15,640

38. Islamic Banking business (continued)

Statement of financial position as of 31 December 2019

	Note	Group and Bank 2019 RM'000	Group and Bank 2018 RM'000
Assets			
Cash and short-term funds	(c)	12	9
Deposits and placements with financial institutions	(d)	10	27,240
Financing assets	(e)	-	12
Total assets		22	27,261
Islamic Banking funds	(b)	22	27,261

a) Income

	Group and Bank 2019 RM'000	Group and Bank 2018 RM'000
Income derived from investment of funds allocated:		
Mudharabah placements	301	994
Income from financing	1	1
	302	995

b) Islamic Banking funds

	Group and Bank 2019 RM'000	Group and Bank 2018 RM'000
Funds (withdrawn)/allocated	(15,920)	11,621
Retained earnings	15,942	15,640
	22	27,261

c) Cash and short-term funds

	Group and Bank 2019 RM'000	Group and Bank 2018 RM'000
Cash and bank balances with banks and other financial institutions	12	9

38. Islamic Banking business (continued)

d) **Deposits and placements with financial institutions**

	Group and Bank	
	2019	2018
	RM'000	RM'000
Money market instrument:		
Mudharabah placements	10	27,240

e) **Financing assets**

	Group and Bank	
	2019	2018
	RM'000	RM'000
Term financing	-	501
Unearned income	-	(1)
Gross financing assets	-	500
Less:		
Allowance for impairment losses:		
Stage 3 ECL, net	-	(488)
Individual	-	-
Collective	-	-
	-	(488)
Net financing assets	-	12

f) **Gross financing assets analysed by concepts are as follows:**

	Group and Bank	
	2019	2018
	RM'000	RM'000
Al-Bai' Baithaman Ajil	-	500

g) The maturity structure of gross financing assets is as follows:

	Group and Bank	
	2019	2018
	RM'000	RM'000
Within one year	-	488
Over five years	-	12
	-	500

38. Islamic Banking business (continued)

h) Gross financing assets analysed by their economic purposes are as follows:

	Group and Bank 2019 RM'000	2018 RM'000
Housing	-	12
Others	-	488
	-	500

39. Dividends

Dividends on ordinary shares:

	2019	2018
- First interim dividend:		
- 2018: 1.35 sen per ordinary share, on 562,000,000 ordinary shares	-	7,600
- Second Interim dividend		
	-	-
- 2018: 7.12 sen per ordinary share, on 562,000,000 ordinary shares	-	40,000
	-	47,600

40. Subsequent event

Subsequent to the financial year ended 31 December 2019, there were significant uncertainties noted surrounding the growth outlook emanating from novel coronavirus (COVID-19) pandemic. In relation to this, the Group and the Bank would only grant six (6) months moratorium on qualifying financing and advances as of 31 March 2020 and on a case-to-case basis.

At the date of this report, based on the Group and the bank's assessment, there is no significant credit, market, liquidity and operation risks arising from these subsequent events. Hence, there is no adjusting post balance sheet events that will impact in the current year's financial position and the results of the Group and the Bank for the year ended 31 December 2019. The Group and the Bank will continuously monitor and assess the developments and its economic impact.

41. Authorisation of financial statements for issue

The financial statements for the financial year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 21 July 2020.