PUBLIC ISLAMIC BANK BERHAD
Company Registration No.: 197301001433 (14328-V)
(Incorporated in Malaysia)

FINANCIAL STATEMENTS - 31 DECEMBER 2020

Registered Office
27th Floor, Menara Public Bank
146 Jalan Ampang
50450 Kuala Lumpur
Malaysia

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

The Directors have pleasure in presenting to the member their report together with the audited financial statements of the Bank for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

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

The principal activities of the associated company are as disclosed in Note 14 to the financial statements.

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

FINANCIAL RESULTS

	RM'000
Profit before zakat and taxation	505,957
Zakat and taxation	(118,352)
Profit for the year	387,605

DIVIDENDS

No dividend has been paid or declared by the Bank since the financial year ended 31 December 2019.

The Directors do not propose any dividend for the financial year ended 31 December 2020.

ISSUANCE OF SHARES AND DEBENTURES

There were no new shares or debentures issued or redeemed by the Bank during the financial year.

HOLDING COMPANY

The holding as well as the ultimate holding company of the Bank is Public Bank Berhad, a licensed bank incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

RESERVES, PROVISIONS AND ALLOWANCES

There were no material transfers to or from reserves or provisions or allowances during the year other than those disclosed in Notes 6, 7, 8, 9, 21 and 25 and the statement of changes in equity to the financial statements.

BAD AND DOUBTFUL FINANCING

Before the statement of profit or loss and statement of financial position of the Bank were made, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad financing and the making of allowance for doubtful financing, and satisfied themselves that all known bad financing had been written off and adequate allowance had been made for doubtful financing.

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF UNUSUAL NATURE

Other than as disclosed in Notes 2(i)(c), 18, 27(a)(i) and 28, the results of the operations of the Bank during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

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

SIGNIFICANT EVENTS DURING THE YEAR

The significant events during the financial year are as disclosed in Note 50 to the financial statements.

SUBSEQUENT EVENTS

Other than as disclosed in Note 51 to the financial statements, there were no material events subsequent to the reporting date that require disclosure or adjustments to the financial statements.

INDEMNIFICATION OF DIRECTORS

The Bank's holding company, Public Bank Berhad maintained on a group basis, a Directors' and Officers' Liability Insurance up to an aggregate limit of RM435,000,000 (2019: RM435,000,000) against any legal liability incurred by the Directors and officers in the discharge of their duties while holding office for Public Bank Berhad or for its subsidiary companies. The Directors and officers shall not be indemnified by such insurance for any deliberate negligence, fraud, intentional breach of law or breach of trust proven against them. The amount of insurance premium paid for the Directors and officers by Public Bank Berhad for the current financial year was RM8,911,000 (2019: RM8,537,000).

DIRECTORS OF THE BANK

The Directors who served since the beginning of the financial year to the date of this report are:

Tan Sri Dato' Sri Dr. Teh Hong Piow
Dato' Mohammed Najeeb bin Abdullah
Tan Sri Dato' Sri Tay Ah Lek
Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid
Mr Vasantha Kumar Tharmalingam
Datin Dr. Rusnah binti Muhamad
Mr Lam Song Shen
Dato' Haji Kamil Khalid bin Dato' Mushir Ariff (appointed on 1 November 2020)

In accordance with Clause 98 of the Bank's Constitution, Dato' Haji Kamil Khalid bin Dato' Mushir Ariff retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Clause 99 of the Bank's Constitution, Tan Sri Dato' Sri Tay Ah Lek and Datin Dr. Rusnah binti Muhamad retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings, the interests of the Directors in office at the end of the financial year in shares of the Bank's holding company, Public Bank Berhad ("PBB") and in shares of its related company during the financial year were as follows:

Shares Held in PBB

	Number of Ordinary Shares			
Direct interests:	**Balance at 1.1.2020**	**Acquired**	**Disposed**	**Balance at 31.12.2020**
Tan Sri Dato' Sri Dr. Teh Hong Piow	24,711,282	-	-	24,711,282
Dato' Mohammed Najeeb bin Abdullah	17,985	-	-	17,985
Tan Sri Dato' Sri Tay Ah Lek	3,488,845	200,000	-	3,688,845

	Number of Ordinary Shares			
Deemed interests:	**Balance at 1.1.2020**	**Acquired**	**Disposed**	**Balance at 31.12.2020**
Tan Sri Dato' Sri Dr. Teh Hong Piow	884,194,971	-	-	884,194,971
Dato' Mohammed Najeeb bin Abdullah	6,600	-	-	6,600
Tan Sri Dato' Sri Tay Ah Lek	2,789,745	-	(200,000)	2,589,745

Shares Held in its related company, Public Financial Holdings Limited

	Number of Ordinary Shares			
Direct interests:	**Balance at 1.1.2020**	**Acquired**	**Disposed**	**Balance at 31.12.2020**
Tan Sri Dato' Sri Tay Ah Lek	350,000	-	-	350,000

Other than as disclosed above, none of the Directors in office at the end of the financial year had any interest in shares in PBB or its related corporations during the financial year.

Tan Sri Dato' Sri Dr. Teh Hong Piow, by virtue of his total direct and deemed interests of 908,906,253 shares in PBB, and pursuant to Section 8(4)(c) of the Companies Act 2016, is deemed interested in the shares in all of PBB's subsidiary and associated companies to the extent that PBB has interests.

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full time employee of the Bank as disclosed in Note 33 to the financial statements and from related corporations) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has substantial financial interest except for those transactions arising in the ordinary course of business as disclosed in Note 37(a) to the financial statements.

NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee carries out the annual review of the overall remuneration policy for Directors, Chief Executive Officer, Shariah Committee members and key Senior Management Officers whereupon recommendations are made to the Board of Directors for approval.

The members of the Nomination and Remuneration Committee comprising Non-Executive Directors of the Bank are:

Mr Vasantha Kumar Tharmalingam (Independent)
Dato’ Mohammed Najeeb bin Abdullah (Independent)
Dato’ Dr. Mahmood Zuhdi bin Haji Ab Majid (Non-Independent)
Datin Dr. Rusnah binti Muhamad (Independent)
Dato’ Haji Kamil Khalid bin Dato’ Mushir Ariff (Independent) (appointed on 1 November 2020)

BUSINESS REVIEW 2020

Malaysia continued to be a global leader in Islamic finance in 2020, although growth was affected by the impact of the unprecedented COVID-19 pandemic. Islamic financing increased by 8.5%, supported by household sector financing for the purchase of residential properties. The Overnight Policy Rate ("OPR") stood at 1.75% as at the end of 2020 following a cumulative reduction of 125 basis points in 2020.

The domestic banking sector remained broadly stable, underpinned by strong capitalisation and ample liquidity. Banks had supported the Government's initiatives to mitigate the impact of the COVID-19 pandemic. These initiatives included financing moratorium, various financing repayment assistance programs, financing to small and medium enterprises ("SME") through the various special financing schemes initiated by the Government and Bank Negara Malaysia, such as Prihatin Rakyat Economic Stimulus Package ("PRIHATIN") and the National Economic Recovery Plan ("PENJANA").

The Bank continued to emphasise on consumer and retail commercial financing business in 2020. The Bank's financing expanded by 9.2%, mainly driven by the increase in residential and business financing. The Bank's home financing increased by 14.8%, with contribution mainly from the Home Equity Financing-i whilst business financing grew by 3.8%, mainly driven by Term Equity Financing-i.

The Bank's asset quality remained stable underpinned by the Public Bank Group's strong credit culture. The Bank recorded gross impaired financing ratio of 0.31% as at the end of 2020, which was well below the Islamic banking industry's gross impaired financing ratio of 1.34%.

The Bank's total deposits expanded by 4.1% in 2020, mainly driven by strong growth in savings and demand deposits. The Bank continued to maintain healthy funding and liquidity positions with its gross financing to fund and equity ratio standing at 79.5% as at the end of 2020.

In the Islamic fee-based segment, the Bank continued to work closely with AIA PUBLIC Takaful Berhad to expand its bancatakaful business.

The Bank remained well-capitalised as the Common Equity Tier I capital ratio, Tier I capital ratio and Total capital ratio stood at 12.552%, 12.552% and 16.127% respectively as at the end of 2020, which were above the minimum regulatory requirements.

As a member of the Association of Islamic Banking and Financial Institutions Malaysia's value-based intermediation ("VBI") Community of Practitioners, the Bank advanced further its strategic agenda by offering Preferential Rates Package for selected energy efficient vehicle under the AITAB Hire Purchase-i since April 2020. In November 2020, the Bank launched the Solar Plus BAE Personal Financing-i to finance installation of solar panels in residential homes at preferential rate.

ECONOMIC OUTLOOK AND PROSPECTS FOR 2021

The containment measures to prevent the spread of the COVID-19 pandemic had significantly impacted economic sectors globally owing to acute shocks and extensive disruption in global supply chains. These adverse effects will continue to be felt in 2021, as the world continues to adapt and adjust to the new normal macro environment. Thus, global policies are expected to remain accommodative, which provide support to a steady recovery in economic activities going forward.

The Malaysian economy is expected to recover gradually in 2021, supported by domestic demand, recovery in global growth and continued policy support domestically. Meanwhile, Malaysia's inflation is expected to be subdued in 2021, amid limited cost and demand pressures.

Notwithstanding the challenging macro environment, the Malaysian banking system remains resilient, underpinned by ample liquidity and strong capital buffers. Credit quality is expected to remain sound, despite the macro uncertainties. Also, monetary and financial conditions are accommodative and supportive of economic activities.

Nevertheless, downside risks remain amid uncertainties being mostly due to factors surrounding the development of the COVID-19 pandemic and its overall implications on economic and financial conditions globally. Also, the effects of the containment efforts to prevent the spread of the COVID-19 pandemic will continue to be felt in 2021, coupled with production constraints across key economic sectors.

BUSINESS OUTLOOK FOR 2021

The outlook of the Islamic banking sector is highly dependent on the overall macro environment in 2021. Sustained demand for Islamic banking products and services as well as the adoption of VBI are expected to lift Islamic banking to a higher and more sustainable level, placing Malaysia at the forefront of Islamic banking globally.

The Bank's core business activities include the Islamic home financing and commercial business financing, which will continue to be emphasised in 2021. In the financing segment, the Bank will continue to grow its retail financing, focusing on commercial financing and home mortgages. In the SME financing segment, the Bank will continue to tap on business opportunities by offering products and services to meet the demand of businesses.

The Bank will continue to grow deposits, particularly demand and savings deposits from retail customers.

The Bank will also continue to promote its Islamic fee-based products, including bancatakaful business, transactional banking services, credit card, remittances and foreign exchange business. The Bank will continue to work closely with AIA PUBLIC Takaful Berhad to launch suitable bancatakaful products to cater to the needs of customers.

The Bank will remain prudent and responsible in its financing approach, while upholding strong corporate governance and risk management practices as well as ensuring stable asset quality. In addition, the Bank will continue to explore ways to further enhance its operational efficiency and overall productivity while accelerating its digitalisation efforts in order to maintain cost efficiency.

The Bank will proactively manage any potential stress in asset quality. Owing to the effects of the COVID-19 pandemic, the Bank remains committed to actively engage and assist customers by providing an extended targeted repayment assistance for B40 individuals and microenterprises, either through deferment of instalments or reduction of instalments.

The Bank remains well-positioned to capitalise on Public Bank's widely distributed branch network, multi-delivery channels and customers' touch points, while leveraging on the advancement of technology to provide seamless banking experiences to its customers.

AUDITORS

The retiring auditors, Messrs. Ernst & Young PLT, have indicated their willingness to accept re-appointment.

Auditors' remuneration is disclosed in Note 32 to the financial statements.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

DATO' MOHAMMED NAJEEB BIN ABDULLAH
Director

TAN SRI DATO' SRI TAY AH LEK
Director

Kuala Lumpur, Malaysia

Dated : 25 February 2021

PUBLIC ISLAMIC BANK BERHAD
Company Registration No.: 197301001433 (14328-V)
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STATEMENT BY DIRECTORS

We, DATO' MOHAMMED NAJEEB BIN ABDULLAH and TAN SRI DATO' SRI TAY AH LEK, being two of the Directors of PUBLIC ISLAMIC BANK BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 18 to 188 are properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 December 2020 and of its financial performance and cash flows for the year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

DATO' MOHAMMED NAJEEB BIN ABDULLAH
Director

TAN SRI DATO' SRI TAY AH LEK
Director

Kuala Lumpur, Malaysia

Dated : 25 February 2021

PUBLIC ISLAMIC BANK BERHAD
Company Registration No.: 197301001433 (14328-V)
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STATUTORY DECLARATION

I, YIK SOOK LING, being the officer primarily responsible for the financial management of PUBLIC ISLAMIC BANK BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 18 to 188, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed YIK SOOK LING at KUALA LUMPUR
in WILAYAH PERSEKUTUAN on 25 February 2021

YIK SOOK LING
MIA No.: CA 11419

BEFORE ME:

Commissioner for Oaths
Kuala Lumpur

PUBLIC ISLAMIC BANK BERHAD
Company Registration No.: 197301001433 (14328-V)
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SHARIAH COMMITTEE'S REPORT
In the name of Allah, The Most Gracious, The Most Merciful

To the shareholders, depositors and customers of the Bank:

In carrying out the roles and responsibilities of the Bank's Shariah Committee as prescribed in the Shariah Governance Policy Document of Bank Negara Malaysia ("BNM"), we hereby submit the following report for the financial year ended 31 December 2020.

We, based on the information provided to us have reviewed the Shariah principles and the contracts relating to the transactions and products introduced by the Bank during the year ended 31 December 2020. It is our responsibility to form an independent opinion on the state of Shariah compliance of the Bank with respect to its overall activities in accordance to the Shariah rules and principles as well as Shariah standards issued by BNM and Shariah decisions made by us.

The Management of the Bank is responsible for ensuring that the conduct of its business is in accordance with Shariah rules and principles as well as the Shariah standards of BNM. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank and to report to you.

We have periodically assessed the work carried out by Shariah Review & Compliance Department as well as Shariah Audit Unit which had been done by examining on a test basis, the Islamic banking transactions executed, relevant documentation and procedures adopted by the Bank.

We have confirmed the following potential Shariah Non-Compliance ("SNC") incidents to be Actual SNC for the year of 2020:

(i) Opening of Current Account-i by non-individual customers whose business activities were Shariah non-compliant according to the Public Islamic Bank Berhad Negative List for Islamic Banking Activities involving four (4) accounts;

(ii) Indication of Hibah rate to Corporate Qard Deposit-i customers which contravened the Shariah standards of BNM involving seventeen (17) accounts;

(iii) Financing of Conventional Overdraft Level Term Assurance ("ODLTA") and Mortgage Reducing Personal Accident ("MRPA") which contravened the Shariah Advisory Council of BNM resolution dated on 8th March 2004 involving eight (8) accounts; and

(iv) The use of incomplete/under construction properties as underlying assets for Bai' Bithaman Ajil ("BBA") House Financing-i ("HF-i") and Term Financing-i ("TF-i").

Based on the above Actual SNC incidents, the total non-recognisable income to be purified is as follows:

(i) SNC income of RM4,000; and
(ii) Gharamah of RM30,000.

The profits under SNC for BBA HF-i and TF-i amounting to RM26,064,000 are temporary derecognised until the appropriate actions have been taken to rectify the SNC incidents. After all rectification measures are taken, the amount can be recognised by the Bank accordingly.

We were informed on the root causes of the SNC incidents and noted that the Bank had taken corrective and preventive measures to prevent any future recurrence.

We confirm that all of the SNC incidents together with their rectification plans have been presented to us for endorsement prior to their approval by the Board of Directors. Subsequently, the incidents have been reported to BNM in accordance with the SNC reporting requirement by BNM.

We have performed our review and provided our advice on the basis of information and explanations provided to us, which in turn allow us to give reasonable assurance that the Bank is in compliance with Shariah rules and principles as well as the Shariah standards of BNM.

In our opinion and to the best of our knowledge:

1) the contracts, transactions and dealings entered into by the Bank in the normal course of its business activities for the year ended 31 December 2020 with the exception to the above four (4) Actual SNC incidents, are in compliance with Shariah rules and principles as well as Shariah standards of BNM;

2) the income from SNC sources or by means prohibited by Shariah rules and principles or any other non-recognisable income has been set for purification; and

3) the calculation of zakat is in compliance with Shariah principles as set by the Islamic Religious Council of the Federal Territory.

We, the members of the Shariah Committee of the Bank, do hereby confirm that the operations of the Bank for the financial year ended 31 December 2020 have been conducted in conformity with Shariah rules and principles as well as the Shariah standards of BNM except for the Actual SNC incidents as disclosed above.

On behalf of the Public Islamic Bank Shariah Committee

DR. AB MUMIN BIN AB GHANI
Chairman of the Shariah Committee

IR. DR. MUHAMAD FUAD BIN ABDULLAH
Member of the Shariah Committee

Kuala Lumpur, Malaysia
Dated : 25 February 2021

PUBLIC ISLAMIC BANK BERHAD
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INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF PUBLIC ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Public Islamic Bank Berhad, which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 18 to 188.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

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

Information other than the financial statements and auditors' report thereon

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

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

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

Information other than the financial statements and auditors' report thereon (cont'd)

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

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

Auditors' responsibilities for the audit of the financial statements (cont'd)

- Conclude on the appropriateness of directors' use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

Other matters

This report is made solely to the member of the Bank, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

Dato' Megat Iskandar Shah Bin Mohamad Nor
No. 03083/07/2021 J
Chartered Accountant

Kuala Lumpur, Malaysia

Dated : 25 February 2021

PUBLIC ISLAMIC BANK BERHAD
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STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	2020 RM'000	2019 RM'000
ASSETS			
Cash and balances with banks	3	2,112,828	3,139,455
Financial assets at fair value through profit or loss	4	-	249,541
Derivative financial assets	5	1,317	-
Financial investments at fair value through other comprehensive income	6	9,717,771	9,528,034
Financial investments at amortised cost	7	4,520,961	3,743,715
Financing and advances	8	54,176,355	49,728,576
Other assets	9	232,231	71,437
Statutory deposits with Bank Negara Malaysia	11	168,200	1,800,450
Collective investment	13	565,504	549,042
Investment in an associated company	14	45,000	45,000
Right-of-use assets	15(a)	17,137	18,707
Property and equipment	16	3,525	4,005
TOTAL ASSETS		71,560,829	68,877,962
LIABILITIES			
Deposits from customers	17	61,817,897	59,374,011
Deposits from banks	18	2,067,854	2,453,316
Bills and acceptances payable	19	481	377
Derivative financial liabilities	5	196,035	90,130
Sukuk Murabahah	20	1,519,950	1,519,862
Lease liabilities	15(b)	18,227	19,385
Other liabilities	21	412,542	396,753
Provision for zakat and taxation	22	318	19,888
Deferred tax liabilities	12	104,135	264
TOTAL LIABILITIES		66,137,439	63,873,986

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STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	2020 RM'000	2019 RM'000
EQUITY			
Share capital	23	2,732,717	2,732,717
Regulatory reserves	24	156,181	309,431
Other reserves	25	48,748	16,939
Retained profits		2,485,744	1,944,889
TOTAL EQUITY		5,423,390	5,003,976
TOTAL LIABILITIES AND EQUITY		71,560,829	68,877,962
COMMITMENTS AND CONTINGENCIES	44	11,946,719	10,168,972
Net assets per share attributable to equity holder of the Bank (RM)		23.46	21.64

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

PUBLIC ISLAMIC BANK BERHAD
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STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 RM'000	2019 RM'000
Income derived from investment of depositors' funds and others	26	2,404,696	2,710,707
Income derived from investment of shareholder's funds	27	208,186	224,485
Allowance for impairment on financing and advances	28	(204,733)	(41,756)
Allowance for impairment on other assets	29	(191)	(232)
Total distributable income		2,407,958	2,893,204
Income attributable to depositors and others	30	(1,430,023)	(1,787,697)
Total net income		977,935	1,105,507
Personnel expenses	31	(21,630)	(21,243)
Other overheads and expenditures	32	(450,348)	(441,976)
Profit before zakat and taxation		505,957	642,288
Zakat	34	(1,206)	(300)
Taxation	34	(117,146)	(149,834)
Profit for the year		387,605	492,154
Earnings per share			
- basic / diluted (sen)	35	167.6	212.9

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

PUBLIC ISLAMIC BANK BERHAD
Company Registration No.: 197301001433 (14328-V)
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 RM'000	2019 RM'000
Profit for the year		387,605	492,154
Other comprehensive income / (loss) :			
Items that will not be reclassified to profit or loss:			
Defined benefit reserves:			
- Gain / (Loss) on remeasurements of defined benefit plan	10, 25	578	(2,563)
Items that may be reclassified to profit or loss:			
Revaluation reserves:			
- Net change in revaluation of financial investments at fair value through other comprehensive income	25	145,475	98,501
Hedging reserves:			
- Net change in cash flow hedges	25	(104,199)	(71,664)
		41,276	26,837
Income tax relating to components of other comprehensive income / (loss) :			
- Defined benefit reserves	25	(139)	615
- Revaluation reserves	25	(34,914)	(23,640)
- Hedging reserves	25	25,008	17,199
	12	(10,045)	(5,826)
Other comprehensive income for the year, net of tax		31,809	18,448
Total comprehensive income for the year		419,414	510,602

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

PUBLIC ISLAMIC BANK BERHAD
Company Registration No.: 197301001433 (14328-V)
(Incorporated in Malaysia)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Share Capital RM'000	Regulatory Reserves RM'000	Other Reserves RM'000	Retained Profits RM'000	Total Equity RM'000
			<----- Non-distributable ----->		Distributable	
At 1 January 2020		2,732,717	309,431	16,939	1,944,889	5,003,976
Profit for the year		-	-	-	387,605	387,605
Other comprehensive income for the year		-	-	31,809	-	31,809
Total comprehensive income for the year		-	-	31,809	387,605	419,414
Transactions with owner / other equity movements:						
Transfer from regulatory reserves		-	(153,250)	-	153,250	-
At 31 December 2020		2,732,717	156,181	48,748	2,485,744	5,423,390
		Note 23	Note 24	Note 25		

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

PUBLIC ISLAMIC BANK BERHAD
Company Registration No.: 197301001433 (14328-V)
(Incorporated in Malaysia)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

		<-------- Non-distributable		------->	Distributable	
	Note	**Share Capital RM'000**	**Regulatory Reserves RM'000**	**Other Reserves RM'000**	**Retained Profits RM'000**	**Total Equity RM'000**
At 1 January 2019		2,732,717	259,285	(1,509)	1,549,124	4,539,617
Profit for the year		-	-	-	492,154	492,154
Other comprehensive income for the year		-	-	18,448	-	18,448
Total comprehensive income for the year		-	-	18,448	492,154	510,602
Transactions with owner / other equity movements:						
Transfer to regulatory reserves		-	50,146	-	(50,146)	-
Dividends paid	36	-	-	-	(46,243)	(46,243)
		-	50,146	-	(96,389)	(46,243)
At 31 December 2019		2,732,717	309,431	16,939	1,944,889	5,003,976
		Note 23	Note 24	Note 25		

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

PUBLIC ISLAMIC BANK BERHAD
Company Registration No.: 197301001433 (14328-V)
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 RM'000	2019 RM'000
Cash flows from operating activities			
Profit before zakat and taxation		505,957	642,288
Adjustments for:			
Depreciation of right-of-use assets	15(a), 32	1,265	1,330
Depreciation of property and equipment	16, 32	612	424
Net gain on disposal of foreclosed properties		(71)	(284)
Net gain on disposal of property and equipment		(1)	(2)
Gain on remeasurement of lease contracts		(89)	(616)
Property and equipment written off		-	1
Allowance for impairment on financing and advances	28	233,103	68,846
Net gain arising from sale of financial investments at fair value through other comprehensive income		(151,616)	(56,551)
Unrealised loss on revaluation of financial assets at fair value through profit or loss		12	11
Loss / (Gain) representing ineffective portions of hedging derivatives		408	(1,208)
Unrealised (gain) / loss on revaluation of trading derivatives		(19)	19
Distributions from collective investment		(16,225)	(18,474)
Allowance for impairment on other assets	29	191	232
Amortisation of cost on Sukuk Murabahah issued	20	88	200
Operating profit before working capital changes		573,615	636,216
Decrease / (Increase) in operating assets:			
Financial assets at fair value through profit or loss		249,529	(219,242)
Financing and advances		(4,681,516)	(4,176,939)
Other assets		(114,895)	4,503
Statutory deposits with Bank Negara Malaysia		1,632,250	90,800

PUBLIC ISLAMIC BANK BERHAD
Company Registration No.: 197301001433 (14328-V)
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 RM'000	2019 RM'000
Cash flows from operating activities (continued)			
Increase / (Decrease) in operating liabilities:			
Deposits from customers		2,443,886	5,734,436
Deposits from banks		(385,462)	470,380
Bills and acceptances payable		104	173
Other liabilities		11,739	(61,879)
Cash (used in) / generated from operations		(270,750)	2,478,448
Income tax expense and zakat paid		(85,383)	(142,752)
Net cash (used in) / generated from operating activities		(356,133)	2,335,696
Cash flows from investing activities			
Purchase of property and equipment	16	(132)	(1,351)
Proceeds from disposal of property and equipment		1	2
Proceeds from disposal of foreclosed properties		433	1,546
Net sale / (purchase) of financial investments at fair value through other comprehensive income		107,346	(718,844)
Net purchase of financial investments at amortised cost		(777,378)	(557,771)
Distributions received from collective investment		16,462	18,528
Investment in collective investment		(16,462)	(18,528)
Net cash used in investing activities		(669,730)	(1,276,418)
Cash flows from financing activities			
Dividends paid	36	-	(46,243)
Repayment of lease liabilities	15(d)	(764)	(811)
Net proceeds from issuance of Sukuk Murabahah	20	-	500,000
Redemption of Sukuk Murabahah	20	-	(500,000)
Net cash used in financing activities		(764)	(47,054)

PUBLIC ISLAMIC BANK BERHAD
Company Registration No.: 197301001433 (14328-V)
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 RM'000	2019 RM'000
Net (decrease) / increase in cash and cash equivalents		(1,026,627)	1,012,224
Cash and cash equivalents at beginning of year		3,139,455	2,127,231
Cash and cash equivalents at end of year		2,112,828	3,139,455

Note:

Cash and balances with banks	3	2,112,828	3,139,455
Less: Balances with banks with original maturity more than three months		-	-
Cash and cash equivalents at end of year		2,112,828	3,139,455
Non-cash investing activities	15(a)	-	7,063

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2020

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

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

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

The Bank is a licensed Islamic bank under the Islamic Financial Services Act 2013, incorporated and domiciled in Malaysia. The registered office of the Bank is located at 27th Floor, Menara Public Bank, 146, Jalan Ampang, 50450 Kuala Lumpur.

The holding as well as the ultimate holding company of the Bank is Public Bank Berhad, a licensed bank incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad.

The financial statements were approved and authorised for issue by the Board of Directors on 25 February 2021.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The accounting policies adopted by the Bank are consistent with those adopted in the previous years except for the adoption of the following:

(i) (a) Amendments to Malaysian Financial Reporting Standards ("MFRSs") that were Adopted or Early Adopted by the Bank

The Bank has adopted the following in the current financial year:

<u>Effective for annual periods commencing on or after 1 January 2020</u>
- Interest Rate Benchmark Reform (Amendments to MFRS 9, MFRS 139 and MFRS 7)
- Definition of a Business (Amendments to MFRS 3 Business Combinations)
- Definition of Material (Amendments to MFRS 101 Presentation of Financial Statements and MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors)

<u>Effective for annual periods commencing on or after 1 June 2020</u>
- COVID-19-Related Rent Concessions (Amendment to MFRS 16 Leases)

The main effects of the adoption of Amendments to MFRSs above are summarised below:

Interest Rate Benchmark Reform (Amendments to MFRS 9, MFRS 139 and MFRS 7) - These phase 1 amendments provide relief on existing hedge accounting requirements from potential effects of the uncertainty caused by inter-bank offer rates. Companies would continue to apply those hedge accounting requirements assuming that the interest rate benchmark associated with the hedged item, hedged risk and/or hedging instruments are based is not altered as a result of the interest rate benchmark reform. In addition, companies are not required to apply the retrospective assessment under MFRS 139, but continue to apply hedge accounting to a hedging relationship for which effectiveness is outside of the 80% - 125% range during the period of uncertainty arising from the reform. The adoption of these amendments did not have any financial impact to the Bank.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(i) (a) Amendments to MFRSs that were Adopted or Early Adopted by the Bank (continued)

The main effects of the adoption of Amendments to MFRSs above are summarised below (continued):

Definition of a Business (Amendments to MFRS 3 Business Combinations) - The amendments clarify the definition of a business with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The distinction is important because an acquirer does not recognise goodwill in an asset acquisition.

The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments also add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The adoption of these amendments did not have any financial impact to the Bank.

Definition of Material (Amendments to MFRS 101 Presentation of Financial Statements and MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors) - The amendments refine the definition by including ‘obscuring information’ in the definition of material to respond to concerns that the effect of including immaterial information should not reduce the understandability of a company’s financial statements. The prior definition focuses only on information that cannot be omitted (material information) and does not also consider the effect of including immaterial information.

Other refinements to the definition include incorporating some existing wording in MFRS 101 and the Conceptual Framework for Financial Reporting. Consequently, the amendments align the definition of material across MFRS Standards and other publications.

The adoption of these amendments did not have any financial impact to the Bank.

COVID-19-Related Rent Concessions (Amendment to MFRS 16 Leases) - The amendment allows lessees not to account for rent concessions as lease modifications if they are a direct consequence of COVID-19 and meet certain conditions. It applies to rent concessions that reduce the lease payments due on or before 30 June 2021. The adoption of this amendment did not have any financial impact to the Bank as the Bank has not received any COVID-19-related rent concession for its property leases during the current financial year.

(i) (b) Capital Adequacy Framework for Islamic Banks (Capital Components)

The Capital Adequacy Framework for Islamic Banks (Capital Components) ("Framework") was reissued by Bank Negara Malaysia ("BNM") on 9 December 2020 with the updates on the transitional arrangements for regulatory capital treatment of accounting provisions. The transitional arrangements were introduced as part of the BNM's additional measures to further support efforts to help affected individuals and businesses to recover from the impact of the COVID-19 pandemic while continuing to preserve the safety and soundness of the banks.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(i) (b) Capital Adequacy Framework for Islamic Banks (Capital Components) (continued)

Under these requirements, financial institutions that elect to apply the said transitional arrangements are allowed to add back a portion of Stage 1 and Stage 2 provisions for expected credit losses to Common Equity Tier I capital over a four-year period from financial year beginning 2020, or a three-year period from financial year beginning 2021, based on the add-back factor prescribed in the Framework.

As at the reporting date, the Bank has not applied the said transitional arrangements provided in the Framework.

(c) Additional Measures to Assist Customers Affected by the COVID-19 Pandemic

As indicated in BNM's letters dated 24 March 2020 and 24 July 2020, additional measures were introduced to assist customers experiencing temporary financial constraints due to the COVID-19 pandemic. The key measures affecting regulatory and accounting treatment and classifications are as follows:

i) Moratorium on repayment/payment of financing

a) Banking institutions are to grant an automatic moratorium on all financing repayments/payments, principal and profit (except for credit card balances) by individuals and small and medium enterprise ("SME") customers for a period of 6 months from 1 April 2020. The automatic moratorium is applicable to financing that are:
- not in arrears exceeding 90 days as at 1 April 2020; and
- denominated in Malaysian Ringgit.

b) For credit card balances, banking institutions shall offer customers the option to convert their credit card balances into a term financing.

c) For corporate customers, banking institutions are strongly encouraged to facilitate requests for a moratorium on financing repayment/payment, additional financing to support immediate cash flows and the rescheduling and restructuring ("R&R") of existing facilities in a way that will enable viable corporations to preserve jobs and swiftly resume economic activities when conditions stabilise and improve.

ii) Definition of defaulted exposures under the policy document on Capital Adequacy Framework for Islamic Banks

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(i) (c) Additional Measures to Assist Customers Affected by the COVID-19 Pandemic (continued)

ii) Definition of defaulted exposures under the policy document on Capital Adequacy Framework for Islamic Banks (continued)

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

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

<u>Regulatory Capital Treatment</u>

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

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

b) The application for repayment assistance by a customer is received on or before 30 June 2021.

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

iii) Classification in the Central Credit Reference Information System ("CCRIS")

For rescheduled and restructured individual, SME and corporate financing with arrears not exceeding 90 days as at the date of application for repayment assistance and where application for repayment assistance is received on or before 30 June 2021, including a financing that is rescheduled and restructured more than once, the following classification treatment in CCRIS shall apply:

a) The financing need not be reported as R&R in CCRIS; and

b) The financing need not be reported as credit-impaired in CCRIS.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(i) (c) Additional Measures to Assist Customers Affected by the COVID-19 Pandemic (continued)

iv) Drawdown of prudential buffers

Banking institutions are allowed with immediate effect to:

a) Drawdown the capital conservation buffer of 2.5%;

b) Operate below the minimum Liquidity Coverage Ratio ("LCR") of 100%;

c) Reduce the regulatory reserves held against expected losses to 0%; and

d) Minimum Net Stable Funding Ratio ("NSFR") which was effective on 1 July 2020 is lowered to 80% from 100%.

However, banking institutions are required to rebuild the said buffers after 31 December 2020 and restore them to the minimum regulatory requirements by 30 September 2021. BNM will review this timeline if current expectations change materially. As at the reporting date, the Bank has not drawn down any of the prudential buffers.

<u>MFRS 9 Financial Instruments and financial reporting requirements</u>

Whilst MFRS 9 requires the consideration of all reasonable and supportable information, including forward looking information, in the measurement of expected credit losses, given the unprecedented circumstances and sudden onset of the COVID-19 pandemic, there is limited supportable information available at this juncture to forecast the full impact of the COVID-19 pandemic. While the credit model and assumptions applied in the base expected credit losses (“ECL”) calculations remain unchanged from prior years, the Bank has incorporated the following estimates and judgments specific to the impact of the COVID-19 pandemic and the associated relief measures in the measurement of ECL:

i) Forward looking macro-economic information and assumptions

The global and domestic economy have experienced significant shock in 2020, weighed by unprecedented containment measures taken, such as Movement Control Order, business closures and social distancing, to contain the COVID-19 pandemic. In particular, the domestic economic impact was mitigated by the government’s stimulus packages such as the Economic Stimulus Package, PRIHATIN package and National Economic Recovery Plan. Hence, the economic growth and economic activities are expected to improve, in tandem with expectations of global recovery ahead, although the outlook is still subjected to some downside risks.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(i) (c) Additional Measures to Assist Customers Affected by the COVID-19 Pandemic (continued)

MFRS 9 Financial Instruments and financial reporting requirements (continued)

i) Forward looking macro-economic information and assumptions (continued)

The economic outlook from BNM and various research houses, forward looking information and assumptions relating to COVID-19 pandemic have been considered in the Bank's forward looking model. The following are values of the key domestic macro-economic variables and forward looking macro-economic variables for year 2020 and 2021 respectively which are used in the model (Note 28):

	2020	**2021**
	%	**%**
Gross domestic product	-4.5	5.0 - 6.0
Consumer price index	-0.5	1.0 - 1.5
Housing price index	199	186 - 223
Unemployment rate	5.3	2.9 - 3.5

The Bank will continue to review and monitor closely the abovementioned assumptions if current expectations change materially.

ii) Assessment of significant increase in credit risk for stage transfer purposes

The economic shock from the pandemic is expected to be temporary in nature and the positive impact of the significant government stimulus shall mitigate the effects of the COVID-19 pandemic. The Bank takes cognisance that relief assistance available, i.e. automatic moratorium as well as rescheduling and restructuring for eligible customers, during this period are granted as part of an unprecedented government effort to support the economy amid the COVID-19 pandemic, rather than in response to the financial circumstances of individual customers. This is because eligibility criteria is broad and customers need not have exhibited any changes in ability to meet its debt obligations in order to access the relief. Hence, in the absence of other factors relevant to the assessment of whether there has been a significant increase in credit risk, the relief assistance provided do not automatically result in migration from Stage 1 (12-month ECL) to Stage 2 (lifetime ECL).

The Bank assesses other factors such as historical repayment and delinquency trends prior to the COVID-19 pandemic in considering whether the customer has experienced a significant increase in credit risk.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(i) (c) Additional Measures to Assist Customers Affected by the COVID-19 Pandemic (continued)

Management overlay for financing under relief assistance (Note 28)

Due to the significant uncertainty as a consequence of the COVID-19 pandemic, management overlay is provided in anticipation of potential deterioration of credit risk for financing where relief assistance is provided. The Bank exercised judgment, adapted and estimated based on the information on-hand in the provision of management overlay.

i) Large corporate customers

Management overlay is provided for certain large corporate customers who are affected by the current economic environment and have applied for rescheduling and restructuring arrangements.

ii) Retail and SME customers

Customers who are eligible for the targeted repayment assistance were identified and assessed. Based on the data available, management overlay is provided to cater for potential deterioration in credit risk of this group of customers.

Financial impact of the moratorium on repayment/payment of financing

As a result of moratorium on repayment/payment granted on certain financing to individuals/SMEs, the Bank has recognised a loss arising from the modification of cash flows of the financing. This loss is set-off against the fair value gain on Government financing schemes received as part of the COVID-19 relief measures. The net modification loss will be unwound through the profit or loss over the remaining tenure of the financing and financing schemes. The day 1 net modification loss is reflected in the profit income of the Bank which is disclosed in Note 27(a)(i).

(ii) MFRS and Amendments to MFRSs that have been Issued but are Not Yet Effective to the Bank

The following MFRS and Amendments to MFRSs have been issued by Malaysian Accounting Standards Board ("MASB") but are not yet effective to the Bank:

Effective for annual periods commencing on or after 1 January 2021

- Interest Rate Benchmark Reform - Phase 2 (Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16)

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(ii) MFRS and Amendments to MFRSs that have been Issued but are Not Yet Effective to the Bank (continued)

The following MFRS and Amendments to MFRSs have been issued by MASB but are not yet effective to the Bank (continued):

Effective for annual periods commencing on or after 1 January 2022

- Amendments to MFRSs contained in the document entitled "Annual Improvements to MFRS Standards 2018-2020"
- Reference to the Conceptual Framework (Amendments to MFRS 3 Business Combinations)
- Property, Plant and Equipment - Proceeds before Intended Use (Amendments to MFRS 116 Property, Plant and Equipment)
- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to MFRS 137 Provisions, Contingent Liabilities and Contingent Assets)

Effective for annual periods commencing on or after 1 January 2023

- MFRS 17 Insurance Contracts
- Amendments to MFRS 17 Insurance Contracts
- Extension of the Temporary Exemption from Applying MFRS 9 (Amendments to MFRS 4 Insurance Contracts)
- Classification of Liabilities as Current or Non-current (Amendments to MFRS 101 Presentation of Financial Statements)

Interest Rate Benchmark Reform - Phase 2 (Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16) - Amendments were made on some specific requirements of those standards with respect to issues affecting financial reporting during the reform of an interest rate benchmark. The amendments provide a practical expedient whereby a company would not derecognise or adjust the carrying amount of financial instruments for modifications required by interest rate benchmark reform, but would instead update the effective interest rate to reflect the change in the interest rate benchmark. On hedging relationship, entities would be required to amend the formal designation of a hedging relationship to reflect the modifications and/or changes made to the hedged item and/or hedging instruments as a result of the reform. However, the modification does not constitute discontinuation of the hedging relationship nor the designation of a new hedging relationship.

Amendments to MFRSs contained in the document entitled "Annual Improvements to MFRS Standards 2018-2020" - The Annual Improvements cover the following amendments that are applicable to the Bank:

a) **MFRS 9 Financial Instruments** - It clarifies the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

b) **Illustrative Examples accompanying MFRS 16 Leases** - It deletes from the Illustrative Example 13 the reimbursement relating to leasehold improvements in order to remove any potential confusion regarding the treatment of lease incentives.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(ii) MFRS and Amendments to MFRSs that have been Issued but are Not Yet Effective to the Bank (continued)

The following MFRS and Amendments to MFRSs have been issued by MASB but are not yet effective to the Bank (continued):

Reference to the Conceptual Framework (Amendments to MFRS 3 Business Combinations) - The amendments update MFRS 3 by replacing a reference to an old version of the Conceptual Framework for Financial Reporting with a reference to the latest version which was issued by MASB in April 2018.

Property, Plant and Equipment - Proceeds before Intended Use (Amendments to MFRS 116 Property, Plant and Equipment) - The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company shall recognise such sales proceeds and related cost in profit or loss.

Onerous Contracts - Cost of Fulfilling a Contract (Amendments to MFRS 137 Provisions, Contingent Liabilities and Contingent Assets) - The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

MFRS 17 Insurance Contracts - MFRS 17 introduces consistent accounting for all insurance contracts based on a current measurement model. Under MFRS 17, the general model requires entities to recognise and measure a group of insurance contracts at: (i) a risk-adjusted present value of future cash flows that incorporates information that is consistent with observable market information; plus (ii) an amount representing the unearned profit in the group of contracts.

Amendments to MFRS 17 Insurance Contracts - The amendments are designed to minimise the risk of disruption to implementation already underway and do not change the fundamental principles of the standard or reduce the usefulness of information for investors. In addition, the amendments also defer the effective date of MFRS 17 by two years to annual reporting periods beginning on or after 1 January 2023.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(ii) MFRS and Amendments to MFRSs that have been Issued but are Not Yet Effective to the Bank (continued)

The following MFRS and Amendments to MFRSs have been issued by MASB but are not yet effective to the Bank (continued):

Extension of the Temporary Exemption from Applying MFRS 9 (Amendments to MFRS 4 Insurance Contracts) - The amendments extend the expiry date for the temporary exemption from applying MFRS 9 Financial Instruments by two years to annual periods beginning on or after 1 January 2023, to be aligned with the effective date of MFRS 17, which replaces MFRS 4.

Classification of Liabilities as Current or Non-current (Amendments to MFRS 101 Presentation of Financial Statements) - The amendments provide clarification on the requirements for classifying liabilities as current or non-current, and specifically on the following:

- The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists.
- Management expectations about events after the balance sheet date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant.
- The amendments clarify the situations that are considered settlement of a liability.

In response to COVID-19 pandemic, the effective date for MFRS 101 amendments is now deferred by one year to annual reporting periods beginning on or after 1 January 2023.

The adoption of MFRS 17 Insurance Contracts and Amendments to MFRS 17 will not have any financial impact on the financial statements of the Bank as it is not applicable to the Bank.

The adoption of other amendments to MFRSs is not expected to have any financial impact on the financial statements of the Bank.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies

(a) Basis of Accounting

The financial statements of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The financial statements of the Bank have been prepared on a historical cost basis unless otherwise indicated in the notes to the financial statements.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000), unless otherwise stated.

In the preparation of the financial statements, management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation, uncertainty and critical judgments used in applying accounting policies that have significant effect in determining the amounts recognised in the financial statements include the following:

(i) *Fair value estimation of financial instruments (Note 41)* - For financial instruments measured at fair value, where the fair values cannot be derived from active markets, these fair values are determined using a variety of valuation techniques, including the use of mathematical models. Whilst the Bank generally uses widely recognised valuation models with market observable inputs, judgment is required where market observable data are not available. Such judgment normally incorporate assumptions that other market participants would use in their valuations, including assumptions about profit rate yield curves, exchange rates, volatilities and prepayment and default rates.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(a) Basis of Accounting (continued)

Significant areas of estimation, uncertainty and critical judgments used in applying accounting policies that have significant effect in determining the amounts recognised in the financial statements include the following (continued):

(ii) *Impairment losses on financing and advances (Note 2(i)(c), 8, 28)* - The measurement of impairment losses on financing and advances requires judgment. In particular, the estimation of the amount and timing of future cash flows, the assessment of a significant increase in credit risk and incorporation of forward-looking information in the measurement of impairment losses. These estimates are driven by a number of factors, changes in which can result in different levels of impairment losses.

The impairment losses computed based on the expected credit losses ("ECL") models are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. A number of significant judgments 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 financing for purposes of measuring impairment losses on a collective basis, determining the number of economic inputs (e.g. gross domestic product growth rates, consumer price index, housing price index, etc.) as well as the effects on default rates and recovery rates, and selecting forward-looking macroeconomic scenarios and determining its probability-weightings.

For credit-impaired financing and advances which are individually assessed, judgment by management is required in the estimation of the amount and timing of future cash flows in the determination of impairment losses. In estimating these cash flows, judgments are made about the realisable value of collateral pledged and the customer's financial position. These estimations are based on assumptions and the actual results may differ, hence resulting in changes to impairment losses recognised.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(a) Basis of Accounting (continued)

Significant areas of estimation, uncertainty and critical judgments used in applying accounting policies that have significant effect in determining the amounts recognised in the financial statements include the following (continued):

(iii) *Income taxes (Note 34)* - Significant management judgment is required in estimating the provision for income taxes, as there may be differing interpretations of tax law for which the final outcome will not be established until a later date. Liabilities for taxation are recognised based on estimates of whether taxes will be payable. The estimation process may involve seeking the advice of experts, where appropriate. Where the final liability for taxation assessed by the tax authority is different from the amounts that were initially recorded, these differences will affect the income tax expense and deferred tax provisions in the period in which the estimate is revised or when the final tax liability is established.

(iv) *Deferred tax assets (Note 12)* - Deferred tax assets are recognised for all unutilised tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised. Management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

(v) *Defined Benefit Plan (Note 10)* - The defined benefit obligation is determined based on an actuarial valuation. The actuarial valuation involves making assumptions regarding the discount rate, future salary increases and attrition rates. Due to the long term nature of the defined benefit plan, such estimates are subject to significant uncertainty. The amount of defined benefit asset recognised in the statement of financial position is limited to the present value of economic benefits in the form of refunds or reductions in future contributions to the fund. The levels of future contributions to the plan which are used to assess this limit is subject to some uncertainties due to other assumptions made regarding fund membership levels and future salary increases.

(vi) *Leases (Note 15*) - The measurement of leases requires management to make certain judgments and estimations. Critical judgments required include establishing whether or not it is reasonably certain that an extension option will be exercised or termination option will not be exercised, estimating the future lease payments and calculating the appropriate discount rate to use.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(b) Foreign Currency

(i) Functional and Presentation Currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates, i.e. the functional currency. The financial statements of the Bank are presented in RM, which is also the Bank's functional currency.

(ii) Foreign Currency Transactions and Balances

In preparing the financial statements of the Bank, transactions in currencies other than the functional currency, i.e. foreign currencies, are translated into the functional currency at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the closing exchange rates ruling at the reporting date. Exchange differences arising on the settlement of monetary items or on translating monetary items at reporting date are recognised in profit or loss. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate prevailing at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated at exchange rates at the date when the fair value is determined. Any exchange component of a gain or loss on a non-monetary item is recognised directly in other comprehensive income if the gain or loss on the fair value of the non-monetary item is recognised directly in other comprehensive income. Any exchange component of a gain or loss on a non-monetary item is recognised directly in profit or loss if the gain or loss on the fair value of the non-monetary item is recognised in profit or loss.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and bank balances with banks and other financial institutions, and short-term deposits with original maturity of less than three (3) months.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(d) Financial Assets and Liabilities

(i) Initial Recognition

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

Regular way purchases and sales of financial assets are recognised using settlement date accounting. The method used is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets.

(ii) Classification and Subsequent Measurement

(a) Financial Assets

The Bank classifies financial assets in the following measurement categories - amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective. Classification and subsequent measurement of debt instruments depend on the Bank’s business model for managing the asset and the cash flow characteristics of the asset. Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(d) Financial Assets and Liabilities (continued)

(ii) Classification and Subsequent Measurement (continued)

(a) Financial Assets (continued)

Amortised cost
Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit ("SPPP"), and that are not designated at FVTPL, are measured at amortised cost using the effective profit method. Financial assets classified in this category include cash and balances with banks and financing and advances. Financing and advances consist of Bai' Bithaman Ajil, Ijarah Thumma Al-Bai', Bai' Inah, Musharakah Mutanaqisah, Murabahah, Commodity Murabahah and Ujrah contracts. The carrying amount of these assets is adjusted by impairment losses recognised and measured using the expected credit loss models described in Note 2(iii)(f)(ii). Finance income on financial assets measured at amortised cost is recognised in "Finance income and Hibah" in the statement of profit or loss. The losses arising from impairment on financing and advances are recognised in the statement of profit or loss as "Allowance for impairment on financing and advances". The losses arising from impairment on financial assets other than financing and advances are recognised in the statement of profit or loss as "Allowance for impairment on other assets".

FVOCI
Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPP, 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 as described in Note 2(iii)(f)(ii), finance income and foreign exchange gains or losses on the financial assets' amortised cost which are recognised in profit or loss. Finance income earned whilst holding the assets are reported as "Finance income and Hibah" using the effective profit method. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss and recognised in "Net gains and losses on financial instruments".

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(d) Financial Assets and Liabilities (continued)

(ii) Classification and Subsequent Measurement (continued)

(a) Financial Assets (continued)

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 and presented in "Net gains and losses on financial instruments". Finance income earned whilst holding the assets are reported as "Finance income and Hibah" using the effective profit method.

Business model assessment for debt instruments

The Bank makes 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 include policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual finance income, maintaining a particular rate of return 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. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(d) Financial Assets and Liabilities (continued)

(ii) Classification and Subsequent Measurement (continued)

(a) Financial Assets (continued)

Assessment whether contractual cash flows of debt instruments are solely payments of principal and profit (the SPPP 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 Bank assesses whether the financial assets' contractual cash flows represent solely payment of principal and profit. In applying the SPPP test, the Bank considers whether the contractual cash flows are consistent with a basic financing arrangement, i.e. profit includes only consideration for time value of money, credit risk, other basic financing risks and a profit margin that is consistent with a basic financing arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic financing 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 profit.

Reclassification of debt instruments
The Bank reclassifies debt instruments when and only when its business model for managing those assets changes. The Bank does not change the classification of the remaining financial assets held in that business model, but consider the circumstances leading to the model change when assessing newly originated or newly purchased financial assets going forward.

(b) Derecognition other than a modification of financing

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership, but has transferred control of the assets.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(d) Financial Assets and Liabilities (continued)

(ii) Classification and Subsequent Measurement (continued)

(c) Financial Liabilities

The Bank classifies its financial liabilities in the following measurement categories - amortised cost or FVTPL. Financial liabilities are classified and subsequently measured at amortised cost, except for:

(i) financial liabilities at FVTPL; and
(ii) financial guarantee contracts and financing commitments.

Amortised cost

Financial liabilities issued by the Bank are classified as financial liabilities at amortised cost, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Non-derivative financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial liabilities are measured at amortised cost using the effective profit method. 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 effective profit rate. Financial liabilities measured at amortised cost include deposits from customers, deposits from banks, lease liabilities and Sukuk Murabahah issued. Deposits from customers and deposits from banks consist of Qard, Murabahah and Tawarruq contracts.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(d) Financial Assets and Liabilities (continued)

(ii) Classification and Subsequent Measurement (continued)

(c) Financial Liabilities (continued)

FVTPL

The classification and measurement of financial liabilities at FVTPL is applied to derivative financial instruments as described in Note 2(iii)(e). The Bank does not have any non-derivative financial liabilities designated at FVTPL.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

(iii) Determination of Fair Value

All financial instruments are recognised initially at fair value. At initial recognition, the fair value of a financial instrument is generally the transaction price, i.e. the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of financial instruments measured at fair value are measured in accordance with the valuation methodologies as set out in Note 41.

(iv) Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and to settle the liability simultaneously. This is not generally the case for financial instruments with master netting agreements and therefore, the related assets and liabilities are presented on a gross basis in the statement of financial position.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(e) Derivative Financial Instruments and Hedge Accounting

The Bank had elected an accounting policy choice under MFRS 9 Financial Instruments to continue to apply the hedge accounting requirements under MFRS 139 Financial Instruments: Recognition and Measurement.

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value. Derivatives are classified as financial assets when their fair values are positive and as financial liabilities when their fair values are negative.

Derivatives which are not designated in an effective hedge transaction are classified as FVTPL, with changes in fair value recognised in "Net gains and losses on financial instruments" in the statement of profit or loss. For derivative transactions which meet the specific criteria for hedge accounting, the Bank applies either fair value or cash flow hedge accounting.

At inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instruments, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedge relationship. Hedges are expected to be highly effective in offsetting the designated risk in the hedged item, and are assessed at inception of the hedge relationship and on an ongoing basis to ensure that they remain highly effective throughout the hedge period. A hedge is deemed as highly effective if the cumulative changes in the fair value or cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the period for which the hedge is designated.

The Bank will discontinue hedge accounting if the hedging instrument expires, is sold, terminated or exercised or if the hedge no longer meets the criteria for hedge accounting or is revoked.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(e) Derivative Financial Instruments and Hedge Accounting (continued)

(i) Cash Flow Hedge

Cash flow hedges are hedges of the exposure to variability in future cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in other comprehensive income are recycled to profit or loss in the periods when the hedged forecast cash flows affect the profit or loss. If the hedged forecast transaction results in the recognition of a non-financial asset or liability, the gain or loss previously recognised in other comprehensive income is adjusted to the initial cost of the asset or liability.

When a hedging instrument expires or is sold, terminated, exercised or where the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss as hedge ineffectiveness.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(f) Impairment of Financial Assets

(i) Definition of Credit-impaired and Default

At each reporting date, the Bank assesses whether financial assets are impaired. In general, a financial asset is impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Financing and advances ("Financing") of the Bank are classified as credit-impaired when they fulfil any of the following criteria:

(1) principal or profit or both are past due for ninety (90) days or more; or
(2) outstanding amount is in excess of approved limit for ninety (90) days or more in the case of revolving facilities; or
(3) where a financing is in arrears or the outstanding amount has been in excess of the approved limit for less than ninety (90) days, the financing exhibits indications of significant credit weaknesses; or
(4) where a credit-impaired financing is rescheduled and restructured ("R&R"), the financing will remain as credit-impaired until repayments based on the revised and/or restructured terms have been continuously paid for a period of at least six (6) months and the account is less than ninety (90) days past due upon compliance of the required nursing period; or
(5) for repayments scheduled on intervals of ninety (90) days or more including bullet repayment, as soon as default occurs.

In making an assessment whether an investment in debt or sovereign debt is impaired, the Bank considers factors such as, but not limited to, market’s assessment of creditworthiness as reflected in the bond yields, rating agencies’ assessment of creditworthiness and country’s ability to access the capital markets for new debt issuance.

As part of the assessment of impairment for financial assets under the expected credit loss model, the default definition has been applied to model Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD"). The definition of default largely aligns with the definition of impaired for regulatory reporting purposes except for immaterial exposures which are not considered defaulted as such defaults are not attributed to the credit risk of the exposures and certain exposures which are considered defaulted based on qualitative assessment.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(f) Impairment of Financial Assets (continued)

(ii) Measurement of Impairment - Expected Credit Losses

The Bank assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from financing commitments and financial guarantee contracts. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable as well as supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. The Bank first assesses whether objective evidence of impairment exists for financial assets which are individually significant. If the Bank determines that objective evidence of impairment exists, i.e. credit-impaired, for an individually assessed financial asset, a lifetime ECL will be recognised for impairment loss which has been incurred. Financial assets which are collectively assessed are grouped on the basis of similar credit risk characteristics such as instrument type, credit risk ratings, credit utilisation, level of collateralisation, collateral type, remaining term to maturity and other relevant factors. Collectively, the individual assessment allowance and collective assessment allowance form the total allowance for impairment on financing and advances.

Allowance for impairment will be made based on the following three-stage approach which reflects the change in credit quality of the financial instrument since initial recognition:

(i) 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.

(ii) 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(f) Impairment of Financial Assets (continued)

(ii) Measurement of Impairment - Expected Credit Losses (continued)

(iii) 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.

Significant increase in credit risk
At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition to determine whether the exposure is subject to 12-month ECL or lifetime ECL. This is performed by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. When determining whether the risk of default has increased significantly since initial recognition, the Bank considers both quantitative and qualitative information and analysis based on the Bank's historical experience and expert credit risk assessment, including forward-looking information.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative factors such as delinquency, historical delinquency trend, changes in credit ratings and qualitative factors as well as a backstop based on delinquency. For retail portfolio, a combination of delinquency, historical delinquency trend and qualitative factors are used to determine significant increase in credit risk. For non-retail portfolio, internally derived credit ratings have been identified as representing the best available determinant of credit risk whilst for debt securities, external ratings attributed by external agencies are used. The Bank assigns each counterparty, debt securities and financial instrument, credit rating at initial recognition based on available information about the counterparty, debt securities and financial instrument. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date relative to the credit rating at the date of initial recognition. Nevertheless, regardless of the change in credit rating, a backstop is applied and a financial asset is considered to have experienced a significant increase in credit risk if the financial asset is more than 30 days past due on its contractual payments. In addition, the Bank may determine that an exposure has demonstrated a significant increase in credit risk based on certain qualitative factors using its expert credit judgment and, where possible, relevant historical experience that are considered to be indicative of such increase and whose effect may not otherwise be fully reflected in its quantitative factors.

The Bank has not used the low credit risk exemption for any financial assets in the financial year ended 31 December 2020.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(f) Impairment of Financial Assets (continued)

(ii) Measurement of Impairment - Expected Credit Losses (continued)

Measurement of ECL

ECL are measured using three components, i.e. a PD, a LGD and an EAD. These parameters are derived from internally developed statistical models and adjusted to reflect forward-looking information as described below.

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 profit 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 profit rate or an approximation thereof.

Forward looking information

The Bank has 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 (reflected via a scalar) between the MEVs and PD as well as LGD, taking into account the projections of MEVs.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(f) Impairment of Financial Assets (continued)

(ii) Measurement of Impairment - Expected Credit Losses (continued)

Forward looking information (continued)
The MEVs taken into consideration include, but are not limited to, gross domestic product growth rates, consumer price index as well as housing price index, and require an evaluation of both the current and forecast of the economic environment. The projections of the MEVs are made based on a most-likely outcome (the "base economic scenario") and a more favourable ("upside") as well as a more unfavourable outcome ("downside") as compared to the base economic scenario. The base economic scenario represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as budgeting. The projections based on the respective economic scenarios are approved by Public Bank's Assets and Liabilities Management Committee and are provided once a year. However, the projections will be reviewed and updated if economic conditions have changed significantly. Scenario weightings for each economic scenario are also determined via a statistical analysis with reference to external forecasts. The scenario weightings will be used to derive a single probability-weighted scalar for each portfolio which will be used to adjust for the PD and LGD of the respective portfolio.

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 financing commitments and financial guarantee contracts, the loss allowance is recognised as allowance for impairment on financing commitments and financial guarantees which is reported under “Other liabilities” in the statement of financial position.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(f) Impairment of Financial Assets (continued)

(iii) Write-off

Where a financing is uncollectible, it is written off against the related allowance for financing impairment. Such financing are written off after the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off are recognised in profit or loss.

(iv) Modification of Financing

Where a financing shows evidence of significant credit weaknesses, the Bank sometimes renegotiates or otherwise modifies the contractual cash flows of the financing rather than takes possession of the collateral. When this happens, the Bank assesses whether the new terms are substantially different from the original terms. The Bank considers, among others, the following factors:

(a) If the customer is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the customer is expected to be able to pay;
(b) Whether any substantial new terms are introduced that substantially affects the risk profile of the financing;
(c) Significant extension of the financing term;
(d) Significant change in the profit rate; and
(e) Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the financing.

The Bank derecognises a financing when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new financing and recalculates a new effective profit rate for the financing. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financing recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the customer being unable to make the originally agreed payments.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition and impairment continues to be assessed for significant increase in credit risk compared to the credit risk at initial origination.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(g) Collective Investment

Collective investment is an investment in unit trust fund which the Bank is deemed to have control, and hence consolidates the financial results of the fund. When assessing whether to consolidate the fund, the Bank considers all facts and circumstances to determine whether the Bank:

- has power over the funds by way of voting rights through the units held;
- is exposed, or has rights to variable returns from the involvement with the funds; and
- has the ability to affect those returns through its power over the funds.

In the Bank's financial statements, collective investment is stated at cost less impairment losses, if any. On disposal of such investment, the difference between the net disposal proceeds and the net carrying value of the investment is recognised in profit or loss.

The results of the collective investment has not been equity accounted as consolidated financial statements are not prepared by the Bank. Details of the collective investment and the effect on the profit or loss and collective investment had the equity method been applied are disclosed in Note 13.

(h) Associated Company

Associated company 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 associated company but not control or joint control of those policies.

In the Bank's financial statements, the investment in an associated company is stated at cost less impairment losses, if any, determined on an individual basis. On disposal of such investment, the difference between the net disposal proceeds and the carrying amount of the investment is recognised in profit or loss.

The results of the associated company has not been equity accounted as consolidated financial statements are not prepared by the Bank as permitted by Paragraph 17 of MFRS 128 Investments in Associates and Joint Ventures (as amended by IASB in January 2015). Details of the associated company and the effect on the profit or loss and investment in the associated company had the equity method been applied are disclosed in Note 14.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(i) Leases

(i) Recognition of Leases as a Lessee

For any new contracts entered, the Bank considers whether a contract is, or contains a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Bank assesses whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;

- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract;

- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

(ii) Measurement of Leases as a Lessee

At lease commencement date, the Bank recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset or to restore the asset or the site on which it is located at the end of the lease, and any lease payments made in advance of the lease commencement date, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses and adjusted for certain remeasurements of the lease liability, if any.

The lease liability is measured at amortised cost using effective profit method, and is initially measured at the present value of the lease payments unpaid at the commencement date, discounted using the incremental borrowing rate of the Bank.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(i) Leases (continued)

(ii) Measurement of Leases as a Lessee (continued)

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) and payments arising from options reasonably certain to be exercised.

The Bank excludes variable lease payments that linked to future performance or usage of the underlying asset from the lease liability. Instead, these payments are recognised in profit or loss in the period in which the performance or use occurs.

Subsequent to initial measurement, the lease liability will be reduced for payments made and increased for profit accrued. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured in this way, 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 Bank presents right-of-use assets that do not meet the definition of investment property and lease liabilities separately in the statement of financial position.

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases with lease term of less than twelve (12) months and leases of low value assets. The lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(j) Property and Equipment and Depreciation

All items of property and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of replaced parts are derecognised. All other repairs and maintenance costs are charged to profit or loss when they are incurred.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent to initial recognition, property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(iii)(l).

Depreciation of property and equipment is provided on a straight-line basis calculated to write off the cost of each asset to its residual value over the term of its estimated useful lives at the following principal annual rates:

Renovations	16.7%
Office equipment, furniture and fittings	7.5% -15.0%
Computer equipment and software	20.0% - 33.3%
Motor vehicles	20.0%

The residual values, useful lives and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(k) Foreclosed Properties

Foreclosed properties are those acquired in full or partial satisfaction of financing and are stated at the lower of cost and fair value.

(l) Impairment of Non-Financial Assets

Non-financial assets such as property and equipment, right-of-use assets, collective investment, investment in an associated company and foreclosed properties, are assessed for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where such indications exist, the carrying amount of the asset is written down to its recoverable amount, which is the higher of the fair value less costs to sell and the value-in-use.

The impairment loss is recognised in profit or loss, and is reversed only if there is a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying value that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised for the asset in prior years.

(m) Bills and Acceptances Payable

Bills and acceptances payable represent the Bank's bills and acceptances outstanding in the market.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(n) Provisions

A provision is recognised when there is a present legal or constructive obligation where as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation and the amount can be reliably estimated.

Provisions are reviewed at each reporting date and if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Where 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.

(o) Debt Securities Issued

Debt securities issued are classified as financial liabilities or equity in accordance with the substance of the contractual terms of the instruments. The Bank's debt securities issued consist of Subordinated Sukuk Murabahah and Senior Sukuk Murabahah. These debt securities are classified as liabilities in the statement of financial position as there is a contractual obligation by the Bank to make cash payments of either principal or profit or both to holders of the debt securities and that the Bank is contractually obliged to settle the debt securities in cash or another financial instrument.

Subsequent to initial recognition, debt securities issued are recognised at amortised cost.

(p) Share Capital

Ordinary shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Costs directly attributable to the issuance of new equity shares are taken to equity as a deduction from the proceeds.

(q) Contingent Liabilities and Contingent Assets

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities, unless the probability of outflow of economic benefits is remote.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(q) Contingent Liabilities and Contingent Assets (continued)

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

(r) Financing Income and Expense

For all financial instruments measured at amortised cost and profit-bearing financial assets classified as FVTPL and FVOCI, financing income and expense are recognised under "Finance income and Hibah" and "Income attributable to depositors and others" respectively in the statement of profit or loss using the effective profit method.

The effective profit method is a method of calculating the amortised cost of a financial asset or liability and of allocating the financing income or expense over the relevant period. The effective profit rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. Significant fees and transaction costs integral to the effective profit rate, as well as premiums or discounts are also considered.

For credit-impaired financial assets where the value of the financial asset has been written down as a result of an impairment loss, financing income continues to be recognised using the profit rate used to discount the future cash flows for the purpose of measuring the impairment loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(r) Financing Income and Expense (continued)

The policy for recognition of financing income and expense for the Bank's Shariah contracts are as follows:

(i) Bai' Bithaman Ajil

This contract involves the purchase and sale of an asset by the Bank to the customer on a deferred payment basis either be paid in lump sum or instalment basis within an agreed period of time at a price which includes a profit margin agreed by both parties. Financing income is recognised on effective profit rate basis over the period of the contract based on the principal amount outstanding.

The Bank's Retail Negotiable Islamic Debt Certificate ("R-NIDC") is also based on the Bai' Bithaman Ajil contract which involves sale with deferred payment basis at a price which includes a profit margin agreed by the Bank and customer. Profit attributable to R-NIDC depositors is based on the fixed profit rate which is quoted on the placement date and is recognised as an expense in profit or loss as incurred.

(ii) Ijarah Thumma Al-Bai'

Contract of lease ending with transfer of ownership from the lessor to the lessee in the form of sale transaction based on agreed terms and conditions. There are two contracts in this arrangement. The first contract is ijarah where the lessee enjoys the usufruct of the assets for an agreed rental during an agreed period of time while the ownership remains with the lessor. The second contract is the sale contract (Aqad) which may take place at the end of the ijarah period or at any point of time during the period subject to the agreed terms and conditions between the contracting parties. Financing income is recognised on effective profit rate basis over the lease term.

(iii) Bai' Inah

Contract of sale and purchase of an asset whereby the Bank sells an asset to the customer on a deferred basis and subsequently buys back the asset at a cash price lower than the deferred sales price. Financing income is recognised on effective profit rate basis over the period of the contract based on the principal amount outstanding.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(r) Financing Income and Expense (continued)

The policy for recognition of financing income and expense for the Bank's Shariah contracts are as follows (continued):

(iv) Musharakah Mutanaqisah

In Musharakah Mutanaqisah financing, the customer and the Bank jointly acquire and own the asset. The Bank then leases its equity or share of asset to the customer on the basis of ijarah. The customer is given the right to acquire the Bank's equity in the asset periodically. Financing income is accounted for on the basis of the reducing balance on a time-apportioned basis that reflects the effective yield of the asset.

(v) Murabahah

This contract involves the sale of goods or assets by the Bank at a mark up price to the customer, which includes a profit margin as agreed by both parties. The price, costs and profit margin in Murabahah shall be made transparent and agreed by both parties. This contract applies to the Bank's trade financing products whilst the Bank's Commodity Murabahah term financing and term deposit products are based on the contract of Murabahah and Tawarruq.

Financing income under this contract is recognised on effective profit rate basis over the period of the contract based on the principal amount outstanding.

Profit attributable to depositors is recognised as an expense in profit or loss as incurred. Profit distributed is based on the expected profit rate which is quoted to the customer on the placement date.

(vi) Ujrah

The Bank's credit card issued is based on Ujrah contract. Ujrah is based on fee on service with a pre-assigned credit limit. It works on the premise that the Bank is providing a payment mechanism for purchases via a credit card and the Bank will receive a fee in return for the service.

Financing income is recognised on profit charged on the utilisation of the credit limit by the customer that has not been settled in full on or before the due date.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(r) Financing Income and Expense (continued)

The policy for recognition of financing income and expense for the Bank's Shariah contracts are as follows (continued):

(vii) Qard

Qard means repayment with guarantee. The Bank in this situation is guaranteeing the repayment of the money and will return the same to the customer accordingly, subject to the Bank’s procedures. The granting of return to the customer as a token of appreciation which is also known as Hibah is solely based on the Bank’s discretion and is recognised as an expense in profit or loss as incurred.

(viii) Tawarruq

Arrangement that involves a purchase of an asset or commodity based on Murabahah contract on deferred term and a subsequent sale of the same asset to a third party in order to obtain cash.

The Bank's Commodity Murabahah term financing and term deposit products are based on the contract of Murabahah and Tawarruq. The commodity trading fee incurred in the Tawarruq arrangement is borne by the Bank and is recognised as an expense in profit or loss as incurred.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(s) Fee and Commission Income

The Bank earns fee and commission income from a diverse range of services provided to its customers. Such income are generally recognised on an accrual basis when the performance obligations have been satisfied.

Fees earned for the provision of services over a period of time, such as financing arrangement and management, are accrued over the period. Fee income from the provision of transaction services, such as funds remittances, are recognised upon completion of the underlying transaction.

(t) Dividend Income

Dividend income is recognised when the right to receive payment is established.

(u) Employee Benefits

(i) Short Term Employee Benefits

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(u) Employee Benefits (continued)

(ii) Defined Contribution Plan

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

(iii) Defined Benefit Plan

The Bank contributes to a fully-funded defined benefit plan approved by the Inland Revenue Board known as the Public Bank Group Officers' Retirement Benefits Fund (the “Fund”) for its eligible employees. The obligations under the Fund are determined based on actuarial valuation where the amount of benefit that employees have earned in return for their service in the current and prior years are estimated. The benefit is calculated using the Projected Unit Credit Method in order to determine its present value. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding finance income), are recognised immediately in defined benefit reserve via other comprehensive income and are not subsequently recycled to profit or loss. Past service costs, whether unvested or already vested, are recognised immediately in profit or loss as incurred. Net finance income or cost is calculated by applying the discount rate to the net defined benefit asset or liability. The Bank recognises the changes in the net defined benefit obligation which includes current service costs, past service costs and net finance cost or income under "Personnel expenses" in the statement of profit or loss.

The amount recognised in the statement of financial position represents the actual deficit or surplus in the Fund. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from or reductions in future contributions to the Fund.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(v) Tax Expense

Tax expense comprises current and deferred tax. Tax expense is calculated on the basis of the applicable tax law in Malaysia and is recognised as an expense in profit or loss except to the extent that it relates to items that are charged or credited in other comprehensive income or directly to equity. In such cases, tax expense is charged or credited to other comprehensive income or to equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of prior years.

Deferred tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unutilised tax losses can be utilised. Deferred tax is not provided for assets and liabilities that at the time of initial recognition, affects neither accounting nor taxable profit. Deferred tax relating to fair value remeasurement of financial investments at FVOCI and cash flow hedges, which are recognised in other comprehensive income, is also charged or credited directly to other comprehensive income, and is subsequently recognised in profit or loss when the deferred fair value gain or loss is recognised in profit or loss.

Deferred tax is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to set-off under the same taxable entity and taxation authority. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(w) Zakat Obligations

This represents business zakat payable by the Bank to comply with Shariah principles. Zakat provision is calculated using the profit and loss method at a zakat rate of 2.5% and is based on the percentage of estimated Muslim shareholders of the Bank's holding company.

The beneficiaries of the Bank's zakat fund are state zakat collection centres, deserving orphanage homes for the poor and other deserving recipients (asnaf).

(x) Dividends

Dividends declared on ordinary shares are accounted for as an appropriation of retained profits in the period in which they are approved.

(y) Earnings Per Share

The Bank presents basic and diluted (where applicable) earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholder of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholder and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. No adjustment is made for anti-dilutive potential ordinary shares.

(z) Segment Reporting

Segment reporting in the financial statements are presented on the same basis as it is used by management internally for evaluating operating segment performance and in deciding how to allocate resources to operating segments. Operating segments are distinguishable components of the Bank that engage in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components. An operating segment is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance, and for which discrete financial information is available.

All transactions between operating segments are conducted based on mutually agreed allocation bases, with intra-segment revenues and expenses being eliminated. Revenues and expenses directly associated with each segment are included in determining business segment performance.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) Significant Accounting Policies (continued)

(aa) Government Financing Scheme and Government Financing Facility

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

The benefit of a financing or a facility under a government scheme that addresses identified costs or expenses incurred by the Bank is recognised in the profit or loss in the same financial period when the costs or expenses are recognised, when the required conditions are fulfilled.

3. CASH AND BALANCES WITH BANKS

	2020 RM'000	2019 RM'000
Cash and bank balances	212,828	539,455
Money market deposit placements:		
- maturing within one month	1,900,000	2,600,000
	2,112,828	3,139,455

4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

	2020 RM'000	2019 RM'000
At fair value		
Money market instruments:		
Negotiable Islamic Debt Certificates	-	249,541
	-	249,541

5. DERIVATIVE FINANCIAL ASSETS / LIABILITIES

Derivative financial instruments are financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, profit rates and equity prices) of the underlying instruments. These instruments further allow the Bank to transfer, modify or reduce its foreign exchange and profit rate risks via designated hedge relationships. Derivative financial instruments that are entered into for hedging purposes but which do not meet the hedge effectiveness criteria or which relate to customers' transactions are classified as trading derivatives.

The table below shows the Bank's derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts as at the reporting date. The notional amounts of these derivative financial instruments refer to the underlying contract value on which changes in the value of the derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end but are not indicative of either the market risk or credit risk inherent in the derivative contracts. The risks associated with the use of derivative financial instruments, as well as management's policy for controlling these risks are set out in Note 40 to the financial statements.

	2020			2019		
	Contract/ Notional Amount RM'000	Fair Value Assets RM'000	Fair Value Liabilities RM'000	Contract/ Notional Amount RM'000	Fair Value Assets RM'000	Fair Value Liabilities RM'000
At fair value						
Trading derivatives:						
Foreign exchange contracts						
- Currency forwards	7	-	-	2	-	-
Profit rate related contracts						
- Profit rate swaps	-	-	-	130,000	-	19
	7	-	-	130,002	-	19
Hedging derivatives:						
Cash flow hedge						
Profit rate related contracts						
- Profit rate swaps	2,700,000	1,317	196,035	2,500,000	-	90,111
Total	2,700,007	1,317	196,035	2,630,002	-	90,130

The fair values of derivative financial instruments are normally zero or negligible at inception. The subsequent change in fair value is either favourable or unfavourable as a result of fluctuations in the underlying market profit rates and/or foreign exchange rates relative to the terms of the respective contracts.

5. DERIVATIVE FINANCIAL ASSETS / LIABILITIES (continued)

As at 31 December 2020, the Bank has positions in the following type of derivative financial instruments:

Forwards

Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange exposures in foreign currency or profit rates.

Cash Flow Hedge

The Bank principally uses profit rate swaps to protect against exposures to variability in future cash flows on non-trading financial assets and liabilities which bear profit at variable rates. The derivatives are entered into after taking into consideration of the profit rate risk from a portfolio of exposures, such as portfolio of assets or portfolio of liabilities.

To qualify for hedge accounting purpose, derivatives are designated in cash flow hedge relationships to manage the profit and loss volatility associated with the derivatives which would otherwise be measured at fair value through profit or loss. This requires identification of eligible assets and liabilities, and designation of derivatives to obtain hedge accounting, which involves designating derivatives as hedges of the variability in highly probable forecasted future cash flows attributable to profit rate risk from the benchmark profit rate on variable rate assets and liabilities. The accounting policies for cash flow hedge are as disclosed in Note 2(iii)(e).

To test hedge effectiveness, a comparison is performed to ensure the expected profit cash flows from the portfolio exceed those of the hedging instruments. The main potential source of hedge ineffectiveness from cash flow hedges is the mismatches in the terms of hedged items and hedging instruments such as the frequency and the timing of when the profit rates are reset.

The following table shows the notional amount of derivatives designated in cash flow hedge relationships in time bands based on the maturity of the derivatives:

	Up to 3 Months RM'000	3 - 12 Months RM'000	1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
2020					
Profit rate swaps					
- Pay fixed	-	-	1,700,000	1,000,000	2,700,000
- Receive fixed	-	-	-	-	-
	-	-	1,700,000	1,000,000	2,700,000
2019					
Profit rate swaps					
- Pay fixed	130,000	-	500,000	2,000,000	2,630,000
- Receive fixed	-	-	-	-	-
	130,000	-	500,000	2,000,000	2,630,000

5. DERIVATIVE FINANCIAL ASSETS / LIABILITIES (continued)

Cash Flow Hedge (continued)

There were no cash flow hedges that were discontinued as a result of the hedged cash flows no longer expected to occur.

The net gains or losses on cash flow hedges reclassified from other comprehensive income to profit or loss is recognised in "Net gains and losses on financial instruments". During the financial year, no gain or loss (2019 - loss of RM143,000) was recognised by the Bank in the statement of profit or loss.

The gains and losses on the ineffective portions of such derivatives are recognised immediately in the statement of profit or loss under "Net gains and losses on financial instruments". During the financial year, a loss of RM408,000 (2019 - gain of RM1,208,000) was recognised by the Bank.

6. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI")

	2020 RM'000	2019 RM'000
At fair value		
Government securities and treasury bills:		
Malaysian Government Investment Issues	9,717,771	9,528,034

The following expected credit losses ("ECL") for debt instruments are not recognised in the statement of financial position as the carrying amount of debt instruments at FVOCI is equivalent to their fair value:

		Lifetime ECL		
	12-Month ECL (Stage 1) RM'000	Not Credit-Impaired (Stage 2) RM'000	Credit-Impaired (Stage 3) RM'000	Total RM'000
At 1 January 2020	1,602	-	-	1,602
Net allowance made during the year (Note 29)	8	-	-	8
New financial investments purchased	1,126	-	-	1,126
Allowance made	26	-	-	26
Amount derecognised	(1,144)	-	-	(1,144)
At 31 December 2020	1,610	-	-	1,610
At 1 January 2019	1,465	-	-	1,465
Net allowance made during the year (Note 29)	137	-	-	137
New financial investments purchased	1,715	-	-	1,715
Allowance made	31	-	-	31
Amount derecognised	(1,608)	-	-	(1,608)
Changes in models / risk parameters	(1)	-	-	(1)
At 31 December 2019	1,602	-	-	1,602

7. FINANCIAL INVESTMENTS AT AMORTISED COST

	2020 RM'000	2019 RM'000
At amortised cost		
Government securities and treasury bills:		
Malaysian Government Investment Issues	3,879,493	3,006,702
Non-money market instruments:		
Debt securities		
- Unquoted corporate sukuk	642,237	737,650
Allowance for impairment	(769)	(637)
	4,520,961	3,743,715

Movements in allowances for impairment on debt instruments which reflect the ECL model on impairment are as follows:

		Lifetime ECL		
	12-Month ECL (Stage 1) RM'000	Not Credit-Impaired (Stage 2) RM'000	Credit-Impaired (Stage 3) RM'000	Total RM'000
At 1 January 2020	637	-	-	637
Net allowance made during the year (Note 29)	132	-	-	132
New financial investments purchased	241	-	-	241
Net allowance written back	(1)	-	-	(1)
Amount derecognised	(108)	-	-	(108)
At 31 December 2020	769	-	-	769
At 1 January 2019	540	-	-	540
Net allowance made during the year (Note 29)	97	-	-	97
New financial investments purchased	142	-	-	142
Net allowance written back	(21)	-	-	(21)
Amount derecognised	(24)	-	-	(24)
At 31 December 2019	637	-	-	637

8. FINANCING AND ADVANCES

Net financing and advances analysed by type and Shariah contracts are as follows :

2020	Bai' Bithaman Ajil RM'000	Ijarah ^ Thumma Al-Bai' RM'000	Bai' Inah RM'000	Musharakah Mutanaqisah RM'000	Murabahah RM'000	Others RM'000	Total Financing and Advances RM'000
At amortised cost:							
Cash line	1,515,623	-	-	-	-	-	1,515,623
Term financing							
- House financing	5,470,603	-	-	18,168,232	-	-	23,638,835
- Syndicated financing	1,341,516	-	-	-	-	-	1,341,516
- Hire purchase receivables	-	8,798,205	-	-	-	-	8,798,205
- Other term financing	4,680,794	-	1,702,074	12,205,232	-	211,199	18,799,299
Credit card receivables	-	-	-	-	-	34,699	34,699
Bills receivables	-	-	-	-	1,114	-	1,114
Trust receipts	-	-	-	-	4,155	-	4,155
Claims on customers under acceptance credits	-	-	-	-	162,079	-	162,079
Revolving credits	248,884	-	-	-	-	-	248,884
Staff financing	-	11,002	-	94,943	-	-	105,945
Gross financing and advances	13,257,420	8,809,207	1,702,074	30,468,407	167,348	245,898	54,650,354
Less : Allowance for impairment on financing and advances							
- Expected credit losses							(473,999)
- Stage 1 : 12-Month ECL							(249,018)
- Stage 2 : Lifetime ECL not credit-impaired							(175,333)
- Stage 3 : Lifetime ECL credit-impaired							(49,648)
Net financing and advances							54,176,355

All the financing and advances are located in Malaysia.

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

8. FINANCING AND ADVANCES (continued)

Net financing and advances analysed by type and Shariah contracts are as follows (continued):

2019	**Bai' Bithaman Ajil RM’000**	**Ijarah ^ Thumma Al-Bai' RM’000**	**Bai' Inah RM’000**	**Musharakah Mutanaqisah RM’000**	**Murabahah RM’000**	**Others RM’000**	**Total Financing and Advances RM’000**
At amortised cost:							
Cash line	1,732,493	-	-	-	-	-	1,732,493
Term financing							
- House financing	5,105,404	-	-	15,488,932	-	-	20,594,336
- Syndicated financing	1,266,197	-	-	-	-	-	1,266,197
- Hire purchase receivables	-	8,310,016	-	-	-	-	8,310,016
- Other term financing	4,941,919	-	1,550,596	10,923,096	-	208,138	17,623,749
Credit card receivables	-	-	-	-	-	30,375	30,375
Bills receivables	-	-	-	-	2,110	-	2,110
Trust receipts	-	-	-	-	3,415	-	3,415
Claims on customers under acceptance credits	-	-	-	-	195,437	-	195,437
Revolving credits	181,477	-	-	-	-	-	181,477
Staff financing	-	8,870	-	85,664	-	-	94,534
Gross financing and advances	13,227,490	8,318,886	1,550,596	26,497,692	200,962	238,513	50,034,139
Less : Allowance for impairment on financing and advances							
- Expected credit losses							(305,563)
- Stage 1 : 12-Month ECL							(129,065)
- Stage 2 : Lifetime ECL not credit-impaired							(90,576)
- Stage 3 : Lifetime ECL credit-impaired							(85,922)
Net financing and advances							49,728,576

All the financing and advances are located in Malaysia.

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

8. FINANCING AND ADVANCES (continued)

Gross financing and advances presented by class of financial instruments are as follows:

	2020 RM'000	2019 RM'000
Retail financing *		
- House financing	23,638,835	20,594,336
- Hire purchase	8,798,205	8,310,016
- Credit cards	34,699	30,375
- Other financing ^	17,188,431	15,975,442
	49,660,170	44,910,169
Corporate financing	4,990,184	5,123,970
Gross financing and advances	54,650,354	50,034,139

* *Included in retail financing are financing granted to individual customers and mid-market commercial enterprises.*

^ *Included in other financing are term financing, trade financing, cash line and revolving credits.*

The maturity structure of gross financing and advances by residual contractual maturity is as follows:

	2020 RM'000	2019 RM'000
Maturity within one year	2,705,318	2,883,519
More than one year to three years	2,847,751	3,000,768
More than three years to five years	5,234,002	4,444,876
More than five years	43,863,283	39,704,976
Gross financing and advances	54,650,354	50,034,139

8. FINANCING AND ADVANCES (continued)

Gross financing and advances analysed by type of customer are as follows:

	2020 RM'000	2019 RM'000
Domestic non-bank financial institutions		
- Others	1,288,555	1,587,879
Domestic business enterprises		
- Small and medium enterprises	9,580,323	9,253,552
- Others	3,182,038	2,651,101
Government and statutory bodies	1,002,236	1,005,773
Individuals	39,376,764	35,326,968
Other domestic entities	5,592	4,991
Foreign entities	214,846	203,875
Gross financing and advances	54,650,354	50,034,139

Gross financing and advances analysed by rate of return sensitivity are as follows:

	2020 RM'000	2019 RM'000
Fixed rate		
- House financing	241,969	273,262
- Hire purchase receivables	8,797,731	8,309,305
- Other fixed rate financing	3,207,286	3,125,661
Variable rate		
- Base rate / base financing rate plus	38,315,464	34,120,141
- Cost plus	4,087,904	4,205,770
Gross financing and advances	54,650,354	50,034,139

Gross financing and advances analysed by economic purpose are as follows:

	2020 RM'000	2019 RM'000
Purchase of transport vehicles	8,809,205	8,318,886
Purchase of landed properties	36,166,126	32,255,720
(of which: - residential	24,238,949	21,138,886
- non-residential)	11,927,177	11,116,834
Purchase of fixed assets (excluding landed properties)	382	-
Personal use	3,003,698	2,891,612
Credit card	34,699	30,375
Purchase of consumer durables	695	700
Construction	777,160	510,885
Working capital	5,719,179	5,882,984
Other purpose	139,210	142,977
Gross financing and advances	54,650,354	50,034,139

8. FINANCING AND ADVANCES (continued)

Gross financing and advances analysed by sector are as follows:

	2020 RM'000	2019 RM'000
Agriculture, hunting, forestry and fishing	889,124	910,538
Mining and quarrying	149,280	169,036
Manufacturing	1,508,088	1,448,787
Electricity, gas and water	5,174	4,791
Construction	2,408,706	1,972,635
Wholesale & retail trade and restaurants & hotels	2,960,882	2,678,149
Transport, storage and communication	473,145	397,533
Finance, insurance and business services	1,773,243	2,055,679
Real estate	3,646,447	3,628,663
Community, social and personal services	1,354,561	1,345,141
Households	39,481,702	35,423,184
Others	2	3
Gross financing and advances	54,650,354	50,034,139

Movements in credit-impaired financing and advances ("impaired financing") are as follows:

	2020 RM'000	2019 RM'000
At 1 January	275,050	277,731
Impaired during the year	190,044	673,499
Reclassified as non-credit impaired	(191,093)	(533,038)
Recoveries	(39,279)	(56,730)
Amount written off	(60,617)	(76,223)
Financing converted to foreclosed properties	(4,684)	(10,189)
At 31 December	169,421	275,050
Gross impaired financing as a percentage of gross financing and advances	0.31%	0.55%

8. FINANCING AND ADVANCES (continued)

Impaired financing and advances analysed by economic purpose are as follows:

	2020 RM'000	2019 RM'000
Purchase of transport vehicles	38,903	72,786
Purchase of landed properties	111,636	170,061
(of which: - residential	86,075	146,493
- non-residential)	25,561	23,568
Personal use	14,229	26,291
Credit card	120	262
Working capital	4,513	5,628
Other purpose	20	22
Impaired financing and advances	169,421	275,050

Impaired financing and advances analysed by sector are as follows:

	2020 RM'000	2019 RM'000
Agriculture, hunting, forestry and fishing	55	50
Mining and quarrying	231	2
Manufacturing	606	1,032
Construction	8,377	8,924
Wholesale & retail trade and restaurants & hotels	4,505	7,337
Transport, storage and communication	134	1,393
Finance, insurance and business services	6,855	3,107
Real estate	1,670	75
Community, social and personal services	1,555	1,578
Households	145,433	251,552
Impaired financing and advances	169,421	275,050

All the impaired financing and advances are located in Malaysia.

8. FINANCING AND ADVANCES (continued)

Financial assets that are purchased or originated and credit-impaired

The Bank does not purchase or originate credit-impaired financing and advances.

Write-off of financing and advances which are still under enforcement activity

The contractual amount outstanding on financing and advances that were written off during the year and that are still subject to enforcement activity is RM60,617,000 (2019 - RM76,223,000).

Information about the nature and effect of modification on the measurement of allowance for credit-impaired financing

The amortised costs prior to modification of financing and advances of the Bank that were modified but not derecognised during the year for which allowance for impairment was measured at an amount equal to lifetime ECL is RM490,294,000 (2019 - RM9,842,000).

Gross carrying amount of previously modified financing and advances for which loss allowance has changed to 12-Month ECL measurement during the year is RM44,187,000 (2019 - RM1,580,000) as at the end of the year.

Collateral and other credit enhancements

The Bank's policies regarding obtaining collateral has not significantly changed during the year and there has been no significant change in the overall quality of the collateral held by the Bank since the end of the previous financial year.

In line with the Bank's ECL model, no loss allowance was recognised for certain financing and advances which were individually assessed where the expected realisable value of the underlying collateral were higher than the exposure at default at the reporting date. The carrying amount of such financial assets is RM9,983,000 (2019 - RM5,127,000) as at the end of the year.

8. FINANCING AND ADVANCES (continued)

Movements in loss allowance for financing and advances by class which reflect the expected credit losses ("ECL") model on impairment are as follows:

	<--- Retail Financing			--->		
	House Financing RM'000	**Hire Purchase RM'000**	**Credit Cards RM'000**	**Other Financing RM'000**	**Corporate Financing RM'000**	**Total RM'000**
2020						
Stage 1: 12-Month ECL						
At 1 January 2020	17,019	40,091	319	55,571	16,065	129,065
Changes due to financing and advances recognised as at 1 January 2020:	9,541	12,390	49	11,328	(425)	32,883
- Transfer to Stage 1: 12-Month ECL	9,880	14,479	64	12,805	-	37,228
- Transfer to Stage 2: Lifetime ECL not credit-impaired	(331)	(2,030)	(14)	(1,453)	(425)	(4,253)
- Transfer to Stage 3: Lifetime ECL credit-impaired	(8)	(59)	(1)	(24)	-	(92)
New financing and advances originated	2,620	5,792	104	5,459	1,051	15,026
Net remeasurement due to changes in credit risk	(6,717)	(2,685)	(13)	35,790	28,374	54,749
Financing and advances derecognised (other than write-off)	(339)	(2,596)	(93)	(1,871)	(1,457)	(6,356)
Modifications to contractual cash flows of financing and advances	(2,166)	(63)	(18)	(5,224)	72	(7,399)
Changes in models / risk parameters	2,421	20,408	112	5,619	2,490	31,050
At 31 December 2020	22,379	73,337	460	106,672	46,170	249,018

8. FINANCING AND ADVANCES (continued)

Movements in loss allowance for financing and advances by class which reflect the ECL model on impairment are as follows (continued):

	<------ Retail Financing	------>				
	House Financing RM'000	**Hire Purchase RM'000**	**Credit Cards RM'000**	**Other Financing RM'000**	**Corporate Financing RM'000**	**Total RM'000**
2020						
Stage 2: Lifetime ECL not credit-impaired						
At 1 January 2020	13,185	25,055	57	50,930	1,349	90,576
Changes due to financing and advances recognised as at 1 January 2020:	(586)	(8,585)	26	(6,196)	166	(15,175)
- Transfer to Stage 1: 12-Month ECL	(7,673)	(12,162)	(18)	(10,637)	-	(30,490)
- Transfer to Stage 2: Lifetime ECL not credit-impaired	7,279	4,139	45	4,943	425	16,831
- Transfer to Stage 3: Lifetime ECL credit-impaired	(192)	(562)	(1)	(502)	(259)	(1,516)
New financing and advances originated	854	1,477	14	4,508	27	6,880
Net remeasurement due to changes in credit risk	109	20,819	17	(1,440)	10,314	29,819
Financing and advances derecognised (other than write-off)	(359)	(687)	(39)	(2,252)	(24)	(3,361)
Modifications to contractual cash flows of financing and advances	6,979	83	(2)	32,956	-	40,016
Changes in models / risk parameters	579	1,988	20	19,871	4,120	26,578
At 31 December 2020	20,761	40,150	93	98,377	15,952	175,333

8. FINANCING AND ADVANCES (continued)

Movements in loss allowance for financing and advances by class which reflect the ECL model on impairment are as follows (continued):

	<---- Retail Financing			---->		
	House Financing RM'000	**Hire Purchase RM'000**	**Credit Cards RM'000**	**Other Financing RM'000**	**Corporate Financing RM'000**	**Total RM'000**
2020						
Stage 3: Lifetime ECL credit-impaired						
At 1 January 2020	19,216	42,471	215	24,020	-	85,922
Changes due to financing and advances recognised as at 1 January 2020:	(8,955)	(3,805)	(75)	(5,132)	259	(17,708)
- Transfer to Stage 1: 12-Month ECL	(2,207)	(2,317)	(46)	(2,168)	-	(6,738)
- Transfer to Stage 2: Lifetime ECL not credit-impaired	(6,948)	(2,109)	(31)	(3,490)	-	(12,578)
- Transfer to Stage 3: Lifetime ECL credit-impaired	200	621	2	526	259	1,608
New financing and advances originated *	54	109	-	-	-	163
Net remeasurement due to changes in credit risk	10,527	24,664	189	10,423	(259)	45,544
Financing and advances derecognised (other than write-off)	(447)	(3,562)	(54)	(882)	-	(4,945)
Modifications to contractual cash flows of financing and advances	538	373	36	124	-	1,071
Changes in models / risk parameters	12	188	-	18	-	218
Amount written off	(10,151)	(33,928)	(215)	(16,323)	-	(60,617)
At 31 December 2020	10,794	26,510	96	12,248	-	49,648
Total ECL as at 31 December 2020	53,934	139,997	649	217,297	62,122	473,999

* New financing and advances originated during the year which are not credit-impaired at origination but subsequently the credit risk has deteriorated.

8. FINANCING AND ADVANCES (continued)

Movements in loss allowance for financing and advances by class which reflect the ECL model on impairment are as follows (continued):

	<---- Retail Financing ----			---->		
	House Financing RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Financing RM'000	Corporate Financing RM'000	Total RM'000
2019						
Stage 1: 12-Month ECL						
At 1 January 2019	17,026	56,460	286	55,302	15,068	144,142
Changes due to financing and advances recognised as at 1 January 2019:	9,662	8,985	63	7,228	374	26,312
- Transfer to Stage 1: 12-Month ECL	10,218	13,061	74	9,321	403	33,077
- Transfer to Stage 2: Lifetime ECL not credit-impaired	(509)	(3,924)	(10)	(2,022)	(29)	(6,494)
- Transfer to Stage 3: Lifetime ECL credit-impaired	(47)	(152)	(1)	(71)	-	(271)
New financing and advances originated	2,463	2,236	78	4,605	4,191	13,573
Net remeasurement due to changes in credit risk	(8,916)	(16,578)	22	(10,256)	(13)	(35,741)
Financing and advances derecognised (other than write-off)	(341)	(2,496)	(8)	(1,795)	(2,515)	(7,155)
Modifications to contractual cash flows of financing and advances	-	(1)	(43)	(413)	-	(457)
Changes in models / risk parameters	(2,875)	(8,515)	(79)	900	(1,040)	(11,609)
At 31 December 2019	17,019	40,091	319	55,571	16,065	129,065

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8. FINANCING AND ADVANCES (continued)

Movements in loss allowance for financing and advances by class which reflect the ECL model on impairment are as follows (continued):

	<--- Retail Financing			--->		
	House Financing RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Financing RM'000	Corporate Financing RM'000	Total RM'000
2019						
Stage 2: Lifetime ECL not credit-impaired						
At 1 January 2019	17,534	31,471	55	27,605	849	77,514
Changes due to financing and advances recognised as at 1 January 2019:	(3,859)	(3,820)	47	(295)	(374)	(8,301)
- Transfer to Stage 1: 12-Month ECL	(8,441)	(10,461)	(24)	(6,799)	(403)	(26,128)
- Transfer to Stage 2: Lifetime ECL not credit-impaired	5,627	8,026	78	6,908	29	20,668
- Transfer to Stage 3: Lifetime ECL credit-impaired	(1,045)	(1,385)	(7)	(404)	-	(2,841)
New financing and advances originated	719	646	10	3,702	373	5,450
Net remeasurement due to changes in credit risk	1,853	(3,705)	47	10,207	(508)	7,894
Financing and advances derecognised (other than write-off)	(716)	(1,127)	(28)	(375)	(1)	(2,247)
Modifications to contractual cash flows of financing and advances	24	(7)	(61)	7	-	(37)
Changes in models / risk parameters	(2,370)	1,597	(13)	10,079	1,010	10,303
At 31 December 2019	13,185	25,055	57	50,930	1,349	90,576

8. FINANCING AND ADVANCES (continued)

Movements in loss allowance for financing and advances by class which reflect the ECL model on impairment are as follows (continued):

	<--- Retail Financing			--->		
	House Financing RM'000	**Hire Purchase RM'000**	**Credit Cards RM'000**	**Other Financing RM'000**	**Corporate Financing RM'000**	**Total RM'000**
2019						
Stage 3: Lifetime ECL credit-impaired						
At 1 January 2019	15,938	48,723	221	27,230	-	92,112
Changes due to financing and advances recognised as at 1 January 2019:	(5,803)	(5,165)	(110)	(6,933)	-	(18,011)
- Transfer to Stage 1: 12-Month ECL	(1,777)	(2,600)	(50)	(2,522)	-	(6,949)
- Transfer to Stage 2: Lifetime ECL not credit-impaired	(5,118)	(4,102)	(68)	(4,886)	-	(14,174)
- Transfer to Stage 3: Lifetime ECL credit-impaired	1,092	1,537	8	475	-	3,112
New financing and advances originated *	304	154	27	75	-	560
Net remeasurement due to changes in credit risk	18,962	51,228	318	23,401	-	93,909
Financing and advances derecognised (other than write-off)	(1,001)	(6,088)	(52)	(794)	-	(7,935)
Modifications to contractual cash flows of financing and advances	53	63	57	580	-	753
Changes in models / risk parameters	79	1,003	(9)	(161)	-	912
Amount written off	(9,316)	(47,447)	(237)	(19,223)	-	(76,223)
Amount transferred to allowance for impairment loss on foreclosed properties	-	-	-	(155)	-	(155)
At 31 December 2019	19,216	42,471	215	24,020	-	85,922
Total ECL as at 31 December 2019	49,420	107,617	591	130,521	17,414	305,563

* New financing and advances originated during the year which are not credit-impaired at origination but subsequently the credit risk has deteriorated.

8. FINANCING AND ADVANCES (continued)

Impact of movements in gross carrying amount of financing and advances on allowance for impairment on financing and advances

The following explains the key changes in the allowance for impairment of financing and advances as well as how significant changes in the gross carrying amount of financing and advances during the financial year have contributed to the changes in the allowance for impairment on financing and advances of the Bank.

Overall, the total allowance for impairment on financing and advances increased by RM168.4 million mainly due to the following:

(a) 12-month ECL (Stage 1) - increase of RM120.0 million mainly due to:
- management overlay provided to cater for potential deterioration of credit risk for financing and advances where relief assistance is provided; and
- recalibration of forward looking macro-economic variables used in the Public Bank Group's models to reflect the impact of the COVID-19 pandemic.

(b) Lifetime ECL Not Credit-Impaired (Stage 2) - increase of RM84.7 million mainly due to:
- financing that migrated to Stage 2 from Stage 1 as a result of deterioration in credit quality post moratorium; and
- recalibration of forward looking macro-economic variables used in the Public Bank Group's models to reflect the impact of the COVID-19 pandemic.

(c) Lifetime ECL Credit-Impaired (Stage 3) - decrease of RM36.3 million mainly due to:
- repayment received from financing and advances as well as financing and advances that were written off; partially offset by
- financing and advances that migrated to Stage 3.

9. OTHER ASSETS

	2020 RM'000	2019 RM'000
Deferred handling fees *	40,023	38,921
Income receivable	91	203
Other receivables, deposits and prepayments	129,963	15,206
Tax recoverable	41,287	-
Employee benefits (Note 10)	32	543
Foreclosed properties #	20,835	16,564
	232,231	71,437
# Stated net of accumulated allowance for impairment loss	1,834	1,538

* This represents the unamortised balance of handling fees paid to motor vehicle dealers for hire purchase financing.

10. EMPLOYEE BENEFITS

Defined Benefit Plan

The Bank contributes to a defined benefit plan known as the Public Bank Group Officers' Retirement Benefits Fund ("the Fund") for its eligible employees. Under the Fund, eligible employees are entitled to one month of the final or last drawn salary for each completed year of service with the Bank upon attainment of retirement age. Effective from 1 July 2013, the normal retirement age was raised from 55 years to 60 years in accordance with Malaysia's Minimum Retirement Age Act 2012, and an optional retirement age, from 55 years to anytime prior to 60 years was introduced. For employees who leave before the attainment of the normal retirement age or the optional retirement age, the retirement benefit will be computed based on the scale rate stipulated in the rules of the Fund.

The defined benefit plan is a tax exempt fund, fully funded by the Bank and its holding company and certain subsidiary companies of the Bank's holding company which are participating companies of the plan. Employees are not required to contribute to the plan. The funding requirements are based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions as set out below. The latest actuarial valuation for funding purposes was made as at 31 December 2020 by Actuarial Partners Consulting Sdn. Bhd. ("Actuary").

As at 31 December 2020, the plan is in surplus of RM2,748,000 (31 December 2019 - RM48,430,000) and cash contribution are recommended by the Actuary to be made to the plan by the Bank and its holding company and the participating subsidiary companies of the Bank's holding company in the next three (3) years until the next actuarial valuation.

The assets of the Fund are held separately from the assets of the Bank and are administered by a board of trustees. There are three (3) trustees currently, one (1) of whom is a member of the Board of Directors of the Bank's holding company and the remaining two (2) trustees are members of senior management of the Bank's holding company.

The defined benefit plan exposes the Bank to actuarial risks such as market (investment) risk, profit rate risk and salary risk. Market risk arises from investments delivering an inadequate return; changes in profit rate would affect the finance cost as well as valuation of plan obligations; salary risk arises from higher than expected salary increase leading to higher plan obligations.

The investments of the plan comply with the requirement of the income tax ruling for tax exempt funds that 80% of the plan assets (gross) are invested in specified assets with at least 20% of plan assets (gross) in government issued securities. The strategic investment policy of the defined benefit plan can be summarised as plan asset mix based on 20% to 35% of investment properties, 20% to 25% of government securities and 40% to 60% in a combination of equities, unit trusts and cash.

Compliance with investment policies is reported quarterly to the Board of Trustees.

10. EMPLOYEE BENEFITS (continued)

Defined Benefit Plan (continued)

The amounts recognised in the statement of financial position are determined as follows:

	Note	2020 RM'000	2019 RM'000
Present value of funded obligations		(14,883)	(13,408)
Fair value of plan assets		14,915	13,951
Net assets *	9	32	543

* This represents the Bank's share of the Fund's total net assets.

Movements in the present value of funded obligations are as follows:

	2020 RM'000	2019 RM'000
Obligation at 1 January	13,408	12,998
Recognised in profit or loss		
- current service cost	888	756
- finance cost	615	605
- allocation adjustment	598	-
Benefits paid - the Fund	(624)	(1,992)
Remeasurements recognised in other comprehensive income		
- effects of changes in demographic assumptions	18	-
- effects of changes in financial assumptions	(743)	1,041
- effects of experience adjustments	723	-
Obligation at 31 December	14,883	13,408

Movements in the fair value of plan assets are as follows:

	2020 RM'000	2019 RM'000
Fair value at 1 January	13,951	16,666
Recognised in profit or loss		
- finance income	640	799
- allocation adjustment	372	-
Benefits paid - the Fund	(624)	(1,992)
Remeasurements recognised in other comprehensive income		
- remeasurements on plan assets	326	(1,522)
- allocation adjustment	250	-
Fair value at 31 December	14,915	13,951

10. EMPLOYEE BENEFITS (continued)

Defined Benefit Plan (continued)

The fair value of plan assets constitutes the following:

	2020 RM'000	2019 RM'000
Government securities	6,716	6,197
Unquoted corporate sukuk	985	3,448
Quoted equity securities [1]	10,867	10,532
Unit trust funds [2]	1,407	1,159
Properties [3]	9,972	9,043
Plan assets (gross)	29,947	30,379
Other liabilities (net)	(133)	(134)
Borrowings	(14,899)	(16,294)
	14,915	13,951

[1] Quoted equity securities analysed by sectors are as follows:

	2020 RM'000	2019 RM'000
Financial institutions *	6,994	6,318
Insurance companies	3,012	3,174
Property companies	861	1,040
	10,867	10,532

* Included in the fair value of equity securities of the Fund are ordinary shares of the holding company of the Bank held by the Fund with a fair value of RM595,677,000 (2019 - RM562,134,000).

10. EMPLOYEE BENEFITS (continued)

Defined Benefit Plan (continued)

[2] Unit trust funds analysed by type of funds are as follows:

	2020 RM'000	2019 RM'000
Equity funds	1,287	1,042
Dividend funds	120	117
	1,407	1,159

[3] Properties analysed by type of properties are as follows * :

	2020 RM'000	2019 RM'000
Terraced shop offices	9,296	8,472
Stratified office lots	349	335
Commercial buildings	309	220
Residential buildings	18	16
	9,972	9,043

* All the properties held by the Fund are occupied by the Bank's holding company, Public Bank Berhad and its related companies which including the Bank. Certain floors in the commercial buildings and terraced shop offices are tenanted by external parties of which they contributed about 1.4% (2019: 1.3%) of the total rental income from properties.

10. EMPLOYEE BENEFITS (continued)

Defined Benefit Plan (continued)

The amounts recognised under personnel expenses in the statement of profit or loss are as follows:

	2020 RM'000	2019 RM'000
Current service cost	888	756
Finance cost	615	605
Finance income	(640)	(799)
Allocation adjustment	226	-
Amount included under 'personnel expenses' (Note 31(a))	1,089	562

Remeasurements recognised in other comprehensive income are as follows:

	2020 RM'000	2019 RM'000
Present value of funded obligations:		
- effects of changes in demographic assumptions	(18)	-
- effects of changes in financial assumptions	743	(1,041)
- effects of experience adjustments	(723)	-
Fair value of plan assets:		
- remeasurements on plan assets	326	(1,522)
- allocation adjustment	250	-
	578	(2,563)

Actual return on plan assets is as follows:

	2020 RM'000	2019 RM'000
Finance income on plan assets	640	799
Remeasurements on plan assets	326	(1,522)
Allocation adjustment	622	-
Actual return on plan assets	1,588	(723)

10. EMPLOYEE BENEFITS (continued)

Defined Benefit Plan (continued)

(i) Actuarial Assumptions

Principal actuarial assumptions used at the reporting date (expressed as weighted averages) are as follows:

	2020	2019
Discount rate	4.00%	4.50%
Expected rate of salary increases	6.00%	7.00%

The discount rate used in the actuarial assumptions is based on a blend of yields of long term high quality corporate sukuk. The expected rate of salary increases takes into account the increases in salaries from factors such as inflation, productivity and promotions.

The principal actuarial assumptions are based on the latest actuarial valuation performed as of 31 December 2020.

As at 31 December 2020, the weighted average duration of the defined benefit obligation was 11.0 years.

(ii) Sensitivity Analysis

The effect of changes in the principal actuarial assumptions on the present value of funded obligations are as follows:

	2020 Sensitivity		2019 Sensitivity	
	+1% RM'000	-1% RM'000	+1% RM'000	-1% RM'000
(Decrease) / Increase in present value of funded obligations:				
- Discount rate	(1,399)	1,642	(1,282)	1,503
- Expected salary	1,572	(1,371)	1,571	(1,366)

The sensitivity analysis presented above may not be representative of the actual change in the present value of funded obligations as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

11. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

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

With effective from 16 May 2020, the Bank is allowed to use Malaysian Government Investment Issues to fully meet the SRR compliance in accordance with the revised policy document issued by BNM on 15 May 2020. Such flexibility is available until 31 May 2021.

12. DEFERRED TAX

	2020 RM'000	2019 RM'000
At 1 January	(264)	3,620
Recognised in profit or loss (net) (Note 34)		
- relating to origination and reversal of temporary differences	(93,846)	2,077
- over provision of net deferred tax liabilities / over provision of net deferred tax assets	20	(135)
Recognised in equity (net) (Note 25)	(10,045)	(5,826)
At 31 December	(104,135)	(264)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The net deferred tax liabilities shown on the statement of financial position after appropriate offsetting are as follows:

	2020 RM'000	2019 RM'000
Deferred tax assets, net	-	-
Deferred tax liabilities, net	(104,135)	(264)
	(104,135)	(264)

Deferred tax assets and liabilities prior to offsetting are summarised as follows:

	2020 RM'000	2019 RM'000
Deferred tax assets	97,220	25,908
Deferred tax liabilities	(201,355)	(26,172)
	(104,135)	(264)

12. DEFERRED TAX (continued)

The components and movements in deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax assets	Hedging Reserves RM'000	Other Temporary Differences RM'000	Allowance for Impairment on Financing and Advances RM'000	Total RM'000
At 1 January 2019	4,799	2,005	288	7,092
Recognised in profit or loss (Note 34)				
- relating to origination and reversal of temporary differences	-	(7)	1,802	1,795
- over provision	-	(12)	(166)	(178)
Recognised in equity (Note 25)	17,199	-	-	17,199
At 31 December 2019	21,998	1,986	1,924	25,908
Recognised in profit or loss (Note 34)				
- relating to origination and reversal of temporary differences	-	6,460	39,835	46,295
- under / (over) provision	-	16	(7)	9
Recognised in equity (Note 25)	25,008	-	-	25,008
At 31 December 2020	47,006	8,462	41,752	97,220

12. DEFERRED TAX (continued)

The components and movements in deferred tax assets and liabilities during the financial year prior to offsetting are as follows (continued):

Deferred tax liabilities	**Revaluation Reserves RM'000**	**Excess of Capital Allowances Over Depreciation RM'000**	**Defined Benefit Plan RM'000**	**Cost on Sukuk Murabahah RM'000**	**Profit on Moratorium Account RM'000**	**Total RM'000**
At 1 January 2019	2,308	222	880	62	-	3,472
Recognised in profit or loss (Note 34)						
- relating to origination and reversal of temporary differences	-	(120)	(135)	(27)	-	(282)
- over provision	-	(8)	-	(35)	-	(43)
Recognised in equity (Note 25)	23,640	-	(615)	-	-	23,025
At 31 December 2019	25,948	94	130	-	-	26,172
Recognised in profit or loss (Note 34)						
- relating to origination and reversal of temporary differences	-	37	(262)	-	140,366	140,141
- over provision	-	(11)	-	-	-	(11)
Recognised in equity (Note 25)	34,914	-	139	-	-	35,053
At 31 December 2020	60,862	120	7	-	140,366	201,355

13. COLLECTIVE INVESTMENT

Details of the collective investment are as follows:

Name of Fund	Principal Activities	Place of Incorporation	Effective Interest 2020 %	Effective Interest 2019 %
Public Islamic Wholesale Income Fund	Wholesale income fund	Malaysia	32.07	32.07

The Bank's collective investment is not material to the financial position, financial performance and cash flows of the Bank.

Had the equity method of accounting been applied, the carrying amount of collective investment would have been as follows:

	2020 RM'000	2019 RM'000
Unit trust fund, at cost	565,504	549,042
Share of post-acquisition reserves	2,377	1,153
	567,881	550,195
Represented by:		
Share of net assets	567,881	550,195
Share of results		
- Share of profit after tax from continuing operations	16,207	18,488
- Share of other comprehensive income	1,240	959
Share of total comprehensive income	17,447	19,447

The summarised financial information of the collective investment is as follows:

	2020 RM'000	2019 RM'000
Total assets	1,775,576	1,721,143
Total liabilities	4,822	5,536
Operating revenue	59,572	66,396
Profit after tax	50,537	57,650
Total comprehensive income	54,404	60,641

There are no significant restrictions on the ability of the unit trust fund to transfer funds to the Bank in the form of cash dividends.

14. INVESTMENT IN AN ASSOCIATED COMPANY

	2020 RM'000	2019 RM'000
Unquoted shares in Malaysia, at cost	45,000	45,000

Details of the associated company are as follows:

Name	Principal Activities	Place of Incorporation	Effective Interest 2020 %	Effective Interest 2019 %
AIA PUBLIC Takaful Berhad	Family takaful	Malaysia	15.00	15.00

The Bank's associated company is not material to the financial position, financial performance and cash flows of the Bank.

Had the equity method of accounting been applied, the carrying amount of investment in the associated company would have been as follows:

	2020 RM'000	2019 RM'000
Unquoted shares, at cost	45,000	45,000
Share of post-acquisition reserves	(1,607)	(3,277)
Loss on dilution of interest in the associated company	(4,191)	(4,191)
	39,202	37,532
Represented by:		
Share of net assets	39,202	37,532
Share of results		
- Share of profit after tax from continuing operations	1,056	1,688
- Share of other comprehensive income	614	645
Share of total comprehensive income	1,670	2,333

14. INVESTMENT IN AN ASSOCIATED COMPANY (continued)

The summarised financial information of the associated company is as follows:

	2020 RM'000	2019 RM'000
Total assets	2,164,683	1,686,926
Total liabilities	1,960,850	1,452,780
Operating revenue	1,279,546	1,081,071
Profit / (Loss) after tax	165,891	(4,120)
Total comprehensive income	169,943	400

There are no significant restrictions on the ability of the associated company to transfer funds to the Bank in the form of cash dividends.

15. LEASES

As a Lessee

Information about leases for which the Bank is the lessee is presented below:

(a) Right-of-use assets

	2020 RM'000	2019 RM'000
Land and Buildings		
At 1 January	18,707	16,555
Additions	-	7,063
Depreciation charge for the year (Note 32)	(1,265)	(1,330)
Remeasurements	(305)	(3,581)
At 31 December	17,137	18,707

(b) Lease liabilities

The following table sets out a maturity analysis of lease liabilities, showing contractual undiscounted cash flows:

	2020 RM'000	2019 RM'000
Within one year	1,608	1,615
Between one and five years	6,858	6,843
More than five years	17,380	19,522
	25,846	27,980
Lease liabilities included in the statement of financial position	18,227	19,385

15. LEASES (continued)

As a Lessee (continued)

Information about leases for which the Bank is the lessee is presented below (continued):

(c) Amount recognised in the profit or loss

	Note	2020 RM'000	2019 RM'000
Depreciation charge of right-of-use assets	32	1,265	1,330
Profit expense on lease liabilities	30	840	810

(d) Amount recognised in the statement of cash flows

	2020 RM'000	2019 RM'000
Total cash outflow for leases	764	811

15. LEASES (continued)

As a Lessee (continued)

Information about leases for which the Bank is the lessee is presented below (continued):

(e) Leasing activities

Real estate leases

The Bank leases various premises from which it conducts business. Rental contracts are typically made for fixed periods of three (3) years. Most leases include an option to renew the lease for an additional period of the same duration after the end of the contract term as described in Note 15(f) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements generally do not impose any covenants other than to keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Leases may only be cancelled by giving two (2) or three (3) months notice before the termination date.

The lease payments are adjusted upon renewal of the lease contract, based on the current market rentals. Rental incremental rate was capped at between 5% to 10% for most of the lease contracts.

Other leases

The Bank did not enter into any lease contracts that are short-term and/or leases of low value items.

(f) Extension options

Most leases of the Bank's premises contain extension options exercisable by the Bank and not by the lessors. The Bank assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

All the extension options in premises leases have been included in the lease liability as the Bank is reasonably certain that the leases will be extended based on its past practice.

16. PROPERTY AND EQUIPMENT

	Note	Renovations RM'000	Office Equipment, Furniture & Fittings RM'000	Computer Equipment & Software RM'000	Motor Vehicles RM'000	Total RM'000
2020						
Cost						
At 1 January 2020		2,589	2,880	2,421	4	7,894
Additions		26	61	45	-	132
Disposals		-	(7)	(66)	-	(73)
Reclassification		(605)	605	-	-	-
Write-offs		-	(7)	-	-	(7)
At 31 December 2020		2,010	3,532	2,400	4	7,946
Accumulated depreciation						
At 1 January 2020		497	1,622	1,766	4	3,889
Depreciation charge for the year	32	113	232	267	-	612
Disposals		-	(7)	(66)	-	(73)
Write-offs		-	(7)	-	-	(7)
At 31 December 2020		610	1,840	1,967	4	4,421
Carrying amounts						
At 31 December 2020		1,400	1,692	433	-	3,525

16. PROPERTY AND EQUIPMENT (continued)

	Note	Renovations RM'000	Office Equipment, Furniture & Fittings RM'000	Computer Equipment & Software RM'000	Motor Vehicles RM'000	Total RM'000
2019						
Cost						
At 1 January 2019		2,199	2,251	2,179	379	7,008
Additions		390	643	318	-	1,351
Disposals		-	(6)	(76)	(375)	(457)
Write-offs		-	(8)	-	-	(8)
At 31 December 2019		2,589	2,880	2,421	4	7,894
Accumulated depreciation						
At 1 January 2019		493	1,476	1,581	379	3,929
Depreciation charge for the year	32	4	159	261	-	424
Disposals		-	(6)	(76)	(375)	(457)
Write-offs		-	(7)	-	-	(7)
At 31 December 2019		497	1,622	1,766	4	3,889
Carrying amounts						
At 31 December 2019		2,092	1,258	655	-	4,005

17. DEPOSITS FROM CUSTOMERS

The deposits presented by type of deposit and contract are as follows:

	2020 RM'000	2019 RM'000
<u>At amortised cost</u>		
Savings deposit		
- Qard	8,561,432	6,716,978
Demand deposit		
- Qard	5,815,770	4,816,878
Term deposit		
- Negotiable Islamic Debt Certificate		
- Bai' Bithaman Ajil	-	22,959
- Term deposit		
- Commodity Murabahah	40,003,712	41,363,757
- Special term deposit account		
- Qard	-	6,453,439
- Commodity Murabahah	7,436,983	-
	7,436,983	6,453,439
	61,817,897	59,374,011

Certain deposits from customers are insured by Perbadanan Insurans Deposit Malaysia ("PIDM"), up to a maximum limit of RM250,000 per depositor per PIDM member bank. The deposit insurance covers all Ringgit Malaysia and foreign currency deposits held under savings deposit, demand deposit and Commodity Murabahah term deposit. This guarantee excludes special term deposit account and negotiable islamic debt certificate.

Included in deposits from customers are deposits of RM383,204,000 (2019 - RM368,930,000) held as collateral for financing and advances.

17. DEPOSITS FROM CUSTOMERS (continued)

The maturity structure of term deposits are as follows:

	2020 RM'000	2019 RM'000
Due within six months	40,950,133	41,567,949
More than six months to one year	6,488,683	6,270,511
More than one year to three years	881	883
More than three years to five years	998	812
	47,440,695	47,840,155

The deposits are sourced from the following type of customers:

	2020 RM'000	2019 RM'000
Federal and state governments	4,067,101	2,348,406
Local government and statutory authorities	676,356	879,729
Business enterprises	10,877,438	9,791,744
Individuals	23,989,087	23,466,357
Foreign customers	615,937	601,272
Others	21,591,978	22,286,503
	61,817,897	59,374,011

18. DEPOSITS FROM BANKS

	2020 RM'000	2019 RM'000
At amortised cost		
Non-Mudharabah Fund		
Licensed banks ^	1,969,892	2,418,115
Licensed investment banks	16,059	7,559
Bank Negara Malaysia *	74,366	17,368
Other financial institutions	7,537	10,274
	2,067,854	2,453,316

^ Included in Non-Mudharabah Fund of licensed banks is an amount placed by the Bank's holding company of RM1,969,892,000 (2019 - RM2,418,115,000).

* Included RM50,024,000 received under a government financing scheme for the purpose of SME financing at a below market and concession rate with a six-year maturity to be repaid in June 2026. The fair value gain arising from the placement of funds with the Bank is applied to address the financial and accounting impact incurred from financing at concession rates to SMEs and for COVID-19 related relief measures.

19. BILLS AND ACCEPTANCES PAYABLE

Bills and acceptances payable represents the Bank's bills and acceptances outstanding in the market. These financial liabilities are stated at amortised cost.

20. SUKUK MURABAHAH

	Note	2020 RM'000	2019 RM'000
At amortised cost			
Senior Sukuk Murabahah	(a)	519,950	519,862
Subordinated Sukuk Murabahah	(b)	1,000,000	1,000,000
		1,519,950	1,519,862

Movements in Sukuk Murabahah issued are as follows:

	2020 RM'000	2019 RM'000
At 1 January	1,519,862	1,519,662
Issuance		
- Subordinated Sukuk Murabahah	-	500,000
Redemption		
- Subordinated Sukuk Murabahah	-	(500,000)
Amortisation of transaction costs	88	200
	1,519,950	1,519,862

The Bank obtained approval from BNM and the Securities Commission on 24 March 2014 and 21 April 2014 respectively, for the establishment of an Islamic medium term note programme under the Shariah principle of Murabahah to facilitate the issuance of Senior Sukuk Murabahah and/or Subordinated Sukuk Murabahah of up to RM5.0 billion in nominal value.

The tenure of the Sukuk Murabahah Programme is up to thirty (30) years from the date of first issuance of Sukuk Murabahah under the Sukuk Murabahah Programme. Sukuk issued under the Sukuk Murabahah Programme are as follows:

(a) Senior Sukuk Murabahah

	2020 RM'000	2019 RM'000
At amortised cost		
RM520 million due in 2021	519,740	519,740
Cumulative amortisation of transaction costs	210	122
	519,950	519,862

20. SUKUK MURABAHAH (continued)

(a) Senior Sukuk Murabahah (continued)

Each issuance of the Senior Sukuk Murabahah shall have a tenure of more than one (1) year provided that the Senior Sukuk Murabahah shall mature on or prior to the expiry of the Sukuk Murabahah Programme. Each issuance will bear profit at a rate to be determined prior to the issuance, payable semi-annually in arrears.

On 28 July 2018, the Bank issued RM520 million in nominal value of Senior Sukuk Murabahah under the Sukuk Murabahah Programme with a tenure of 3 years, and bears profit rate at 4.30% per annum.

The Senior Sukuk Murabahah constitutes direct unsecured liabilities of the Bank, and rank at least pari passu with all other present and future unsecured liabilities of the Bank, except for those liabilities preferred by law.

(b) Subordinated Sukuk Murabahah

	2020 RM'000	2019 RM'000
At amortised cost		
Second tranche:		
RM500 million 4.65% Subordinated Sukuk Murabahah due in 2027, callable in 2022	500,000	500,000
Third tranche:		
RM500 million 3.75% Subordinated Sukuk Murabahah due in 2029, callable in 2024	500,000	500,000
	1,000,000	1,000,000

The tenure of each issuance of Subordinated Sukuk Murabahah, and subject to the call option, shall have at least five (5) years from the issue date, provided that the Subordinated Sukuk Murabahah mature on or prior to the expiry of the Sukuk Murabahah Programme. Each issuance will bear profit at a rate to be determined prior to the issuance, payable semi-annually in arrears.

The Subordinated Sukuk Murabahah will, subject to the prior written consent of BNM, be redeemable in whole or in part, at the option of the Bank in the event of certain changes affecting taxation in Malaysia or if there is a more than insubstantial risk that the Subordinated Sukuk Murabahah will no longer fully qualify as Tier II Capital for the purposes of BNM's capital adequacy requirements or changes in law which will make it unlawful to continue performing its obligations or on the first call date or at any subsequent profit payment date thereafter at their nominal amount.

20. SUKUK MURABAHAH (continued)

(b) Subordinated Sukuk Murabahah (continued)

The Subordinated Sukuk Murabahah to be issued will qualify as Tier II capital for the computation of the regulatory capital of the Bank in accordance with BNM's Capital Adequacy Framework for Islamic Banks (Capital Components).

The Bank has issued the following tranches of Subordinated Sukuk Murabahah:

(a) On 3 August 2017, the Bank issued the second tranche of RM500 million in nominal value of Subordinated Sukuk Murabahah due in 2027 callable in 2022. The Subordinated Sukuk Murabahah bear profit at the rate of 4.65% per annum.

(b) On 31 October 2019, the Bank issued the third tranche of RM500 million in nominal value of Subordinated Sukuk Murabahah due in 2029 callable in 2024. The Subordinated Sukuk Murabahah bear profit at the rate of 3.75% per annum.

The above Subordinated Sukuk Murabahah constitute unsecured liabilities/obligations of the Bank and are subordinated in right of payment upon the occurrence of any winding up proceeding to the prior payment in full of all deposit liabilities and all other liabilities of the Bank in accordance with the terms and conditions of the Subordinated Sukuk Murabahah.

21. OTHER LIABILITIES

	Note	2020 RM'000	2019 RM'000
Income payable		352,383	360,567
Other payables and accruals	(a)	49,050	29,127
Accrued restoration costs	(b)	569	569
Profit Equalisation Reserves		31	31
Allowance for impairment on financing commitments and financial guarantees	(c)	10,509	6,459
		412,542	396,753

(a) Other payables and accruals

(i) Included in other payables and accruals are undistributed charity funds.

The movements in sources and uses of charity funds are as follows:

	2020 RM'000	2019 RM'000
<u>Sources of charity funds</u>		
Undistributed charity funds as at 1 January	1,967	18
Non-Islamic / prohibited income	4	1,901
Gharamah / penalty charges	30	48
Total sources of funds during the year	2,001	1,967
<u>Uses of charity funds</u>		
Contribution to non-profit organisations	1,901	-
Total uses of funds during the year	1,901	-
Undistributed charity funds as at 31 December	100	1,967

(ii) During the current financial year, it was identified that Bai' Bithaman Ajil ("BBA") financing for properties-under-construction of the Bank were not in accordance with Shariah-principles. As such, other payables and accruals included provision for financing income arising from these BBA financing contracts which was deferred for recognition and will be recognised upon rectification which amounted to RM26,064,000 as at 31 December 2020.

(b) Accrued restoration costs

Costs estimated to dismantle and remove the asset or to restore the leased asset or the site on which it is located at the end of the lease term.

21. OTHER LIABILITIES (continued)

(c) Allowance for impairment on financing commitments and financial guarantees

Movements in allowance for impairment on financing commitments and financial guarantees are as follows:

		Lifetime ECL		
	12-Month ECL (Stage 1) RM'000	**Not Credit-Impaired (Stage 2) RM'000**	**Credit-Impaired (Stage 3) RM'000**	**Total RM'000**
At 1 January 2020	5,225	906	328	6,459
Changes due to financing commitments and financial guarantees recognised as at 1 January 2020:	311	(115)	(196)	-
- Transfer to Stage 1: 12-Month ECL	378	(358)	(20)	-
- Transfer to Stage 2: Lifetime ECL not credit-impaired	(67)	251	(184)	-
- Transfer to Stage 3: Lifetime ECL credit-impaired	-	(8)	8	-
New financing commitments and financial guarantees originated	1,032	381	18	1,431
Net remeasurement due to changes in credit risk	121	577	(52)	646
Financing commitments and financial guarantees derecognised	(89)	(74)	(4)	(167)
Modifications to contractual cash flows of financing commitments and financial guarantees	(14)	399	(4)	381
Changes in models / risk parameters	1,367	392	-	1,759
At 31 December 2020	7,953	2,466	90	10,509

21. OTHER LIABILITIES (continued)

(c) Allowance for impairment on financing commitments and financial guarantees (continued)

Movements in allowance for impairment on financing commitments and financial guarantees are as follows (continued):

		Lifetime ECL		
	12-Month ECL (Stage 1) RM'000	Not Credit-Impaired (Stage 2) RM'000	Credit-Impaired (Stage 3) RM'000	Total RM'000
At 1 January 2019	4,480	1,171	135	5,786
Changes due to financing commitments and financial guarantees recognised as at 1 January 2019:	428	(389)	(39)	-
- Transfer to Stage 1: 12-Month ECL	473	(445)	(28)	-
- Transfer to Stage 2: Lifetime ECL not credit-impaired	(44)	87	(43)	-
- Transfer to Stage 3: Lifetime ECL credit-impaired	(1)	(31)	32	-
New financing commitments and financial guarantees originated	910	244	36	1,190
Net remeasurement due to changes in credit risk	(847)	(168)	158	(857)
Financing commitments and financial guarantees derecognised	(519)	(76)	(5)	(600)
Modifications to contractual cash flows of financing commitments and financial guarantees	-	-	1	1
Changes in models / risk parameters	773	124	42	939
At 31 December 2019	5,225	906	328	6,459

22. PROVISION FOR ZAKAT AND TAXATION

	2020 RM'000	2019 RM'000
Zakat	318	318
Tax expense	-	19,570
	318	19,888

23. SHARE CAPITAL

	2020 '000	2019 '000
Number of ordinary shares:		
At 1 January / 31 December	231,217	231,217

	2020 RM'000	2019 RM'000
Issued and fully paid ordinary shares:		
At 1 January / 31 December	2,732,717	2,732,717

24. REGULATORY RESERVES

The regulatory reserves are maintained by the Bank as an additional credit risk absorbent in excess of the requirements of accounting standards. The reserves are maintained in line with the requirements of Bank Negara Malaysia ("BNM").

As part of the measures to assist customers experiencing temporary financial constraints due to the COVID-19 pandemic, banking institutions in Malaysia are allowed by BNM to reduce the regulatory reserves held against expected losses to 0%. However, banking institutions are required to rebuild the said buffers after 31 December 2020 and restore them to the minimum regulatory requirements by 30 September 2021. BNM will review this timeline if current expectations change materially.

As at the reporting date, the Bank has not drawn down the prudential buffer.

25. OTHER RESERVES

	Revaluation Reserves RM'000	Others RM'000	Hedging Reserves RM'000	Defined Benefit Reserves RM'000	Total RM'000
At 1 January 2020	82,169	172	(69,660)	4,258	16,939
Net change in revaluation of financial investments at fair value through other comprehensive income					
- Net unrealised gain	297,091	-	-	-	297,091
- Net gain on disposal reclassified to profit or loss	(151,616)	-	-	-	(151,616)
	145,475	-	-	-	145,475
Net change in cash flow hedges:					
- Net unrealised loss	-	-	(104,199)	-	(104,199)
Gain on remeasurements of defined benefit plan	-	-	-	578	578
Deferred tax (Note 12)	(34,914)	-	25,008	(139)	(10,045)
Other comprehensive income / (loss)	110,561	-	(79,191)	439	31,809
At 31 December 2020	192,730	172	(148,851)	4,697	48,748

25. OTHER RESERVES (continued)

	Revaluation Reserves RM'000	Others RM'000	Hedging Reserves RM'000	Defined Benefit Reserves RM'000	Total RM'000
At 1 January 2019	7,308	172	(15,195)	6,206	(1,509)
Net change in revaluation of financial investments at fair value through other comprehensive income					
- Net unrealised gain	155,052	-	-	-	155,052
- Net gain on disposal reclassified to profit or loss	(56,551)	-	-	-	(56,551)
	98,501	-	-	-	98,501
Net change in cash flow hedges:					
- Net unrealised loss	-	-	(71,664)	-	(71,664)
Loss on remeasurements of defined benefit plan	-	-	-	(2,563)	(2,563)
Deferred tax (Note 12)	(23,640)	-	17,199	615	(5,826)
Other comprehensive income / (loss)	74,861	-	(54,465)	(1,948)	18,448
At 31 December 2019	82,169	172	(69,660)	4,258	16,939

25. OTHER RESERVES (continued)

Revaluation Reserves
The revaluation reserves are in respect of unrealised fair value gains and losses on financial investments at fair value through other comprehensive income.

Hedging Reserves
The hedging reserves are in respect of the effective portion of unrealised fair value gains and losses on cash flow hedging instruments.

Defined Benefit Reserves
The defined benefit reserves are in respect of remeasurements of the net defined benefit assets/liabilities.

26. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	2020 RM'000	2019 RM'000
Income derived from investment of:		
(i) Term deposits	1,832,116	2,145,556
(ii) Other deposits	572,580	565,151
	2,404,696	2,710,707

(i) Income derived from investment of term deposits:

	2020 RM'000	2019 RM'000
Finance income and Hibah		
Financing and advances (Note 27(a))	1,337,848	1,690,459
Financial investments at fair value through other comprehensive income	218,297	233,421
Financial investments at amortised cost	109,996	99,170
Balances with banks	2,600	10,651
	1,668,741	2,033,701
Financial assets at fair value through profit or loss	4,013	12,666
Total finance income and Hibah	1,672,754	2,046,367
Other operating income		
Fee and commission income:		
- Commissions	20,011	17,392
- Service charges and fees	10,735	12,338
- Facility fees	2,996	1,779
- Other fee income	3,503	3,890
Net gains and losses on financial instruments:		
- Net gain arising from sale of financial investments at fair value through other comprehensive income	106,311	41,337
- Net (loss) /gain representing ineffective portions of hedging derivatives	(286)	883
- Others	624	905
Gross distribution income from collective investment	11,377	13,504
Other income	4,091	7,161
Total other operating income	159,362	99,189
	1,832,116	2,145,556

26. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS (continued)

(ii) Income derived from investment of other deposits:

	2020 RM'000	2019 RM'000
Finance income and Hibah		
Financing and advances (Note 27(a))	418,110	445,276
Financial investments at fair value through other comprehensive income	68,223	61,484
Financial investments at amortised cost	34,376	26,122
Balances with banks	812	2,806
	521,521	535,688
Financial assets at fair value through profit or loss	1,254	3,336
Total finance income and Hibah	522,775	539,024
Other operating income		
Fee and commission income:		
- Commissions	6,254	4,581
- Service charges and fees	3,355	3,250
- Facility fees	936	469
- Other fee income	1,095	1,024
Net gains and losses on financial instruments:		
- Net gain arising from sale of financial investments at fair value through other comprehensive income	33,225	10,889
- Net (loss) /gain representing ineffective portions of hedging derivatives	(89)	233
- Others	195	238
Gross distribution income from collective investment	3,555	3,557
Other income	1,279	1,886
Total other operating income	49,805	26,127
	572,580	565,151

27. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	2020 RM'000	2019 RM'000
Finance income and Hibah		
Financing and advances (Note (a))	152,022	176,870
Financial investments at fair value through other comprehensive income	24,806	24,422
Financial investments at amortised cost	12,499	10,376
Balances with banks	295	1,114
	189,622	212,782
Financial assets at fair value through profit or loss	456	1,325
Total finance income and Hibah	190,078	214,107
Other operating income		
Fee and commission income:		
- Commissions	2,274	1,820
- Service charges and fees	1,220	1,291
- Facility fees	340	186
- Other fee income	398	407
Net gains and losses on financial instruments:		
- Net gain arising from sale of financial investments at fair value through other comprehensive income	12,080	4,325
- Net (loss) /gain representing ineffective portions of hedging derivatives	(33)	92
- Others	71	95
Gross distribution income from collective investment	1,293	1,413
Other income	465	749
Total other operating income	18,108	10,378
	208,186	224,485

Note (a):

(i) Day 1 Net Modification Loss:

Included day 1 net modification loss relating to COVID-19 relief measures in the current financial year:

	RM'000
Loss on modification of cash flow	289,431
Less: Benefits recognised under various government schemes	(114,807)
Day 1 net modification loss	174,624

The Bank granted an automatic moratorium on all financing repayments to individuals and small and medium enterprises ("SMEs") for a period of six months from 1 April 2020. After the six months period has ended, the Bank continued to grant further moratorium to customers experiencing temporary financial constraints due to the COVID-19 pandemic particularly the unemployed. As a result of the moratorium, the Bank recognised a loss from modification of cash flows of the financing.

As part of the government support measures in response to COVID-19 pandemic, the Bank received amounts under a Government financing scheme for the purpose of SME financing at a below market and concession rate to SMEs through the Special Relief Facility. The benefits under these schemes for the Bank is recognised in the financing income.

(ii) Reversal of financing income arising from Bai' Bithaman Ajil ("BBA") contracts

Included reversal of financing income arising from the BBA contracts of RM26,064,000 which was deferred for recognition in the current financial year as disclosed in Note 21(a)(ii).

28. ALLOWANCE FOR IMPAIRMENT ON FINANCING AND ADVANCES

	2020 RM'000	2019 RM'000
Expected credit losses ("ECL") on:		
- Financing and advances	229,053	68,173
- Financing commitments and financial guarantees	4,050	673
	233,103	68,846
Impaired financing recovered	(28,370)	(27,090)
	204,733	41,756

Details of the forward looking macro-economic variables and management overlay are explained in Note 2(i)(c).

The breakdown of ECL charged for the year ended 31 December 2020 are as follows:

		Forward Looking ECL due to COVID-19 Pandemic		
	Base ECL RM'000	Macro-economic Variables RM'000	Management Overlay RM'000	Total ECL Charged RM'000
ECL charged	91,111	58,172	83,820	233,103

29. ALLOWANCE FOR IMPAIRMENT ON OTHER ASSETS

	2020 RM'000	2019 RM'000
Expected credit losses on:		
- Financial investments at fair value through other comprehensive income		
- Debt instruments (Note 6)	8	137
- Financial investments at amortised cost		
- Debt instruments (Note 7)	132	97
Allowance / (Writeback of allowance) for impairment on foreclosed properties	51	(2)
	191	232

30. INCOME ATTRIBUTABLE TO DEPOSITORS AND OTHERS

	2020 RM'000	2019 RM'000
Deposits from customers		
- Non-Mudharabah fund	1,280,066	1,641,031
Deposits from banks		
- Non-Mudharabah fund	84,581	86,650
Sukuk Murabahah	64,536	59,206
Lease liabilities	840	810
	1,430,023	1,787,697

31. PERSONNEL EXPENSES

	2020 RM'000	2019 RM'000
Salaries, allowances and bonuses	16,461	15,523
Pension costs	3,158	2,495
Others	2,011	3,225
	21,630	21,243

(a) Included in personnel expenses are the following:

	2020 RM'000	2019 RM'000
Pension costs		
- defined contribution plan	2,069	1,933
- defined benefit plan (Note 10)	1,089	562
	3,158	2,495

(b) Employees

The number of persons employed by the Bank (excluding Directors) as at the end of the financial year was 125 (2019 - 117).

32. OTHER OVERHEADS AND EXPENDITURES

	2020 RM'000	2019 RM'000
Establishment costs		
- Depreciation	1,877	1,754
- Insurance	901	854
- Water and electricity	158	190
- General repairs and maintenance	1,498	977
- Others	1,728	1,872
	6,162	5,647
Marketing expenses		
- Advertisement and publicity	1,513	1,694
- Others	1,339	1,220
	2,852	2,914
Administration and general expenses		
- Communication expenses	5,182	3,635
- Legal and professional fees	7,500	6,088
- Others	18,153	18,530
	30,835	28,253
Cost of resource sharing charged by Public Bank Berhad *	424,033	416,753
Recovery of expenses	(13,534)	(11,591)
	450,348	441,976

* The type of resource sharing rendered by Public Bank Berhad to the Bank in Malaysia are as follows:

	2020 RM'000	2019 RM'000
Credit related	186,265	185,966
Non-credit branch support	159,017	158,140
Other administration function	78,751	72,647
	424,033	416,753

32. OTHER OVERHEADS AND EXPENDITURES (continued)

Included in other overheads and expenditures are the following:

	2020 RM'000	2019 RM'000
Auditors' remuneration		
- audit	694	389
- regulatory related services *	114	112
- other services	-	180
Depreciation of right-of-use assets (Note 15(a))	1,265	1,330
Depreciation of property and equipment (Note 16)	612	424
Directors' remuneration (Note 33) #	1,946	1,824

* Regulatory related services include half year limited review and validation review based on agreed-upon procedures.

Included in total directors' remuneration is the Shariah Committee remuneration paid to Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid amounting to RM32,000 (2019 - RM127,000) and Datin Dr. Rusnah binti Muhamad amounting to RM123,000 (2019 - RM113,000).

33. CHIEF EXECUTIVE OFFICER, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION

	2020 RM'000	2019 RM'000
Chief Executive Officer of the Bank		
- Salary and other remuneration	702	648
- Bonuses	291	80
- Benefits-in-kind	9	7
	1,002	735
Directors of the Bank (Note 32)		
Non-Executive Directors:		
- Fees	763	738
- Other remuneration	1,028	846
	1,791	1,584
Shariah Committee members		
- Allowance	399	465
- Other remuneration	126	93
	525	558
	3,318	2,877

33. CHIEF EXECUTIVE OFFICER, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION (continued)

The total remuneration of the Directors of the Bank are as follows:

2020	**Fees RM'000**	**Other Remuneration RM'000**	**Total RM'000**
Non-Executive Directors:			
Tan Sri Dato' Sri Dr. Teh Hong Piow	101	31	132
Dato' Mohammed Najeeb bin Abdullah	138	175	313
Tan Sri Dato' Sri Tay Ah Lek	101	32	133
Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid	101	103	204
Mr Vasantha Kumar Tharmalingam	102	175	277
Datin Dr. Rusnah binti Muhamad	101	250	351
Mr Lam Song Shen	102	235	337
Dato' Haji Kamil Khalid bin Dato' Mushir Ariff #	17	27	44
	763	1,028	1,791

This represents the remuneration paid to this director since his appointment on 1 November 2020.

2019	**Fees RM'000**	**Other Remuneration RM'000**	**Total RM'000**
Non-Executive Directors:			
Tan Sri Dato' Sri Dr. Teh Hong Piow	102	30	132
Dato' Mohammed Najeeb bin Abdullah	138	171	309
Tan Sri Dato' Sri Tay Ah Lek	102	27	129
Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid	101	97	198
Mr Vasantha Kumar Tharmalingam	101	197	298
Datin Dr. Rusnah binti Muhamad	101	176	277
Mr Lam Song Shen *	93	148	241
	738	846	1,584

* This represents the remuneration paid to this director since his appointment on 1 February 2019.

33. CHIEF EXECUTIVE OFFICER, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION (continued)

The total remuneration of the Shariah committee members of the Bank are as follows:

2020	**Allowance RM'000**	**Other Remuneration RM'000**	**Total RM'000**
Dr. Ab Mumin bin Ab Ghani [1]	79	24	103
Datin Dr. Rusnah binti Muhamad	93	30	123
Ir. Dr. Muhamad Fuad bin Abdullah [1]	70	24	94
Mr Engku Ahmad Fadzil bin Engku Ali [1]	70	24	94
Mr Khairil Anuar bin Mohd Noor [1]	15	6	21
Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid [2]	26	6	32
Dr. Mohd Afandi bin Awang Hamat [2]	23	6	29
Dr. Abdul Bari bin Awang [2]	23	6	29
	399	126	525

[1] This represents the remuneration paid to this Shariah committee member since his appointment on 1 April 2020.

[2] This represents the remuneration paid to this Shariah committee member until his retirement on 31 March 2020.

2019	**Allowance RM'000**	**Other Remuneration RM'000**	**Total RM'000**
Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid	106	21	127
Mr Mohd Ridzuan bin Awang [3]	81	9	90
Dr. Mohd Afandi bin Awang Hamat	93	21	114
Dr. Abdul Bari bin Awang	93	21	114
Datin Dr. Rusnah binti Muhamad	92	21	113
	465	93	558

[3] This represents the remuneration paid to this Shariah committee member until his demise on 17 November 2019.

34. ZAKAT AND TAXATION

	2020 RM'000	2019 RM'000
Zakat	1,206	300
Malaysian income tax		
- in respect of current year profit	23,300	152,647
- under / (over) provision in prior years	20	(871)
	23,320	151,776
Deferred tax expense (Note 12)		
- Relating to origination and reversal of temporary differences arising from:		
- excess / (shortfall) of capital allowances over depreciation	37	(120)
- defined benefit plan	(262)	(135)
- profit on moratorium account	140,366	-
- other temporary differences	(6,460)	(20)
- allowance for impairment on financing and advances	(39,835)	(1,802)
	93,846	(2,077)
- (over) / under provision in prior years	(20)	135
	93,826	(1,942)
Tax expense	117,146	149,834
	118,352	150,134

The Malaysian income tax is calculated at the statutory tax rate of 24% (2019: 24%) on the estimated chargeable profit for the financial year. The computation of deferred tax assets and deferred tax liabilities is also based on the statutory tax rate of 24%.

A reconciliation of income tax expense applicable to profit before zakat and taxation at the statutory tax rate to income tax expense at the effective income tax rate of the Bank is as follows:

	2020 %	2020 RM'000	2019 %	2019 RM'000
Profit before zakat and taxation		505,957		642,288
Income tax using Malaysian tax rate	24.0	121,430	24.0	154,149
Income not subject to tax	(0.9)	(4,580)	(0.7)	(4,434)
Expenses not deductible for tax purposes	-	296	0.1	855
Over provision in prior years	-	-	(0.1)	(736)
Tax expense for the year	23.1	117,146	23.3	149,834

35. EARNINGS PER SHARE

a) Basic Earnings Per Share ("EPS")

The calculation of the basic earnings per share is based on the net profit attributable to the equity holder of the Bank for the year divided by the weighted average number of ordinary shares in issue during the year:

	2020	2019
Net profit attributable to the equity holder of the Bank (RM'000)	387,605	492,154
Weighted average number of ordinary shares in issue ('000)	231,217	231,217
Basic earnings per share (sen)	167.6	212.9

b) Diluted EPS

The Bank has no dilution in its earnings per ordinary share in the current and previous financial year as there are no dilutive potential ordinary shares.

36. DIVIDENDS

	Amount		Dividend per Share	
	2020	2019	2020	2019
	RM'000	RM'000	Sen	Sen
Dividends recognised as distribution to the ordinary equity holder of the Bank:				
- Second interim dividend of 20.0 sen in respect of the financial year ended 31 December 2018	-	46,243	-	20.0
	-	46,243	-	20.0

The Directors do not propose any dividend for the financial year ended 31 December 2020.

37. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or if one other party controls both. The related parties of the Bank are:

(i) Holding and Related Companies

The holding as well as the ultimate holding company of the Bank is Public Bank Berhad, a licensed bank incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad. Related companies are those companies within the Public Bank Group, collective investments held by Public Bank Group and the Bank and also associated company in which the Bank has significant influence but not control. The details of the related companies are as follows:

Related Companies	Principal Activities
Local Related Companies	
Public Investment Bank Berhad	Investment banking
Public Invest Nominees (Tempatan) Sdn. Bhd.	Nominee services
Public Invest Nominees (Asing) Sdn. Bhd.	Nominee services
Public Consolidated Holdings Sdn. Bhd.	Investment holding
Public Mutual Berhad	Sale and management of unit trust funds and private retirement schemes
Public Holdings Sdn. Bhd.	Property holding
Public Nominees (Tempatan) Sdn. Bhd.	Nominee services
Public Nominees (Asing) Sdn. Bhd.	Nominee services
Public Bank (L) Ltd.	Offshore banking
PB Trust (L) Ltd.	Offshore trust company
PB Venture Capital Sdn. Bhd.	Investment holding
Public Leasing & Factoring Sdn. Bhd.	Leasing and factoring
PB International Factors Sdn. Bhd.	Investment holding
PBFIN Berhad	In members' voluntary liquidation
PB Trustee Services Berhad	Trustee services

37. RELATED PARTY TRANSACTIONS (continued)

(i) Holding and Related Companies (continued)

Related Companies	**Principal Activities**
Overseas Related Companies	
Cambodian Public Bank Plc	Banking
Campu Securities Plc	Securities dealing and underwriting
Campu Lonpac Insurance Plc	General insurance
Public Financial Holdings Limited	Investment and property holding
Public Bank (Hong Kong) Limited	Banking
Public Finance Limited	Deposit-taking and finance
Public Financial Limited	Investment holding
Public Securities Limited	Stock and share broking
Public Securities (Nominees) Limited	Nominee services
Public Financial Securities Limited	Stock and share broking
Public Bank (Nominees) Limited	Nominee services
Public Futures Limited	Dormant
Winton (B.V.I.) Limited	Investment holding
Winton Financial Limited	Provision of financing
Winton Motors, Limited	Trading of taxi cabs and taxi licences, and leasing of taxis
Public Bank Vietnam Limited	Banking
Collective Investments	
Public Institutional Bond Fund	Bond fund
Public Wholesale Income Fund	Wholesale income fund
Public Islamic Wholesale Income Fund	Wholesale income fund
Associated Company	
AIA PUBLIC Takaful Berhad	Family takaful

(ii) Key Management Personnel and the Close Members of His/Her Family

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. The key management personnel of the Bank include Non-Executive Directors of the Bank, chief executive officer and certain key members of senior management of the Bank.

(iii) Companies in which Certain Directors Have Substantial Financial Interest

These are entities in which significant voting power in such entities directly or indirectly resides with certain Directors of the Bank.

37. RELATED PARTY TRANSACTIONS (continued)

All related party transactions are conducted on normal commercial terms which are no more favourable than those generally available to the public.

(a) The significant transactions of the Bank with its related parties are as follows:

	Key Management Personnel *		Companies in which Certain Directors have Substantial Financial Interest		Holding Company		Other Related Companies		Collective Investment	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Income earned:										
Financing income on financing and advances	9	17	-	-	-	-	-	-	-	-
Distribution income	-	-	-	-	-	-	-	-	16,225	18,474
Commission income	-	-	-	3,594	-	-	15,779	14,133	-	-
Fee income	-	-	-	-	-	-	34	-	-	-
	9	17	-	3,594	-	-	15,813	14,133	16,225	18,474
Expenditure incurred:										
Profit expense attributable to depositors	1	4	-	-	64,727	71,135	553	976	43,647	51,216
Profit expense on profit rate swaps	-	-	-	-	36,147	13,699	-	-	-	-
Profit expense on Sukuk Murabahah issued	-	-	464	468	-	-	-	-	-	-
Cost of resource sharing paid / payable	-	-	-	-	424,033	416,753	-	-	-	-
Rental of premises ^	-	-	-	-	644	644	3	3	-	-
Professional fees	-	-	-	-	-	-	50	50	-	-
	1	4	464	468	525,551	502,231	606	1,029	43,647	51,216

* Included transactions with close members of the key management personnel's family.

^ This amount represents actual rental of premises incurred by the Bank.

The table above includes the following transactions of the Bank with its Directors (including close members of their families):
(i) profit expense on deposits of RM1,000 (2019 - RM3,000); and
(ii) financing income on financing and advances of RM1,000 (2019 - RM2,000).

37. RELATED PARTY TRANSACTIONS (continued)

(b) The significant outstanding balances of the Bank with its related parties are as follows:

	Key Management Personnel *		Companies in which Certain Directors have Substantial Financial Interest		Holding Company		Other Related Companies		Collective Investment	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Amount due from related parties										
Interbank investing	-	-	-	-	163,168	507,734	-	-	-	-
Derivative financial assets	-	-	-	-	1,317	-	-	-	-	-
Financing and advances	11	333	-	-	-	-	-	-	-	-
Distribution receivable	-	-	-	-	-	-	-	-	1,300	1,537
Rental deposits	-	-	-	-	148	148	1	1	-	-
	11	333	-	-	164,633	507,882	1	1	1,300	1,537
Amount due to related parties										
Demand deposits	53	32	-	-	-	-	106,626	131,541	51	51
Term deposits	537	317	-	-	1,060,141	1,310,142	344,747	175,756	1,214,134	1,288,816
Interbank acceptance	-	-	-	-	909,751	1,107,972	-	-	-	-
Derivative financial liabilities	-	-	-	-	196,035	90,130	-	-	-	-
Income payable	-	-	-	-	6,771	4,273	276	153	20,057	26,604
Sukuk Murabahah issued	-	-	10,624	10,443	-	-	-	-	-	-
	590	349	10,624	10,443	2,172,698	2,512,517	451,649	307,450	1,234,242	1,315,471
Commitments and contingencies										
Commitments	218	273	-	-	-	-	-	-	-	-

* Included transactions with close members of the key management personnel's family.

The table above includes the following outstanding balances of the Bank with its Directors (including close members of their families):

(i) demand deposits and term deposits of RM576,000 (2019 - RM332,000); and

(ii) financing and advances of RM9,000 (2019 - RM38,000).

37. RELATED PARTY TRANSACTIONS (continued)

(c) The financing and advances granted to the Directors and other key management personnel of the Bank are on similar terms and conditions generally available to other employees within the Bank.

None of the financing and advances granted to the Directors and other key management personnel of the Bank (2019 - None) are impaired.

(d) Key Management Personnel Compensation

The remuneration of key management personnel during the year are as follows:

	2020 RM'000	**2019 RM'000**
Short-term employee benefits:		
- Fees	763	738
- Salary and other allowances	2,501	2,601
- Benefits-in-kind	9	8
Post-employment benefits		
- Defined contribution plan	158	181
- Annual service cost	-	31
	3,431	3,559

Included in the total key management personnel compensation are:

Directors' remuneration including benefits-in-kind		
- Directors of the Bank (Note 33) *	1,946	1,824

* Included in total directors' remuneration is the Shariah Committee remuneration paid to Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid amounting to RM32,000 (2019 - RM127,000) and Datin Dr. Rusnah binti Muhamad amounting to RM123,000 (2019 - RM113,000).

38. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	2020 RM'000	2019 RM'000
Outstanding credit exposures with connected parties	499,390	209,552
of which:		
Total credit exposures which are impaired or in default	5	131
Total credit exposures	59,221,131	53,996,220
Percentage of outstanding credit exposures to connected parties		
- as a proportion of total credit exposures	0.84%	0.39%
- as a proportion of total capital	7.38%	3.42%
- which is impaired or in default	0.00%	0.06%

The disclosure on Credit Transactions and Exposures with Connected Parties above is presented in accordance with Para 9.1 of Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties for Islamic Banks.

Based on these guidelines, a connected party refers to any of the following:

(i) Directors of the Bank and their close relatives;
(ii) Controlling shareholder and his close relatives;
(iii) Influential shareholder and his close relatives;
(iv) Executive officer, being a member of management having authority and responsibility for planning, directing and/or controlling the activities of the Bank, and his close relatives;
(v) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;
(vi) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (v) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;
(vii) Any person for whom the persons listed in (i) to (v) above is a guarantor; and
(viii) Subsidiary of or an entity controlled by the Bank and its connected parties.

Credit transactions and exposures to connected parties as disclosed above include the extension of credit facilities and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and financing commitments. It also includes holdings of equities and private debt securities issued by the connected parties.

The credit transactions with connected parties above are all transacted on an arm's length basis and on terms and conditions no more favourable than those entered into with other counterparties with similar circumstances and creditworthiness. Due care has been taken to ensure that the creditworthiness of the connected party is not less than that normally required of other persons.

39. INTERNATIONAL CURRENCY BUSINESS UNIT

The financial position as at 31 December 2020 and results for the financial year ended on this date under the International Currency Business Unit of the Bank, are summarised as follows:

Statement of Financial Position as at 31 December 2020

	2020 RM'000	2019 RM'000
ASSETS		
Cash and balances with banks	6,367	4,272
Financing and advances	109,732	107,548
Other assets	73	282
TOTAL ASSETS	116,172	112,102
LIABILITIES		
Deposits from customers	1,191	920
Deposits from banks	109,751	107,972
Other liabilities	7	73
TOTAL LIABILITIES	110,949	108,965
Reserves	5,223	3,137
TOTAL LIABILITIES AND RESERVES	116,172	112,102

Statement of Profit or Loss and Comprehensive Income for the Year Ended 31 December 2020

	2020 RM'000	2019 RM'000
Finance income	2,350	2,923
Profit expense	(461)	(996)
Net finance income	1,889	1,927
Other operating income	262	165
(Allowance) / Writeback of allowance for impairment on financing and advances	(65)	39
Profit before zakat and taxation	2,086	2,131
Zakat	-	-
Taxation	-	-
Profit for the year, representing total comprehensive income for the year	2,086	2,131

40. FINANCIAL RISK MANAGEMENT

Overview

The Bank’s business activities involve the use of financial instruments, including derivatives entered into for hedging purposes. These activities expose the Bank to a variety of financial risks, mainly credit risk, market risk, liquidity risk and funding risk.

The Bank’s financial risk management is underpinned by the Bank's risk appetite and is subject to the Board of Directors' oversight, through the Risk Management Committee ("RMC"), a Board Committee, which oversees the establishment of enterprise-wide risk management policies and processes. The RMC is assisted by Public Bank Berhad ("PBB")'s specific risk oversight committees and working group which are the Assets & Liabilities Management Committee ("ALCO"), the Credit Risk Management Committee ("CRMC"), the Operational Risk Management Committee ("ORMC") and the Internal Capital Adequacy Assessment Process ("ICAAP") Working Group.

Credit Risk

Credit risk is the potential loss of revenue as a result of failure by the customers or counterparties to meet their contractual financial obligations. As the Bank's primary business is in Islamic banking, the Bank's exposure to credit risk is primarily from its financing to retail consumers, small and medium enterprises ("SMEs") and corporate customers. Trading activities and investing the surplus funds of the Bank, such as trading or holding of debt securities, deposit placements, settlement of transactions, also expose the Bank to credit risk and counterparty credit risk ("CCR").

Risk Governance

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews the Bank's credit risk frameworks and policies, credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance level.

Risk Management Approach

The Bank's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the Bank's financing standards, discretionary power for financing approval, credit risk rating, acceptable collateral and valuation, and the review, rehabilitation and restructuring of problematic and delinquent financing. The credit policies, guidelines and procedures are periodically reviewed to ensure their continued relevance.

Within the Risk Management Division ("RMD"), the Credit Risk Management Department has functional responsibility for credit risk management which includes formulating and reviewing the Bank's credit risk policies, guidelines and procedures. Other independent risk management and control units are responsible for managing the credit portfolios and ensuring the credit risk policies are implemented and complied with.

40. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

The management of credit risk starts with experienced key personnel appointed to the Credit Committee of PBB ("Credit Committee"). The Credit Committee approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. Financing applications of significant amounts and/or higher risk exposure are approved at Head Office or by the Credit Committee while experienced senior credit officers at branches are given authority to approve financing with lower risk exposure. The Board of Directors has the authority to reject or modify the terms and conditions of financing which have been approved by the Credit Committee. The credit approving authorities are assigned discretionary powers based on their seniority and track record.

(a) Financing to Retail Consumers and SMEs

The credit granting to retail consumers and SMEs is individually underwritten, which amongst others, includes the assessment of the historical repayment track record and the current repayment capacity of the customer as well as the business condition and prospect. The credit assessment is assisted by the internal credit risk rating scoresheet. The credit approving authorities have the responsibility to ensure that credit risk is properly assessed and all crucial credit information of the customer is included in the customer's financing application.

(b) Financing to Corporate and Institutional Customers

The credit granting to corporate and institutional customers is individually underwritten and risk-rated through the use of an internal or external credit risk rating scoresheet. Credit officers identify and assess the credit risk of large corporate or institutional customers, or customer groups, taking into consideration their financial and business profiles, industry and economic factors, collateral, or other credit support such as standby letters of credit or bank guarantees.

(c) Credit Risk from Trading and Investment Activities

The management of the credit risk arising from the Bank's trading or investing its surplus funds is primarily via the setting of issuers' credit limits which are specifically approved by the relevant approving authorities. In addition, the investment in debt securities are subject to the minimum investment grade, minimum acceptable return and the maximum tenures and these investment parameters are subject to regular review. The holdings of Collateralised Debt Obligations ("CDO") or Collateralised Loan Obligations ("CLO") require the specific approval of the Board of Directors. As at the reporting date, the Bank does not have any direct or indirect exposure to asset-backed securities, CDO or CLO and does not participate in any securitisation deals.

40. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(d) Counterparty Credit Risk on Derivative Financial Instruments

The Bank's derivative financial instruments is Islamic Profit Rate Swap ("IPRS") which was entered into for hedging purposes. The CCR on this derivative financial instruments is the risk that the Bank's counterparty in IPRS defaults prior to maturity date of the contract and that the Bank, at the relevant time, has a claim on the counterparty.

Unlike on-balance sheet financial instruments, the Bank's financial loss is not the entire contracted notional principal value of the derivatives, but equivalent to the cost to replace the defaulted derivative financial instruments with another similar contract. The Bank will only suffer a loss if the contract carries a positive economic value at time of default.

The CCR arising from all derivative financial instruments is managed via the establishment of credit exposure limits and daily settlement limits for each counterparty. Where possible, Over-the-Counter ("OTC") derivative financial instruments, especially IPRS is transacted under master agreements, Islamic Derivatives Master Agreement ("IDMA") and Credit Support Annex ("CSA") agreements. IDMA allows for the close-out netting in the event of default by a counterparty and CSA provides credit protection with the requirements to post collateral, usually in the form of cash or government securities upon any excess over the threshold levels.

All outstanding financial derivative positions are marked-to-market on a daily basis. Treasury Control & Processing Department monitors counterparties' positions and promptly follows up with the requirements to post collateral upon any excess over the threshold levels.

Proposition of counterparty limits to financial institutions by the business units are independently assessed and evaluated by RMD before approval is granted by the relevant approving party. The Independent Credit Review ("ICR") Team within RMD provides independent evaluation and views on retails business financing and corporate financing of selected financing size and/or type. Periodical review/assessment of business sectors and industries in which the Bank’s customers are significantly exposed to are also carried out by the ICR Team besides providing assistance in the formulation of credit policies and guidelines undertaken by the business units.

40. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

Post approval reviews are performed regularly to complement risk identification as well as to evaluate the quality of credit appraisals and the competency of credit personnel. Various credit risk analytics are performed periodically to identify key risk characteristics and to risk profile the credit portfolio. In addition, comprehensive assessment on emerging risk is conducted to assess the impact of the risk on the Bank's portfolio as well as establishing appropriate measures to mitigate the risk. Internal risk management reports are presented to the Credit Committee, CRMC and RMC, containing information on asset quality trends across major credit portfolios, results of the credit profiling conducted, emerging risk assessment, significant credit exposures to connected parties and credit concentration by economic sectors and by large single customers. Such information allows senior management, Credit Committee, CRMC and RMC to identify adverse credit trends, take corrective actions and formulate business strategies.

There have been no changes to the process for managing credit risk and the methods used to measure credit risk.

(i) Credit Risk Exposures and Credit Risk Concentration

The following tables present the Bank’s maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For on-balance sheet exposures, the maximum exposure to credit risk equals their carrying amount. For financial guarantees, the maximum exposure to credit risk is the full amount that the Bank would have to pay if the obligations for which the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit granted to customers.

Credit concentration risk arises from excessive exposures to any single exposure or group of exposure or sector that will potentially result in losses which are large enough to undermine the health of the Bank. To manage this large exposures and to avoid any undue credit concentration risk, the Bank has emplaced internal exposure limits expressed as a percentage of the Bank's capital.

By Industry Analysis

The analysis of credit risk concentration presented below relates only to financial assets subject to credit risk and are based on the industry in which the counterparties are engaged (for non-individual counterparties) or the economic purpose of the credit exposure (for individuals). The exposures to credit risk are presented without taking into account any collateral held or other credit enhancements.

40. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Industry Analysis (continued)

31 December 2020	Government and Central Banks RM'000	Financial Services RM'000	Transport and Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Financing RM'000	Total RM'000
On-Balance Sheet Exposures									
Cash and balances with banks	1,900,384	212,444	-	-	-	-	-	-	2,112,828
Financial assets at fair value through profit or loss									
- Money market instruments	-	-	-	-	-	-	-	-	-
Derivative financial assets	-	1,317	-	-	-	-	-	-	1,317
Financial investments at fair value through other comprehensive income									
- Government securities and treasury bills	9,717,771	-	-	-	-	-	-	-	9,717,771
Financial investments at amortised cost (Gross)									
- Government securities and treasury bills	3,879,493	-	-	-	-	-	-	-	3,879,493
- Non-money market instruments	55,802	257,838	-	86,434	242,163	-	-	-	642,237
Gross financing and advances									
- Retail financing									
- house financing	-	-	-	-	-	23,638,835	-	-	23,638,835
- hire purchase	361	877	93,552	94,760	75,873	-	8,532,782	-	8,798,205
- credit cards	-	-	-	-	-	-	-	34,699	34,699
- other financing	1,105	55,785	1,112,150	4,311,840	4,432,141	1,046,096	11,002	6,218,312	17,188,431
- Corporate financing	1,000,853	1,231,893	104,373	1,105,926	1,547,139	-	-	-	4,990,184
Statutory deposits with Bank Negara Malaysia	168,200	-	-	-	-	-	-	-	168,200
Total	16,723,969	1,760,154	1,310,075	5,598,960	6,297,316	24,684,931	8,543,784	6,253,011	71,172,200
Commitments and contingencies									
Contingent liabilities	-	80	12,335	6,982	32,444	-	-	54,374	106,215
Commitments	2,111	6,885	265,956	1,645,993	1,879,310	3,956,271	720	1,383,251	9,140,497
	2,111	6,965	278,291	1,652,975	1,911,754	3,956,271	720	1,437,625	9,246,712
Total Credit Exposures	16,726,080	1,767,119	1,588,366	7,251,935	8,209,070	28,641,202	8,544,504	7,690,636	80,418,912

40. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Industry Analysis (continued)

31 December 2019	Government and Central Banks RM'000	Financial Services RM'000	Transport and Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Financing RM'000	Total RM'000
On-Balance Sheet Exposures									
Cash and balances with banks	2,603,544	535,911	-	-	-	-	-	-	3,139,455
Financial assets at fair value through profit or loss									
- Money market instruments	-	249,541	-	-	-	-	-	-	249,541
Derivative financial assets	-	-	-	-	-	-	-	-	-
Financial investments at fair value through other comprehensive income									
- Government securities and treasury bills	9,528,034	-	-	-	-	-	-	-	9,528,034
Financial investments at amortised cost (Gross)									
- Government securities and treasury bills	3,006,702	-	-	-	-	-	-	-	3,006,702
- Non-money market instruments	55,802	257,832	-	181,832	242,184	-	-	-	737,650
Gross financing and advances									
- Retail financing									
- house financing	-	-	-	-	-	20,594,336	-	-	20,594,336
- hire purchase	473	1,010	89,580	98,671	81,336	-	8,038,946	-	8,310,016
- credit cards	-	-	-	-	-	-	-	30,375	30,375
- other financing	4,452	60,897	1,011,492	3,995,129	4,143,917	878,328	8,871	5,872,356	15,975,442
- Corporate financing	1,000,848	1,525,972	103,629	1,117,476	1,376,045	-	-	-	5,123,970
Statutory deposits with Bank Negara Malaysia	1,800,450	-	-	-	-	-	-	-	1,800,450
Total	18,000,305	2,631,163	1,204,701	5,393,108	5,843,482	21,472,664	8,047,817	5,902,731	68,495,971
Commitments and contingencies									
Contingent liabilities	-	178	9,612	6,892	46,661	-	-	34,029	97,372
Commitments	21,647	22,492	239,026	1,349,037	1,677,299	2,943,778	200	1,188,119	7,441,598
	21,647	22,670	248,638	1,355,929	1,723,960	2,943,778	200	1,222,148	7,538,970
Total Credit Exposures	18,021,952	2,653,833	1,453,339	6,749,037	7,567,442	24,416,442	8,048,017	7,124,879	76,034,941

40. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Geographical Analysis

All credit exposures are located in Malaysia except for the following which are located in other countries.

	2020 RM'000	2019 RM'000
On-Balance Sheet Exposures		
Cash and balances with banks	622	652
Gross financing and advances		
- Corporate financing	109,908	107,659
	110,530	108,311
Commitments and Contingencies		
Commitments	60,363	60,445

(ii) Credit Quality

The table below represents an analysis of the credit quality of financial assets based on the following internally classified grades:

- "Good Grade" refers to exposures that are neither past due nor credit-impaired and debt instruments with rating of AAA to AA- / P-1 by a recognised credit rating agency or government guaranteed.

- "Satisfactory Grade" refers to exposures that are past due 1 to 30 days after the contractual due date that are neither credit-impaired nor have shown significant increase in credit risk and debt instruments with rating of A+ to BBB / P-2 by a recognised credit rating agency.

- "Sub-standard Grade" refers to exposures that are past due 31 days or more but not credit-impaired as well as customers with indication of significant increase in credit risk and debt instruments with rating of BB to CCC / P-3 by a recognised credit rating agency.

- "Credit-impaired Grade" refers to exposures that have been assessed as credit-impaired.

In the absence of ratings for the debt instruments, the issuer's rating will be applied.

40. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(ii) Credit Quality (continued)

	2020			
	Stage 1 RM'000	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Debt Instruments				
Good	14,239,501	-	-	14,239,501
Satisfactory	-	-	-	-
Sub-standard	-	-	-	-
Credit-impaired	-	-	-	-
Gross carrying amount	14,239,501	-	-	14,239,501
Gross Financing and Advances				
Good	49,082,387	-	-	49,082,387
Satisfactory	1,998,205	-	-	1,998,205
Sub-standard	-	3,400,341	-	3,400,341
Credit-impaired	-	-	169,421	169,421
Gross carrying amount	51,080,592	3,400,341	169,421	54,650,354
Financing Commitments and Financial Guarantees				
Good	4,491,140	-	-	4,491,140
Satisfactory	10,538	-	-	10,538
Sub-standard	-	108,169	-	108,169
Credit-impaired	-	-	5,186	5,186
Gross exposure	4,501,678	108,169	5,186	4,615,033

40. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(ii) Credit Quality (continued)

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Debt Instruments				
Good	13,521,927	-	-	13,521,927
Satisfactory	-	-	-	-
Sub-standard	-	-	-	-
Credit-impaired	-	-	-	-
Gross carrying amount	13,521,927	-	-	13,521,927
Gross Financing and Advances				
Good	43,645,621	-	-	43,645,621
Satisfactory	3,069,125	-	-	3,069,125
Sub-standard	-	3,044,343	-	3,044,343
Credit-impaired	-	-	275,050	275,050
Gross carrying amount	46,714,746	3,044,343	275,050	50,034,139
Financing Commitments and Financial Guarantees				
Good	3,596,720	-	-	3,596,720
Satisfactory	15,782	-	-	15,782
Sub-standard	-	60,240	-	60,240
Credit-impaired	-	-	6,198	6,198
Gross exposure	3,612,502	60,240	6,198	3,678,940

40. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(ii) Credit Quality (continued)

Past Due But Not Credit-impaired

Past due but not credit-impaired financing and advances are financing where the customer has failed to make a principal or profit payment when contractually due, and includes financing which are due one or more days after the contractual due date but less than ninety (90) days.

An aging analysis of financing and advances which are past due but not credit-impaired is as follows:

	2020 RM'000	**2019 RM'000**
1 to 30 Days	2,442,655	3,132,518
31 to 59 Days	921,514	1,479,736
60 to 89 Days	460,302	748,786
	3,824,471	5,361,040

40. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(iii) Collateral

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

- for residential mortgages - charges over residential properties
- for commercial property financing - charges over the properties being financed
- for motor vehicle financing - ownership claims over the vehicles financed
- for other financing - charges over business assets such as premises, inventories, trade receivables or deposits

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for gross financing and advances for the Bank as at 31 December 2020 is at 92.7% (2019 - 92.5%). The financial effect of collateral held for other remaining financial assets is not significant.

Repossessed Collateral

Assets obtained by taking possession of collateral held as security against financing and advances, and held as at the end of the financial year are as follows:

	2020 RM'000	**2019 RM'000**
Residential properties	13,248	10,987
Non-residential properties	7,587	5,577
	20,835	16,564

Repossessed collateral are sold as soon as practicable. Repossessed collateral are recognised in other assets on the statement of financial position. The Bank does not occupy repossessed properties for its business use.

40. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(iv) Credit Quality of Financial Investments

Set out below are the credit quality of money market instruments and non-money market instruments-debt securities analysed by ratings from external credit ratings agencies:

Financial Assets at Fair Value through Profit or Loss

	<---------- 31 December 2020 -----------> Money Market Instruments			<---------- 31 December 2019 -----------> Money Market Instruments		
	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000
AAA to AA-	-	-	-	-	249,541	249,541
A+ to A-	-	-	-	-	-	-
	-	-	-	-	249,541	249,541

40. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(iv) Credit Quality of Financial Investments (continued)

Set out below are the credit quality of money market instruments and non-money market instruments-debt securities analysed by ratings from external credit ratings agencies (continued):

Financial Investments at Amortised Cost (Gross)

	<---------- 31 December 2020 -----------> Non-money Market Instruments Debt Securities			<---------- 31 December 2019 -----------> Non-money Market Instruments Debt Securities		
	International Ratings RM'000	**Domestic Ratings RM'000**	**Total RM'000**	**International Ratings RM'000**	**Domestic Ratings RM'000**	**Total RM'000**
Sovereign guaranteed	-	525,577	525,577	-	620,969	620,969
AAA to AA-	-	116,660	116,660	-	116,681	116,681
	-	642,237	642,237	-	737,650	737,650

The ratings shown for money market instruments (e.g. negotiable Islamic debt certificates) are based on the ratings assigned to the respective financial institutions issuing the financial instruments. The ratings shown for debt securities are based on the ratings assigned to the specific debt issuance.

As at the reporting date, there were no financial investments which were past due (2019 - Nil).

40. FINANCIAL RISK MANAGEMENT (continued)

Market Risk

Market risk is the risk that movements in market variables, including rate of return, foreign exchange rates, credit spreads, commodity prices and equity prices, will reduce the earnings or capital of the Bank.

The market risk exposure of the Bank is identified into two types:

(i) Traded Market Risk
Primarily the rate of return risk and credit spread risk, exists in the Bank's trading book positions held for the purpose of benefiting from short-term price movements. These trading book positions are mainly originated by the treasury operations.

(ii) Non-Traded Market Risk
Rate of return risk, foreign exchange risk and equity prices risk arising mainly from the retail and Islamic banking assets and liabilities, as well as financial investments designated as at fair value through other comprehensive income and at amortised cost.

The Bank's core market risk is Rate of Return Risk in the Banking Book ("RoRBB") being the risk to the Bank's earnings and economic value of equity ("EVE") arising from adverse movements in the rate of return over time arising from activities such as deposits taking, financing and investment.

The Bank does not have any material exposure to foreign exchange risk as at the reporting date as the Bank's activities are mainly denominated in Ringgit Malaysia.

<u>Risk Governance</u>

The ALCO supports the RMC in market risk management oversight. The ALCO reviews the Bank's market risk frameworks and policies, aligns market risk management with risk appetite and implements actions to ensure that the market risk remains within established risk tolerance level.

40. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(i) Traded Market Risk

Risk Management Approach

The Bank's traded market risk frameworks comprise market risk policies and practices, market risk limits and valuation methodologies. The Bank’s traded market risk for fixed income instruments is measured by the present value of 1 basis point change ("PV01") and controlled by daily and cumulative cut-loss limits. The Treasury Middle Office ("TMO") conducts daily operational checking on the treasury operations. Any operational lapses and non-compliance with the internal policies and limits will be reported to the ALCO. In addition, TMO also conducts independent verification on the daily mark-to-market valuation of fixed income instruments.

The market risk limits are determined after taking into account the risk appetite and the risk-return relationship and are periodically reviewed by RMD. Changes to operational market risk limits are approved by the ALCO. The trading book positions and limits are reported to the ALCO regularly. The Bank's exposures in trading financial derivative are set out in Note 5 to the financial statements.

During the financial year, the Bank's traded market risk exposures on fixed income instruments as measured by PV01, averaged at RM7,000 (2019 - RM11,000). The composition of the Bank's trading portfolio is set out in Note 4 to the financial statements.

(ii) Non-Traded Market Risk

(a) Rate of Return Risk in the Banking Book

The sources of RoRBB are as follows:

(i) Repricing Risk - Risk caused by timing differences in the rate of return changes and cash flows that occur in the repricing and maturity of the Bank's fixed and floating rate assets, liabilities and off-balance sheet instruments.

(ii) Yield Curve Risk - Risk when unanticipated changes in the yield curve has adverse effects on the Bank's earnings and EVE.

(iii) Basis Risk - Risk arising from the imperfect correlation between changes in the rate of return earned and paid on different instruments with otherwise similar repricing characteristics. This will affect the Bank's net profit margin, i.e. earnings and also future cash flows, which in turn affect economic value of the Bank.

(iv) Optionality Risk - Risk of early repayments of financing and early withdrawal of deposits due to changes in the rate of return which will potentially affect future earnings.

40. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Rate of Return Risk in the Banking Book (continued)

Risk Management Approach

The Bank emphasises the importance of RoRBB as most of the balance sheet items of the Bank generate profit income and profit expense that are correlated to rate of return. Hence, the primary objective in managing the RoRBB is to manage the volatility in the Bank's net profit income ("NPI") and EVE due to the changing levels of rate of return, whilst balancing the cost of hedging the risk. This is achieved in various manners such as the offsetting of positions against each other for any matching assets and liabilities, the acquisition of new financial assets and liabilities to narrow the mismatch in the rate of return of sensitive assets and liabilities and entering into derivative financial instruments which have the opposite effects. The use of derivative financial instruments to hedge the rate of return risk is set out in Note 5 to the financial statements.

The Bank's RoRBB is governed by Rate of Return Risk Management Policy to ensure that all RoRBB is managed within its risk appetite. All limits and policies are approved by the Bank's Board of Directors or RMC and are regularly reviewed to ensure that the limits and policies remain applicable and is able to surface potential rate of return risk.

The Bank uses a range of approaches to measure RoRBB, whereby the impact on NPI and EVE is considered at all times, as follows:

(i) Repricing Gap Reports
Distribution of rate of return sensitive assets, liabilities and off-balance sheet positions into time bands according to their remaining maturity or next repricing maturity. One of the challenges of this mismatch repricing analysis is the underlying assumptions of the embedded optionality of financing prepayments, early deposits withdrawal and effective duration of liabilities which are contractually repayable on demand such as current and savings accounts.

This is measured on a monthly basis for the Bank.

40. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Rate of Return Risk in the Banking Book (continued)

Risk Management Approach (continued)

The Bank uses a range of approaches to measure RoRBB, whereby the impact on NPI and EVE is considered at all times, as follows (continued):

(ii) Sensitivity Analysis
Impact to NPI - This is the projected Bank's NPI sensitivity to a 100 basis point parallel rate movement across all maturities applied on the Bank's rate of return sensitivity gap as at the reporting date after taking into consideration the behavioural pattern of certain indeterminate maturity of deposits such as demand and savings deposits to reflect the actual sensitivity behavioural of these deposits. Where the current rate of return is lower than 1%, the downward rate shock applied is restricted to the prevailing rate of return.

Impact to EVE - This measure takes a comprehensive view of the potential long-term effects of a 100 basis point parallel movement in rate of return on the economic value of the Bank's Balance Sheet. It requires all future cash flows associated with the Bank's assets, liabilities and off-balance sheet positions to be discounted at relevant market rates to determine the overall net present value of the Bank.

This is measured on a monthly basis for the Bank.

(iii) Simulation Scenarios
As and when the need arises, analysis is performed on the sensitivity of projected NPI and EVE under varying rate of return and balance sheet scenarios. The analysis also incorporates business assumptions obtained from various lines of business and behavioural assumptions established based on statistical methods for the Bank. The impact on earnings is measured against the approved Earning-at-Risk (EaR) and EVE limits where new business and hedging strategies are carried out to mitigate any increasing rate of return risk.

(iv) Stress Testing
The vulnerability of the Bank's earnings and EVE under various levels of stress using a variety of economic parameters. This semi-annual practice is also to determine the adequacy of capital in meeting the adverse impact of extreme rate of return movements on the Bank's statement of financial position which can provide an early warning of the potential losses and to facilitate proactive management of the rate of return risk.

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40. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Rate of Return Risk in the Banking Book (continued)

(i) Profit Rate Gap Analysis

The following tables indicate the effective rate of return at the reporting date and the Bank's sensitivity to the rate of return by time band based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual repricing dates due to prepayment of financing and advances.

2020	**<------ Non-trading book ------>**											**Effective**
	Up to 1 month RM'000	**> 1 - 3 months RM'000**	**> 3 - 12 months RM'000**	**> 1 - 2 years RM'000**	**> 2 - 3 years RM'000**	**> 3 - 4 years RM'000**	**> 4 - 5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**rate of return %**
ASSETS												
Cash and balances with banks	1,945,335	-	-	-	-	-	-	-	167,493	-	2,112,828	1.75
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Financial investments at fair value through other comprehensive income	-	10,145	346,026	649,695	2,219,024	2,963,379	1,611,151	1,918,351	-	-	9,717,771	2.13
Financial investments at amortised cost	-	253,400	414,781	797,313	1,506,841	721,309	375,087	452,230	-	-	4,520,961	3.49
Financing and advances												
- not credit-impaired	41,755,997	1,028,046	1,652,015	2,024,879	1,682,189	1,477,056	2,141,107	2,719,644	-	-	54,480,933	3.80
- credit-impaired *	-	-	-	-	-	-	-	-	(304,578)	-	(304,578)	-
Other asset balances	-	-	-	-	-	-	-	-	1,032,914	-	1,032,914	-
TOTAL ASSETS	43,701,332	1,291,591	2,412,822	3,471,887	5,408,054	5,161,744	4,127,345	5,090,225	895,829	-	71,560,829	

40. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Rate of Return Risk in the Banking Book (continued)

(i) Profit Rate Gap Analysis (continued)

2020	<---- Non-trading book ---- Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000 ---->	Trading book RM'000	Total RM'000	Effective rate of return %
LIABILITIES AND EQUITY												
Deposits from customers	24,426,554	13,551,674	17,363,552	581	300	504	494	-	6,474,238	-	61,817,897	1.98
Deposits from banks	610,247	300,200	1,071,815	2,940	1,000	-	7,705	500	73,447	-	2,067,854	2.84
Bills and acceptances payable	-	-	-	-	-	-	-	-	481	-	481	-
Sukuk Murabahah	-	-	519,950	500,000	-	500,000	-	-	-	-	1,519,950	4.23
Other liability balances	-	-	-	-	-	-	-	-	731,257	-	731,257	-
Total Liabilities	25,036,801	13,851,874	18,955,317	503,521	1,300	500,504	8,199	500	7,279,423	-	66,137,439	
Equity attributable to equity holder of the Bank	-	-	-	-	-	-	-	-	5,423,390	-	5,423,390	-
TOTAL LIABILITIES AND EQUITY	25,036,801	13,851,874	18,955,317	503,521	1,300	500,504	8,199	500	12,702,813	-	71,560,829	
On-balance sheet profit sensitivity gap	18,664,531	(12,560,283)	(16,542,495)	2,968,366	5,406,754	4,661,240	4,119,146	5,089,725	(11,806,984)	-	-	
Off-balance sheet profit sensitivity gap (profit rate swaps)	1,000,000	1,700,000	-	(500,000)	-	-	(1,200,000)	(1,000,000)	-	-	-	
TOTAL PROFIT SENSITIVITY GAP	19,664,531	(10,860,283)	(16,542,495)	2,468,366	5,406,754	4,661,240	2,919,146	4,089,725	(11,806,984)	-	-	

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40. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Rate of Return Risk in the Banking Book (continued)

(i) Profit Rate Gap Analysis (continued)

	<---- Non-trading book							---->				
2019	**Up to 1 month RM'000**	**> 1 - 3 months RM'000**	**> 3 - 12 months RM'000**	**> 1 - 2 years RM'000**	**> 2 - 3 years RM'000**	**> 3 - 4 years RM'000**	**> 4 - 5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective rate of return %**
ASSETS												
Cash and balances with banks	2,619,671	-	-	-	-	-	-	-	519,784	-	3,139,455	2.85
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-	249,541	249,541	3.26
Financial investments at fair value through other comprehensive income	-	-	1,165,064	673,739	2,134,710	1,942,471	1,555,945	2,056,105	-	-	9,528,034	3.17
Financial investments at amortised cost	-	-	642,055	415,235	716,343	1,194,451	386,278	389,353	-	-	3,743,715	3.90
Financing and advances												
- not credit-impaired	37,934,002	695,741	1,783,234	1,987,730	1,745,850	1,395,530	1,089,287	3,127,715	-	-	49,759,089	4.82
- credit-impaired *	-	-	-	-	-	-	-	-	(30,513)	-	(30,513)	-
Other asset balances	-	-	-	-	-	-	-	-	2,488,641	-	2,488,641	-
TOTAL ASSETS	40,553,673	695,741	3,590,353	3,076,704	4,596,903	4,532,452	3,031,510	5,573,173	2,977,912	249,541	68,877,962	

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40. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Rate of Return Risk in the Banking Book (continued)

(i) Profit Rate Gap Analysis (continued)

2019	<----- Non-trading book ----- Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000 ----->	Trading book RM'000	Total RM'000	Effective rate of return %
LIABILITIES AND EQUITY												
Deposits from customers	25,283,532	13,113,487	16,120,632	776	107	300	512	-	4,854,665	-	59,374,011	3.19
Deposits from banks	108,795	600,000	689,677	1,032,223	3,613	1,000	-	-	18,008	-	2,453,316	3.51
Bills and acceptances payable	-	-	-	-	-	-	-	-	377	-	377	-
Sukuk Murabahah	-	-	-	519,862	500,000	-	500,000	-	-	-	1,519,862	4.23
Other liability balances	-	-	-	-	-	-	-	-	526,401	19	526,420	-
Total Liabilities	25,392,327	13,713,487	16,810,309	1,552,861	503,720	1,300	500,512	-	5,399,451	19	63,873,986	
Equity attributable to equity holder of the Bank	-	-	-	-	-	-	-	-	5,003,976	-	5,003,976	-
TOTAL LIABILITIES AND EQUITY	25,392,327	13,713,487	16,810,309	1,552,861	503,720	1,300	500,512	-	10,403,427	19	68,877,962	
On-balance sheet profit sensitivity gap	15,161,346	(13,017,746)	(13,219,956)	1,523,843	4,093,183	4,531,152	2,530,998	5,573,173	(7,425,515)	249,522	-	
Off-balance sheet profit sensitivity gap (profit rate swaps)	1,000,000	1,500,000	-	-	(500,000)	-	-	(2,000,000)	-	-	-	
TOTAL PROFIT SENSITIVITY GAP	16,161,346	(11,517,746)	(13,219,956)	1,523,843	3,593,183	4,531,152	2,530,998	3,573,173	(7,425,515)	249,522	-	

* This is arrived at after deducting expected credit losses from the outstanding credit-impaired financing and advances.

40. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Rate of Return Risk in the Banking Book (continued)

(ii) Rate of Return Risk Sensitivity Analysis

The following table presents the projected Bank's sensitivity to a 100 basis point ("bps") parallel rate movement across all maturities applied on the Bank's rate of return sensitivity gap as at the reporting date, taking into consideration the behavioural pattern of certain indeterminate maturity of deposits such as demand and savings deposits to reflect the actual sensitivity behavioural of these deposits. Where the current rate of return is lower than 1%, the downward rate shock applied is restricted to the prevailing rate of return.

	2020		**2019**	
	-100 bps	**+100 bps**	**-100 bps**	**+100 bps**
	<----------------- (Decrease) / Increase ----------------- >			
	RM'000	**RM'000**	**RM'000**	**RM'000**
Impact on NPI	(83,120)	63,714	(53,844)	48,884
Impact on EVE	490,377	(314,679)	391,073	(244,553)

The reported amounts do not capture the impact of business growth or of management actions and are based on the balance sheet as at the reporting date. In reality, the ALCO seeks to proactively change the rate of return risk profile to minimise losses and maximise net revenue. The projection assumes a constant statement of financial position and that all positions run to maturity.

The repricing profile of financing that does not have maturity is based on the earliest possible repricing dates. Actual dates may differ from contractual dates owing to prepayments. Where possible and material, financing prepayments are generally estimated based on past statistics and trends. The impact on the NPI and EVE are measured on a monthly basis, both of which are reported to the ALCO and the RMC.

40. FINANCIAL RISK MANAGEMENT (continued)

Liquidity and Funding Risk

Liquidity risk is the risk that the Bank is unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due or securing the funding requirements at excessive cost. Funding risk is the risk that the Bank does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient.

Risk Governance

The ALCO supports the RMC in liquidity and funding risk management oversight. The ALCO reviews the Bank's liquidity risk policies and guidelines, and implements necessary actions to ensure that the liquidity and funding risk is well managed and within the established liquidity risk appetite and thresholds.

Risk Management Approach

The Bank's liquidity and funding risk management is guided by the Group's Liquidity and Funding Risk Management Policy. The policy sets out the processes involved in identifying, assessing, measuring, controlling, mitigating and monitoring of the liquidity and funding risk. The policy also addresses the regulatory requirements on Basel III Liquidity standards, including the BNM’s Basel III Liquidity Coverage Ratio and Basel III Net Stable Funding Ratio. Monitoring tools and liquidity/funding risk limits are established to manage liquidity and funding exposures within the Bank, including maturity mismatch, concentration of funding, and significant foreign currencies position. Liquidity and funding positions are reported to the ALCO and RMC on a monthly basis.

The day-to-day funding management is undertaken by the treasury operations and this includes the maintenance of a portfolio of high quality liquid assets that can be easily liquidated as protection against any unforeseen interruption to cash flows and the replenishment of funds as they matured or are financed to the customers.

The Bank’s liquidity and funding positions consist of a well-diversified funding mix with core deposit base and funding from wholesale markets. The Bank’s core deposit base comprises demand and time deposits which have traditionally in aggregate provided stable sources of funding. The Bank’s strong reputation in financial and capital strength, wide branches network and sound infrastructure are core attributes to preserve depositors’ confidence and ensure stable liquidity. The Bank accesses the wholesale markets through the issuance of debt securities, certificate of deposits and the taking of Islamic money market deposits to meet short-term obligations and to maintain its presence in the local money markets.

40. FINANCIAL RISK MANAGEMENT (continued)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

Contingency funding plans are in place to identify and monitor early warning signals of a liquidity event. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity event. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed on periodic basis or ad hoc if necessary by the Bank to detect any vulnerability in Bank's cash flows under various stress scenarios. The outcome of stress test exercise will be utilised to strengthen the liquidity management within the Bank.

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity

The following tables show the maturity analysis of the carrying amounts of the Bank's assets and liabilities based on remaining contractual maturity. The contractual maturity profile often does not reflect the actual behavioural patterns. In particular, the Bank has significant amounts of "demand and savings deposits" of non-bank customers which are at call (included in the "Up to 7 days" time band) but which are historically a stable source of long-term funding for the Bank.

The Bank is subject to liquidity requirements to support calls under outstanding contingent liabilities and commitments as set out in Note 44 to the financial statements. The total outstanding contractual amounts of these items do not represent future cash requirements since the Bank expects many of these commitments (such as direct credit substitutes) to expire without being called or drawn upon, whereas many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

40. FINANCIAL RISK MANAGEMENT (continued)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (continued)

2020	Up to 7 Days RM'000	> 7 Days - 1 Month RM'000	> 1 - 3 Months RM'000	> 3 - 6 Months RM'000	> 6 - 12 Months RM'000	> 1 - 3 Years RM'000	> 3 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
ASSETS									
Cash and balances with banks	2,112,828	-	-	-	-	-	-	-	2,112,828
Financial investments	-	-	263,544	374,691	416,336	5,142,653	5,670,926	2,370,582	14,238,732
Derivative financial assets	-	-	-	-	-	-	1,317	-	1,317
Financing and advances	2,033,978	274,133	553,212	823,079	2,210,980	7,951,083	8,102,609	32,227,281	54,176,355
Other asset balances	59,092	-	-	-	-	-	-	972,505	1,031,597
TOTAL ASSETS	4,205,898	274,133	816,756	1,197,770	2,627,316	13,093,736	13,774,852	35,570,368	71,560,829
LIABILITIES									
Deposits from customers	23,046,214	7,846,324	13,559,928	10,874,869	6,488,683	881	998	-	61,817,897
Deposits from banks	133,254	501,557	302,962	4,153	1,066,243	6,356	3,120	50,209	2,067,854
Sukuk Murabahah	-	-	-	-	519,950	500,000	500,000	-	1,519,950
Derivative financial liabilities	-	-	-	-	-	13,634	90,553	91,848	196,035
Lease liabilities	-	134	268	402	804	3,354	3,504	9,761	18,227
Other liability balances	71,161	71,322	127,407	102,702	75,681	57,207	8	11,988	517,476
TOTAL LIABILITIES	23,250,629	8,419,337	13,990,565	10,982,126	8,151,361	581,432	598,183	163,806	66,137,439
EQUITY									
Equity attributable to equity holder of the Bank	-	-	-	-	-	-	-	5,423,390	5,423,390
TOTAL EQUITY	-	-	-	-	-	-	-	5,423,390	5,423,390
NET MATURITY MISMATCH	(19,044,731)	(8,145,204)	(13,173,809)	(9,784,356)	(5,524,045)	12,512,304	13,176,669	29,983,172	-

40. FINANCIAL RISK MANAGEMENT (continued)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (continued)

2019	**Up to 7 Days RM'000**	**> 7 Days - 1 Month RM'000**	**> 1 - 3 Months RM'000**	**> 3 - 6 Months RM'000**	**> 6 - 12 Months RM'000**	**> 1 - 3 Years RM'000**	**> 3 - 5 Years RM'000**	**> 5 Years RM'000**	**Total RM'000**
ASSETS									
Cash and balances with banks	3,139,455	-	-	-	-	-	-	-	3,139,455
Financial investments	-	249,541	-	649,024	1,158,094	3,970,265	5,048,907	2,445,459	13,521,290
Derivative financial assets	-	-	-	-	-	-	-	-	-
Financing and advances	2,074,765	392,638	789,927	1,030,476	1,968,788	7,570,390	6,253,173	29,648,419	49,728,576
Other asset balances	53,073	-	-	-	-	-	-	2,435,568	2,488,641
TOTAL ASSETS	5,267,293	642,179	789,927	1,679,500	3,126,882	11,540,655	11,302,080	34,529,446	68,877,962
LIABILITIES									
Deposits from customers	21,258,198	8,872,722	13,120,764	9,850,122	6,270,510	883	812	-	59,374,011
Deposits from banks	125,687	836	601,271	401,911	293,217	1,029,378	1,016	-	2,453,316
Sukuk Murabahah	-	-	-	-	-	1,019,862	500,000	-	1,519,862
Derivative financial liabilities	-	19	-	-	-	4,264	-	85,847	90,130
Lease liabilities	-	134	267	401	813	3,350	3,493	10,927	19,385
Other liability balances	56,773	86,127	124,817	83,542	50,642	7	7	15,367	417,282
TOTAL LIABILITIES	21,440,658	8,959,838	13,847,119	10,335,976	6,615,182	2,057,744	505,328	112,141	63,873,986
EQUITY									
Equity attributable to equity holder of the Bank	-	-	-	-	-	-	-	5,003,976	5,003,976
TOTAL EQUITY	-	-	-	-	-	-	-	5,003,976	5,003,976
NET MATURITY MISMATCH	(16,173,365)	(8,317,659)	(13,057,192)	(8,656,476)	(3,488,300)	9,482,911	10,796,752	29,413,329	-

40. FINANCIAL RISK MANAGEMENT (continued)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(b) Maturity analysis of financial liabilities on an undiscounted basis

The following tables show the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturity. The financial liabilities disclosed in the tables below will not agree to the carrying amounts reported in the statement of financial position as the amounts incorporated all contractual cash flows, on an undiscounted basis, relating to both principal and profit payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows.

The profit payments of Sukuk Murabahah are computed up to the first optional redemption date.

2020	Up to 7 Days RM'000	> 7 Days - 1 Month RM'000	> 1 - 3 Months RM'000	> 3 - 6 Months RM'000	> 6 - 12 Months RM'000	> 1 - 3 Years RM'000	> 3 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
Deposits from customers	23,068,339	7,907,849	13,759,052	11,040,113	6,610,007	971	1,032	-	62,387,363
Deposits from banks	133,263	502,619	304,499	4,207	1,106,188	6,567	3,165	50,210	2,110,718
Sukuk Murabahah	-	11,272	11,721	9,298	552,070	560,750	518,801	-	1,663,912
Lease liabilities	-	134	268	402	804	3,354	3,504	17,380	25,846
Other liability balances	51,393	2,719	7,491	11,994	27,025	89,264	57,063	27,728	274,677
Total Liabilities	23,252,995	8,424,593	14,083,031	11,066,014	8,296,094	660,906	583,565	95,318	66,462,516
Direct credit substitutes	2,265	1,026	1,656	6,725	16,435	4,931	370	-	33,408
Transaction-related contingent items	8,708	1,811	1,562	2,855	14,406	28,795	10,520	34	68,691
Short term self-liquidating trade-related contingencies	674	1,942	1,082	418	-	-	-	-	4,116
Other commitments, such as formal standby facilities and credit lines	559,154	145,873	340,487	492,315	1,153,901	5,418,664	244,808	628,793	8,983,995
Unutilised credit card lines	156,502	-	-	-	-	-	-	-	156,502
Forward asset purchases	-	-	-	-	-	-	-	-	-
Total Commitments and Contingencies	727,303	150,652	344,787	502,313	1,184,742	5,452,390	255,698	628,827	9,246,712

40. FINANCIAL RISK MANAGEMENT (continued)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(b) Maturity analysis of financial liabilities on an undiscounted basis (continued)

2019	Up to 7 Days RM'000	> 7 Days - 1 Month RM'000	> 1 - 3 Months RM'000	> 3 - 6 Months RM'000	> 6 - 12 Months RM'000	> 1 - 3 Years RM'000	> 3 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
Deposits from customers	21,304,129	8,991,536	13,277,459	10,068,492	6,463,818	959	851	-	60,107,244
Deposits from banks	125,774	853	606,376	408,927	303,628	1,109,041	1,022	-	2,555,621
Sukuk Murabahah	-	11,272	11,721	9,349	32,195	1,126,360	537,551	-	1,728,448
Lease liabilities	-	134	267	401	813	3,350	3,493	19,522	27,980
Other liability balances	22,234	945	2,306	3,130	10,527	37,994	30,076	33,839	141,051
Total Liabilities	21,452,137	9,004,740	13,898,129	10,490,299	6,810,981	2,277,704	572,993	53,361	64,560,344
Direct credit substitutes	1,505	1,157	1,079	2,678	14,066	4,988	-	-	25,473
Transaction-related contingent items	7,955	421	2,138	3,000	6,622	36,446	5,825	6,616	69,023
Short term self-liquidating trade-related contingencies	112	2,067	315	382	-	-	-	-	2,876
Other commitments, such as formal standby facilities and credit lines	483,195	123,745	241,440	412,574	882,127	4,378,986	40,036	720,121	7,282,224
Unutilised credit card lines	138,127	-	-	-	-	-	-	-	138,127
Forward asset purchases	21,247	-	-	-	-	-	-	-	21,247
Total Commitments and Contingencies	652,141	127,390	244,972	418,634	902,815	4,420,420	45,861	726,737	7,538,970

40. FINANCIAL RISK MANAGEMENT (continued)

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Risk Governance

The Bank's operational risk management is guided by the Group's Operational Risk Management Policy which is designed to ensure that operational risks are consistently identified, assessed, mitigated/controlled, monitored and reported within the Bank.

The Board, through the RMC, maintains overall responsibility for risk oversight within the Bank. The ORMC assists the RMC in operational risk management oversight. The ORMC is responsible for assessing the effectiveness of risk management policies and processes in relation to operational risk. The Operational Risk Management Working Group ("ORMWG") is established to support and assist the ORMC in its ongoing review of the operational risk management policies and procedures and ensuring effective implementation of the policies and procedures within the business and support units.

The various business and support units are responsible for the day-to-day management of operational risks within their lines of business and functions and ensure that their business activities are carried out within the established operational risk management policies, guidelines, procedures and limits.

To ensure effective management of operational risk, independent risk management and compliance functions provide support to the business and support units and conduct compliance checks on their implementation of risk management policies and tools to identify, assess, control and monitor operational risk.

The internal audit function provides independent assurance on the adequacy and effectiveness of operational risk management policies, processes and systems.

Risk Management Approach

The day-to-day management of operational risk exposures is through a system of risk management and internal controls to ensure that operational policies, guidelines and procedures are being adhered to at all levels throughout the Bank. As events and business conditions evolve, the Bank continues to strengthen and refine its operational risk management processes to ensure that the current and potential operational risk exposures are properly understood and managed.

40. FINANCIAL RISK MANAGEMENT (continued)

Operational Risk (continued)

Risk Management Approach (continued)

(a) Strategy and Processes

The Bank has put in place a disciplined evaluation process for the offering of new product and electronic banking ("e-banking") services. The Bank’s evaluation process is governed by the Group's Policy and Procedures on Risk Management Practices for New Products and the Group's Policy and Procedures on the Provision of Electronic Banking Services. Each new product or e-banking service introduced as well as variations to existing products or e-banking services are subject to a rigorous risk review and sign-off process where risks are identified and assessed by divisions independent of the risk taking unit that proposes the products or e-banking services. This is further augmented by the Group's Policy on Product Transparency and Disclosure which emphasises the importance of safeguarding customers' confidentiality and promoting their awareness and understanding of the products and services, and informed decision making.

The Bank continues to direct bank-wide efforts to maintain its legal and regulatory compliance culture in all jurisdictions that the Bank operates. The Bank seeks to meet the standards and expectations of regulatory authorities through a number of initiatives and activities to ensure compliance with statutory and regulatory requirements as well as internal policies and guidelines.

Comprehensive risk assessments are conducted on major operational risk issues/emerging risk events arising from changes in business and operating environment to facilitate pro-active development of appropriate risk response to emerging operational risk events which would affect the achievement of the Bank's business objectives. Periodic reviews and enhancements to operational risk limits and assessment of the control effectiveness are also conducted in response to changes in internal and external factors so that the Bank's operational risk exposures are managed within its risk appetite.

The Bank has put in place the disaster recovery and business continuity plans which are regularly tested and updated that enable the Bank to respond and continue to operate critical business functions across a broad spectrum of interruptions to the business, arising from internal or external events. Where appropriate, the Bank mitigates risk of high impact loss events by takaful coverage.

The Bank protects information security through continuous assessment of the security features on all computer platforms and network infrastructure, and implementation of appropriate security controls to protect against the misuse or compromise of information assets. In addition, the Bank continues to undertake initiatives to maintain 100% system availability and robust system performance in the Bank's computer systems, peripherals and network infrastructure to ensure uninterrupted transmission.

40. **FINANCIAL RISK MANAGEMENT** (continued)

Operational Risk (continued)

Risk Management Approach (continued)

(a) Strategy and Processes (continued)

The Bank manages its outsourcing arrangements through the Group's Policy and Procedures on Outsourcing Arrangements which stipulate the requirements and the operating procedures to be observed in managing activities that are outsourced to third party service providers. This is to ensure that the risks associated with outsourcing arrangements are managed effectively.

(b) Tools and Methods for Risk Mitigation

To monitor and mitigate operational risk, the Bank uses various tools and methods including:

(i) Risk and control self-assessment - To assess the state of risk management and internal controls for continuous enhancements;

(ii) Key risk indicators - To collect statistical data on an ongoing basis to facilitate early detection of operational risk issues and control deficiencies;

(iii) Operational risk incident reporting and data collection - To analyse the causes of operational risk incidents and trends of operational risk data which are useful in assessing the Bank's operational risk exposures and in strengthening the internal control environment; and

(iv) Scenario Analysis – To identify and assess extreme but plausible operational risk events which can provide better understanding of the risks under extreme conditions and assess the need for additional risk management controls or mitigation solutions.

(c) Reporting

Reporting is one of the important processes in operational risk management. The Bank’s operational risk management processes are aimed to ensure that operational risk exposures are properly identified, escalated and managed on a timely manner.

Operational risk exposures for the key business and control units are reported through monthly operational risk management reports which provide analyses and action plans for each significant business operation. The key operational risk areas included in the operational risk management reports are premises controls and safety, losses due to fraud or control lapses, IT risk management, business continuity management, outsourcing arrangements compliance review results as well as litigation against the Bank. The operational risk management reports are tabled to the ORMWG, the ORMC and the RMC for deliberations.

40. FINANCIAL RISK MANAGEMENT (continued)

Shariah Non-compliance Risk

Shariah non-compliance ("SNC") risk is the risk of legal or regulatory sanctions, financial loss or non-financial implications including reputational damage, which the Bank may suffer arising from failure to comply with the rulings of the Shariah Advisory Council (“SAC”) of Bank Negara Malaysia (“BNM”), standards on Shariah matters issued by BNM pursuant to Section 29(1) of the Islamic Financial Services Act 2013 ("IFSA"), or decisions or advice of the Shariah Committee of the Bank.

The Bank is governed under the IFSA which requires it to ensure that its operations, business, affairs and activities are managed in strict compliance with Shariah and in accordance with the advice and ruling issued by the BNM SAC. The BNM Shariah Governance Policy 2019 ("SGP") provides a comprehensive guidance to the Board, Shariah Committee, and Senior Management in discharging its duties in matters relating to Shariah and outlines the key Shariah functions. The Bank operationalises the SGP through its Shariah Governance Policy.

The Board is responsible in providing overall oversight on Shariah governance, structure and compliance of the Bank’s operations. The Shariah Committee is responsible to provide advice to ensure the Bank's operations, business, affairs and activities are Shariah compliant. This includes advising the Board and Senior Management on Shariah matters, endorsing Shariah policies, products and relevant documents of Islamic banking operations, deliberating and affirming Shariah issues as well as endorsing rectification plans to address the Shariah issues. The Chief Executive Officer and Senior Management are responsible for the day-to-day management of the Bank to ensure it complies with Shariah requirements. In discharging its duties, the Shariah Committee is supported by the Shariah Division, which consists of the Shariah Advisory, Research & Secretariat functions which perform research on Shariah issues, provide day-to-day advice on Shariah matters, disseminate Shariah Committee’s decisions and advices as well as providing administrative and secretarial functions to support the Shariah Committee.

The Shariah Risk Management function is responsible for the identification, measurement, monitoring and mitigation of SNC risks in the operations and business activities of the Bank. Any identified Shariah non-compliances are escalated to the Qualified Shariah Officer for further actions and to Shariah Committee for deliberation or decisions.

The Shariah Review and Compliance function is responsible for assessing, monitoring and reporting on the Bank’s compliance with Shariah requirements. This is discharged through performing periodic reviews on the state of compliance with Shariah requirements in the operations and business activities of the Bank. Any identified non-compliances are escalated to both Shariah Committee and the Bank’s Risk Management Committee on Compliance Function.

40. FINANCIAL RISK MANAGEMENT (continued)

Shariah Non-compliance Risk (continued)

The Shariah Audit function is responsible to perform periodic internal audits to independently assess the quality and effectiveness of the Bank's internal controls, risk management systems, governance processes as well as the overall compliance of the Bank's operations and business activities with Shariah requirements. Any incidences of Shariah non-compliance are reported to both Shariah Committee and the Bank's Audit Committee.

Remedial actions including but not limited to the immediate termination of Shariah non-compliant products or services and the treatment of the consequential Shariah non-compliant income or activities are proposed for endorsement by Shariah Committee and the approval by the Board of the Bank prior to implementation.

For the financial year ended 2020, there were four (4) (2019: 7) SNC incidences of which, one relates to the use of incomplete/under construction properties as underlying assets for Bai' Bithaman Ajil ("BBA") House Financing-i ("HF-i") and BBA Term Financing-i ("TF-i"). The root causes for the SNC incident had been identified and corrective measures had been taken to prevent recurrence. The financing income amounting to RM26,064,000 is temporary derecognised until the appropriate actions are taken to rectify the SNC incident.

An amount of RM4,000 (2019: RM1,901,000) was identified as SNC income and a total of RM30,000 (2019: RM48,000) was identified as Gharamah and are not recognised as income. Both SNC income and Gharamah will be purified in accordance with the method as determined by Shariah Committee.

41. FAIR VALUE MEASUREMENTS

(a) Determination of fair value and the fair value hierarchy

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. For financial instruments measured at fair value, where available, quoted and observable market prices in an active market or dealer price quotations are used to measure fair value. These include listed equity securities, price quotations from Bond Pricing Agency Malaysia and broker quotes on Bloomberg/Reuters.

Where such quoted and observable market prices are not available, fair values are determined using appropriate valuation techniques, which include the use of mathematical models, such as discounted cash flow models and option pricing models, comparison to similar instruments for which market observable prices exist and other valuation techniques. The valuation techniques used incorporate assumptions regarding discount rates, profit rate yield curves, estimates of future cash flows and other factors, as applicable. Changes in these assumptions could materially affect the fair values derived. The Bank generally uses widely recognised valuation techniques with market observable inputs, if available, for the determination of fair value, which require minimal management judgment and estimation, due to the low complexity of the financial instruments held.

The Bank classifies financial instruments which are measured at fair value according to the following hierarchy, reflecting the significance of inputs used in making the fair value measurements:

Level 1 - Quoted market prices: quoted prices (unadjusted) in active markets for identical instruments;

Level 2 - Fair values based on observable inputs: inputs other than quoted prices included within Level 1 that are observable for the instrument, whether directly (i.e. prices) or indirectly (i.e. derived from prices), are used; and

Level 3 - Fair values derived using unobservable inputs: inputs used are not based on observable market data and the unobservable inputs may have a significant impact on the valuation of the financial instruments.

The Bank's control framework in respect of the measurement of Level 3 fair values enables that the fair values are determined and validated by a function independent of the business unit undertaking the risks. Finance Division establishes the accounting policies and procedures governing valuation and is responsible for ensuring compliance with all relevant accounting standards. The team within Finance Division which oversees the fair value measurements, including Level 3 fair values, reports directly to the Chief Financial Officer. Independent verification on financial instruments is performed by Treasury Middle Office.

41. FAIR VALUE MEASUREMENTS (continued)

(b) Financial instruments carried at fair value

The following tables show the Bank's financial instruments which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy:

2020	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets at fair value through profit or loss				
- Money market instruments	-	-	-	-
Financial investments at fair value through other comprehensive income				
- Government securities and treasury bills	-	9,717,771	-	9,717,771
Derivative financial assets	-	1,317	-	1,317
Total financial assets measured at fair value	-	9,719,088	-	9,719,088
Financial liabilities				
Derivative financial liabilities	-	196,035	-	196,035
Total financial liabilities measured at fair value	-	196,035	-	196,035

41. FAIR VALUE MEASUREMENTS (continued)

(b) Financial instruments carried at fair value (continued)

The following tables show the Bank's financial instruments which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy (continued):

2019	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets at fair value through profit or loss				
- Money market instruments	-	249,541	-	249,541
Financial investments at fair value through other comprehensive income				
- Government securities and treasury bills	-	9,528,034	-	9,528,034
Derivative financial assets	-	-	-	-
Total financial assets measured at fair value	-	9,777,575	-	9,777,575
Financial liabilities				
Derivative financial liabilities	-	90,130	-	90,130
Total financial liabilities measured at fair value	-	90,130	-	90,130

The Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the financial year (2019 - None).

41. FAIR VALUE MEASUREMENTS (continued)

(c) Fair values of financial instruments not carried at fair value

Set out below is the comparison of the carrying amounts and fair values of the financial instruments of the Bank which are not carried at fair value in the financial statements. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values and lease liabilities:

	2020		2019	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
Financial assets				
Financial investments at amortised cost				
- Government securities and treasury bills	3,878,833	4,014,273	3,006,191	3,063,662
- Non-money market instruments	642,128	658,977	737,524	751,198
Financing and advances				
- Retail financing				
- house financing	23,584,901	23,594,448	20,544,916	20,565,205
- hire purchase	8,658,208	8,732,921	8,202,399	8,143,496
- credit cards	34,050	34,050	29,784	29,784
- other financing	16,971,134	17,017,900	15,844,921	15,738,909
- Corporate financing	4,928,062	5,017,224	5,106,556	5,150,970
Financial liabilities				
Sukuk Murabahah	1,519,950	1,558,990	1,519,862	1,545,466

41. FAIR VALUE MEASUREMENTS (continued)

(c) Fair values of financial instruments not carried at fair value (continued)

The following tables show the Bank's financial instruments which are not carried at fair value at the reporting date, analysed by various levels within the fair value hierarchy. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values and lease liabilities:

	Fair Value			
	Level 1 RM'000	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
2020				
Financial assets				
Financial investments at amortised cost				
- Government securities and treasury bills	-	4,014,273	-	4,014,273
- Non-money market instruments	-	658,977	-	658,977
Financing and advances				
- Retail financing				
- house financing	-	-	23,594,448	23,594,448
- hire purchase	-	-	8,732,921	8,732,921
- credit cards	-	-	34,050	34,050
- other financing	-	-	17,017,900	17,017,900
- Corporate financing	-	-	5,017,224	5,017,224
Financial liabilities				
Sukuk Murabahah	-	1,558,990	-	1,558,990
2019				
Financial assets				
Financial investments at amortised cost				
- Government securities and treasury bills	-	3,063,662	-	3,063,662
- Non-money market instruments	-	751,198	-	751,198
Financing and advances				
- Retail financing				
- house financing	-	-	20,565,205	20,565,205
- hire purchase	-	-	8,143,496	8,143,496
- credit cards	-	-	29,784	29,784
- other financing	-	-	15,738,909	15,738,909
- Corporate financing	-	-	5,150,970	5,150,970
Financial liabilities				
Sukuk Murabahah	-	1,545,466	-	1,545,466

41. FAIR VALUE MEASUREMENTS (continued)

(c) Fair values of financial instruments not carried at fair value (continued)

The methods and assumptions used to estimate the fair values of the financial instruments not carried at fair value are as follows:

(i) *Financial investments at amortised cost* – The fair values of financial investments at amortised cost are estimated based on quoted bid prices.

(ii) *Financing and advances* – The fair values of fixed rate financing with remaining maturity of less than one year and variable rate financing are estimated to approximate their carrying amounts. For fixed rate financing with remaining maturity of more than one year, the fair values are estimated based on discounted cash flows using prevailing market rates of financing of similar credit risks and maturity.

The fair values of credit-impaired financing are represented by their carrying amounts, net of any expected credit losses, being the expected recoverable amount.

(iii) *Sukuk Murabahah* – The fair values of Sukuk Murabahah issued are estimated based on quoted ask prices.

42. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Derivatives included in the amount not set-off in the statement of financial position relate to transactions where:

(i) the counterparty has an offsetting exposure with the Bank and a master netting or similar arrangements is in place with a right to set-off only in the event of default, insolvency or bankruptcy; and

(ii) cash that is received from or pledged with counterparties.

42. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

	Gross Amount Recognised as Financial Assets/ Liabilities RM'000	Gross Amount Offset in the Statement of Financial Position RM'000	Amount Presented in the Statement of Financial Position RM'000	Amount Not Set-off in the Statement of Financial Position: Value of the Financial Instruments RM'000	Amount Not Set-off in the Statement of Financial Position: Cash Collateral Received / Pledged RM'000	Net Amount RM'000
2020						
Financial assets						
Derivative financial assets						
- Profit rate related contracts						
- Profit rate swaps	1,317	-	1,317	-	-	1,317
Financial liabilities						
Derivative financial liabilities						
- Profit rate related contracts						
- Profit rate swaps	196,035	-	196,035	-	-	196,035

42. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows (continued):

	Gross Amount Recognised as Financial Assets/ Liabilities RM'000	Gross Amount Offset in the Statement of Financial Position RM'000	Amount Presented in the Statement of Financial Position RM'000	Amount Not Set-off in the Statement of Financial Position: Value of the Financial Instruments RM'000	Amount Not Set-off in the Statement of Financial Position: Cash Collateral Received / Pledged RM'000	Net Amount RM'000
2019						
Financial assets						
Derivative financial assets						
- Profit rate related contracts						
- Profit rate swaps	-	-	-	-	-	-
Financial liabilities						
Derivative financial liabilities						
- Profit rate related contracts						
- Profit rate swaps	90,130	-	90,130	-	-	90,130

43. CAPITAL AND OTHER COMMITMENTS

	2020 RM'000	2019 RM'000
Authorised and contracted for:		
- Computer equipment and software	55	18
	55	18

44. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incur certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. The commitments and contingencies are not secured against the Bank's assets.

The notional amounts of the commitments and contingencies of the Bank are as follows:

	2020 RM'000	2019 RM'000
Contingent liabilities		
Direct credit substitutes	33,408	25,473
Transaction-related contingent items	68,691	69,023
Short term self-liquidating trade-related contingencies	4,116	2,876
	106,215	97,372
Commitments		
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:		
- exceeding one year	6,408,715	5,183,440
- not exceeding one year	2,575,280	2,098,784
Unutilised credit card lines	156,502	138,127
Forward asset purchases	-	21,247
	9,140,497	7,441,598
Derivative financial instruments		
Foreign exchange related contracts:		
- up to one year	7	2
Profit rate related contracts:		
- up to one year	-	130,000
- more than one year to five years	1,700,000	500,000
- more than five years	1,000,000	2,000,000
	2,700,007	2,630,002
	11,946,719	10,168,972

Disclosure of the credit equivalent amount and risk-weighted asset of the commitments and contingencies above, as required by BNM's Capital Adequacy Framework for Islamic Banks (CAFIB-Basel II) - Disclosure Requirements (Pillar 3), is presented in a separate Pillar 3 disclosures document.

45. CAPITAL ADEQUACY

The capital adequacy ratios of the Bank are as follows:

	2020	2019
Before deducting interim dividend *		
Common Equity Tier I ("CET I") capital ratio	12.552%	12.362%
Tier I capital ratio	12.552%	12.362%
Total capital ratio	16.127%	16.192%
After deducting interim dividend *		
CET I capital ratio	12.552%	12.362%
Tier I capital ratio	12.552%	12.362%
Total capital ratio	16.127%	16.192%

* Refer to interim dividend declared subsequent to the financial year end.

The total risk-weighted assets of the Bank are computed based on the following approaches:
(i) Standardised Approach for Credit Risk;
(ii) Standardised Approach for Market Risk; and
(iii) Basic Indicator Approach for Operational Risk.

The capital adequacy ratios of the Bank are computed in accordance with BNM's Capital Adequacy Frameworks for Islamic Banks on Capital Components and Risk-Weighted Assets. The minimum regulatory capital adequacy ratios before including capital conservation buffer ("CCB") and countercyclical capital buffer ("CCyB") for CET I capital ratio, Tier I capital ratio and total capital ratio are 4.5%, 6.0% and 8.0% respectively.

Banking institutions are also required to maintain a CCB of 2.5% and a CCyB above the minimum regulatory capital adequacy ratios. A CCyB is required to be maintained if this buffer is applied by regulators in countries which the Bank has exposures to, determined based on the weighted average of prevailing CCyB rates applied in those jurisdictions. The Bank has applied CCyB on its private sector credit exposures outside Malaysia in line with the respective jurisdictions' requirement to maintain their CCyB. Where the prevailing CCyB rate applied in jurisdiction outside Malaysia is more than 2.5%, the CCyB rate for that jurisdiction is capped at 2.5% for the purpose of calculating the Bank's CCyB, unless specified otherwise by BNM.

The Bank's CCyB which are determined based on the weighted average of prevailing CCyB rates of its private sector credit exposures outside Malaysia are insignificant due to its immaterial exposures. The CCyB is not a requirement for exposures in Malaysia yet but may be applied by regulators in the future.

Effective from 25 March 2020, the Bank is allowed to drawdown the CCB of 2.5% to manage the impact of the COVID-19 pandemic. However, BNM expects the Bank to rebuild this buffer after 31 December 2020 and to meet the minimum regulatory requirements by 30 September 2021. As at the reporting date, the Bank continued to maintain CCB of 2.5%.

45. CAPITAL ADEQUACY (continued)

As allowed under the BNM's Capital Adequacy Frameworks for Islamic Banks on Capital Components, financial institutions which elect to apply the transitional arrangements for regulatory capital treatment of accounting provisions are allowed to add back a portion of the Stage 1 and Stage 2 provisions for expected credit losses to CET I capital over a four-year period from financial year beginning 2020, or a three-year period from financial year beginning 2021. As at the reporting date, the Bank has not applied the said transitional arrangements.

(a) Components of CET I, Tier I and Tier II capital of the Bank are as follows:

	2020 RM'000	2019 RM'000
CET I capital / Tier I capital		
Share capital	2,732,717	2,732,717
Other reserves	91,425	41,234
Retained profits	2,485,744	1,944,889
Less: Defined benefit pension fund assets	(24)	(413)
Less: Investment in an associated company deducted from CET I capital	(45,000)	(45,000)
Total CET I capital / Tier I capital	5,264,862	4,673,427
Tier II capital		
Stage 1 and Stage 2 expected credit loss allowances	437,149	228,011
Qualifying regulatory reserves	62,309	219,862
Subordinated Sukuk Murabahah	1,000,000	1,000,000
Total Tier II capital	1,499,458	1,447,873
Total capital	6,764,320	6,121,300

(b) The breakdown of risk-weighted assets by each major risk category is as follows:

	2020 RM'000	2019 RM'000
Credit risk	39,956,669	35,829,825
Market risk	120	7,951
Operational risk	1,986,509	1,966,233
	41,943,298	37,804,009

Detailed information on the risk exposures above, as prescribed under BNM's Capital Adequacy Framework for Islamic Banks (CAFIB-Basel II) - Disclosure Requirements (Pillar 3), is presented in a separate Pillar 3 disclosures document.

46. CAPITAL MANAGEMENT

The Bank actively manages its capital to support underlying risks in its business activities and to enable future business growth. The Bank's capital management strategy is to continue to maximise shareholder's value via an efficient capital structure, whilst ensuring that it complies with regulatory capital requirements. The allocation of capital resources represents part of the Bank's strategic planning review and is subject to the approval of the Board of Directors.

The Bank's capital is managed in line with the objectives of its holding company, Public Bank Group's Capital Management Framework. The key objectives under the framework include meeting regulatory capital requirements, optimising return to shareholders, maintaining adequate levels and optimum mix of capital, maintaining strong external credit ratings and allocation of capital across business units and subsidiary companies. In order to meet these objectives, the Bank actively manages its capital structure and makes adjustments to address changes in the economic environment, regulatory requirements and risk characteristics inherent in its business operations. These initiatives include issuances of capital securities, adjustments to the amount of dividends distributed to shareholder and focus on growth in non-finance income and other less capital-intensive business activities. The Bank's Internal Capital Adequacy Assessment Process ("ICAAP") assesses the Bank's internal capital requirements beyond the minimum regulatory requirements to ensure its capital commensurates with the Bank's risk profile, the complexity of the business activities undertaken and its risk appetite.

The Bank's regulatory capital are determined under BNM's Capital Adequacy Framework for Islamic Banks (Capital Components and Risk-weighted Assets) and the Bank's capital ratios have complied with the minimum requirements set under this guideline. Information on the Bank's capital adequacy ratios, regulatory minimum capital requirements and the components of total capital are disclosed in Note 45.

47. SEGMENT INFORMATION

The following segment information has been prepared in accordance with MFRS 8 Operating Segments, which defines the requirements for the disclosure of financial information of an entity's operating segments. It is prepared on the basis of the "management approach", which requires presentation of the segments on the basis of internal reports about the components of the entity which are regularly reviewed by the chief operating decision-maker in order to allocate resources to a segment and to assess its performance.

The Bank's operating and reportable segments are business units engaged in providing different products or services. These businesses are managed and assessed separately as each requires a differentiated strategy focused on the specific products and services provided for the economic, competitive and regulatory environment in which it operates. For each operating segment, the Management Committee (the chief operating decision-maker) reviews the internal management reports monthly in order to assess their performance.

The Bank's business is organised into the following key operating segments:

(i) Hire Purchase

Hire purchase operations focus on the provision of passenger vehicle financing to all levels of customers.

(ii) Retail Operations

Retail operations focus on providing products and services to individual customers and small and medium enterprises. The products and services offered to customers include credit facilities (mortgages, trade and personal financing), credit cards, remittance services and deposit collection.

(iii) Corporate Banking

The corporate banking operations cater to the funding needs of large corporate customers which are primarily public listed companies and their related corporations.

(iv) Treasury and Capital Market Operations

The treasury and capital market operations involve in proprietary trading in treasury related products and services such as money market operations and securities trading.

(v) Head Office and Funding Center

Head office manages the investment of funds from shareholder's funds and capital securities, provides support services to the business segments within the Bank as well as serves as a funding center.

There are no changes in the operating segments during the year.

47. SEGMENT INFORMATION (continued)

Measurement and Evaluation of Segment Performance

The Management Committee evaluates operating segments' performance on the basis of revenue, profit, cost-to-income ratio, financing and deposit growth and asset quality. Expenses directly associated with each operating segment are included in determining their respective profit. Transactions between operating segments are based on mutually agreed allocation bases. Funds are allocated between segments and inter-segment funding cost transfers are reflected in net finance income.

Major Customers

There is no single customer which contributes revenue amount greater than 10% of the Bank's revenues for the current financial year (2019 - Nil).

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47. SEGMENT INFORMATION (continued)

2020	Hire Purchase RM'000	Retail Operations RM'000	Corporate Banking RM'000	Treasury and Capital Market Operations RM'000	Head Office and Funding Center RM'000	Inter-segment Elimination RM'000	Total RM'000
	<---- Operating Segments				---->		
External revenue	409,045	1,496,872	209,335	242,631	254,862	-	2,612,745
Revenue from other segments	126	527,814	456	128,550	114,389	(771,335)	-
	409,171	2,024,686	209,791	371,181	369,251	(771,335)	2,612,745
Net finance income / (expense)	92,940	836,023	58,288	49,462	(81,129)	-	955,584
Other operating income	1,084	53,311	3,714	70,188	98,978	-	227,275
Net income	94,024	889,334	62,002	119,650	17,849	-	1,182,859
Other operating expenses	(54,342)	(322,568)	(1,915)	(5,452)	(87,701)	-	(471,978)
of which:							
Depreciation	-	*(523)*	-	*(4)*	*(1,350)*	-	*(1,877)*
Allowance for impairment on financing and advances	(47,317)	(112,263)	(45,153)	-	-	-	(204,733)
(Allowance) / Writeback of allowance for impairment on other assets	-	(51)	-	20	(160)	-	(191)
(Loss) / Profit by segments	(7,635)	454,452	14,934	114,218	(70,012)	-	505,957
Cost-to-income ratio	57.8%	36.3%	3.1%	4.6%	491.3%	-	39.9%
Gross financing and advances	8,798,758	40,861,412	4,990,184	-	-	-	54,650,354
Financing growth	5.9%	11.6%	-2.6%	-	-	-	9.2%
Impaired financing and advances	38,890	128,923	1,608	-	-	-	169,421
Impaired financing ratio	0.44%	0.32%	0.03%	-	-	-	0.31%
Deposits from customers	-	54,372,609	7,114	7,438,174	-	-	61,817,897
Deposit growth	-	2.8%	-39.3%	15.3%	-	-	4.1%
Addition to non-current assets	-	124	-	-	8	-	132
Segment assets	8,698,783	55,341,780	4,928,081	9,395,930	10,137,365	(16,994,621)	71,507,318
Reconciliation of segment assets to total assets:							
Investment in an associated company							45,000
Unallocated assets							8,511
Total assets							71,560,829

47. SEGMENT INFORMATION (continued)

2019	Hire Purchase RM'000	Retail Operations RM'000	Corporate Banking RM'000	Treasury and Capital Market Operations RM'000	Head Office and Funding Center RM'000	Inter-segment Elimination RM'000	Total RM'000
	<------ Operating Segments				------>		
External revenue	458,898	1,709,065	192,071	260,055	314,430	-	2,934,519
Revenue from other segments	741	473,266	723	202,434	200,451	(877,615)	-
	459,639	2,182,331	192,794	462,489	514,881	(877,615)	2,934,519
Net finance income	109,799	700,068	36,864	9,985	155,085	-	1,011,801
Other operating income	2,489	51,665	1,750	39,169	40,621	-	135,694
Net income	112,288	751,733	38,614	49,154	195,706	-	1,147,495
Other operating expenses	(58,783)	(317,784)	(1,657)	(4,498)	(80,497)	-	(463,219)
of which:							
Depreciation	-	*(315)*	-	*(5)*	*(1,434)*	-	*(1,754)*
Allowance for impairment on financing and advances	(1,346)	(39,217)	(1,193)	-	-	-	(41,756)
Writeback of allowance / (Allowance) for impairment on other assets	-	2	-	141	(375)	-	(232)
Profit by segments	52,159	394,734	35,764	44,797	114,834	-	642,288
Cost-to-income ratio	52.4%	42.3%	4.3%	9.2%	41.1%	-	40.4%
Gross financing and advances	8,310,499	36,599,670	5,123,970	-	-	-	50,034,139
Financing growth	-14.0%	12.3%	38.5%	-	-	-	8.9%
Impaired financing and advances	72,773	202,277	-	-	-	-	275,050
Impaired financing ratio	0.88%	0.55%	-	-	-	-	0.55%
Deposits from customers	-	52,908,849	11,722	6,453,440	-	-	59,374,011
Deposit growth	-	14.9%	-85.9%	-14.1%	-	-	10.7%
Addition to non-current assets	-	1,337	-	-	7,077	-	8,414
Segment assets	8,241,805	53,682,464	5,106,898	8,833,856	8,978,280	(16,012,879)	68,830,424
Reconciliation of segment assets to total assets:							
Investment in an associated company							45,000
Unallocated assets							2,538
Total assets							68,877,962

48. RATING STATEMENT

As at 31 December 2020, the Bank was accorded the following ratings:

Agency	Date assigned	Ratings
RAM Rating	19 May 2020 (Reaffirmed)	Long-Term Rating : AAA
Services Berhad	19 May 2020 (Reaffirmed)	Short-Term Rating : P1
	19 May 2020 (Reaffirmed)	Outlook : Stable
	19 May 2020 (Reaffirmed)	RM5.0 billion Sukuk Murabahah Programme :
		- Senior Sukuk Murabahah : AAA/Stable
		- Subordinated Sukuk Murabahah : AA1/Stable

49. SHARIAH COMMITTEE

The Shariah Committee ("SC") is governed by the Bank's Shariah Governance Policy. The SC advises the Board of Directors on Shariah matters to ensure that the overall business operations is in line with Shariah requirements at all times. The primary duties and responsibilities of the Bank's SC are as follows:

(a) To perform an oversight role on Shariah matters related to the Bank's business operations and activities including oversight requirements.

(b) To advise the Board and Management on Shariah related matters in order for the Bank to comply with Shariah rules and principles at all time. The SC members are responsible and accountable for all Shariah decisions, opinions and views provided by them.

(c) To endorse Shariah related policies and guidelines.

(d) To approve products and services to ensure compliance with Shariah rules and principles which include:

  i) validating the terms and conditions contained in the forms, contracts, agreements or legal documents used in executing the transactions; and

  ii) validating the product manual, marketing advertisements, sales illustrations and brochures used to describe the product and services.

(e) To assess work carried out by Shariah Review and Compliance, Shariah Risk Management and Shariah Audit which forms part of the SC duties in providing compliance assessment in Shariah and assurance information in the annual report of the Bank.

(f) To advise related parties such as the Bank's parent company, subsidiaries, clients, legal counsels, auditors or consultants on Shariah matters for advice upon request.

(g) To advise the Bank to consult the Shariah Advisory Council ("SAC") of BNM and Securities Commission on Shariah matters that cannot be resolved.

49. SHARIAH COMMITTEE (continued)

(h) To provide written Shariah opinions in circumstances where the Bank makes reference to the SAC for further deliberation, or where the Bank submits application to BNM for new product approval.

Notwithstanding the above, the SC is also responsible to perform any specific duties and responsibilities outlined in any policy documents or standards issued by the relevant authority at all times.

50. SIGNIFICANT EVENTS

There were no significant events other than as disclosed in Notes 2(i)(c), 18 and 27(a)(i) to the financial statements.

51. SUBSEQUENT EVENTS

As at 31 December 2020, developments surrounding the COVID-19 pandemic continue to be uncertain and fluid. This has increased the estimation uncertainty in the preparation of the financial statements and may result in the application of further judgment in the measurement of assets and liabilities, as disclosed in Note 2(i)(c) to the financial statements. Other than the impact of COVID-19 pandemic, there were no material events subsequent to the reporting date that require disclosure or adjustments to the financial statements.