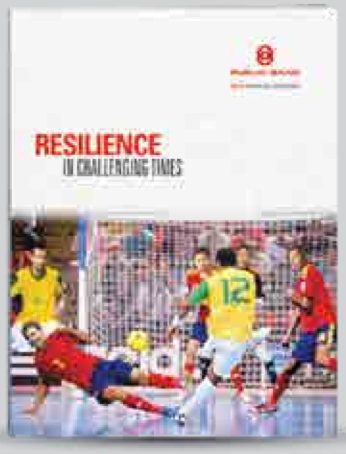
PUBLIC BANK

2019 ANNUAL REPORT
FINANCIAL STATEMENTS

RESILIENCE
IN CHALLENGING TIMES

ABOUT THIS REPORT



Resilience in Challenging Times

Resilience in Challenging Times is best reflected through the world of sports where athletes often face challenging times in their pursuit for excellence, honour and glory. Every day is a new day in the field with new sets of challenges. The ability to bounce back, to reflect deeply, and to get back into the game is the mantra that athletes live by. Arming themselves with a winning mentality requires strength, perseverance, teamwork and competitiveness to excel in the field. It's about having the resilience, discipline and focus to push on, no matter the circumstances. With a winning mentality, anything is possible.

In the competitive financial sector, Public Bank too applies all these attributes that have enabled us to create significant value for our stakeholders over the years. We will continue to stand tall and strong; embracing challenges and changes with the same enthusiasm and energy as we have always had in the past. We remain committed to grow whilst adjusting to the ever-present issues in the banking landscape. By applying ourselves to the challenges at hand, we will remain resilient and ready to face any challenging times that come our way.

This annual report is available on the web at **www.publicbankgroup.com**

CORPORATE PHILOSOPHY

Public Bank Cares...

FOR ITS CUSTOMERS

- By providing the most courteous and efficient service in every aspect of its business
- By being innovative in the development of new banking products and services

FOR ITS SHAREHOLDERS

- By forging ahead and consolidating its position as a stable and progressive financial institution
- By generating profits and a fair return on their investment

FOR ITS EMPLOYEES

- By promoting the well-being of its staff through attractive remuneration and fringe benefits
- By promoting good staff morale through proper staff training and development and provision of opportunities for career advancement

FOR THE COMMUNITY IT SERVES

- By assuming its role as a socially responsible corporate citizen in a tangible manner
- By adhering closely to national policies and objectives thereby contributing towards the progress of the nation

...With Integrity

WHAT'S INSIDE

CORPORATE MISSION

TO SUSTAIN THE POSITION OF BEING THE MOST EFFICIENT, PROFITABLE AND RESPECTED PREMIER FINANCIAL INSTITUTION IN MALAYSIA.

3rd largest
Bank in Malaysia by total assets

RM5.51
billion
net profit attributable to equity holders

RM432.83
billion
in total assets

435
branch network
in the region

FINANCIAL STATEMENTS

FINANCIAL HIGHLIGHTS

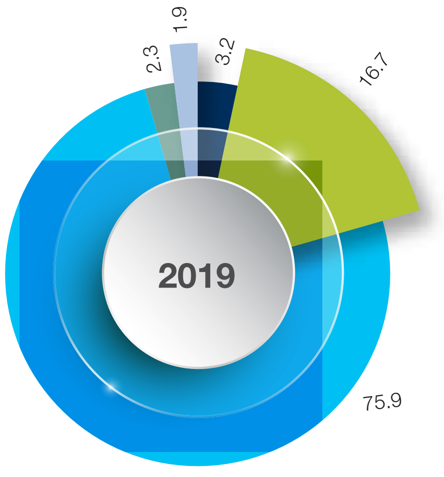
	GROUP		BANK	
	2019	**2018**	**2019**	**2018**
PROFITABILITY (RM'MILLION)				
Operating revenue	**22,455**	22,042	**16,338**	15,994
Operating profit	**7,283**	7,270	**5,957**	5,754
Profit before tax expense and zakat	**7,134**	7,101	**5,911**	5,644
Net profit attributable to equity holders of the Bank	**5,512**	5,591	**4,745**	4,551
KEY BALANCE SHEET DATA (RM'MILLION)				
Total assets	**432,831**	419,693	**339,545**	331,787
Gross loans, advances and financing	**330,468**	317,302	**257,705**	249,157
Deposits from customers	**353,340**	339,160	**268,260**	258,878
Shareholders' equity	**43,594**	40,973	**37,078**	35,280
FINANCIAL RATIOS (%)				
Profitability Ratios				
Net interest margin on average interest bearing assets	**2.2**	2.2	**2.0**	2.1
Net return on equity[1]	**13.6**	14.8	**13.7**	13.9
Return on average assets	**1.7**	1.7	**1.8**	1.7
Return on average risk-weighted assets	**2.6**	2.7	**2.7**	2.7
Capital Adequacy Ratios[2]				
Common Equity Tier I capital ratio	**13.5**	13.1	**12.1**	12.0
Tier I capital ratio	**13.5**	13.7	**12.2**	12.8
Total capital ratio	**16.8**	16.3	**15.5**	15.3
Asset Quality Ratio				
Gross impaired loans ratio	**0.5**	0.5	**0.4**	0.5

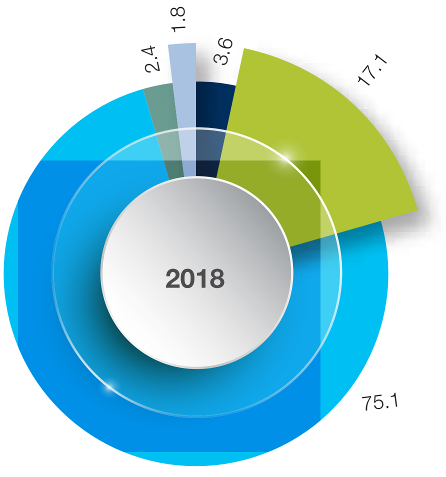
[1] *Based on average equity attributable to equity holders of the Bank, adjusted for dividend declared subsequent to year end.*

[2] *After deducting second interim dividend declared subsequent to year end.*

SIMPLIFIED GROUP BALANCE SHEET

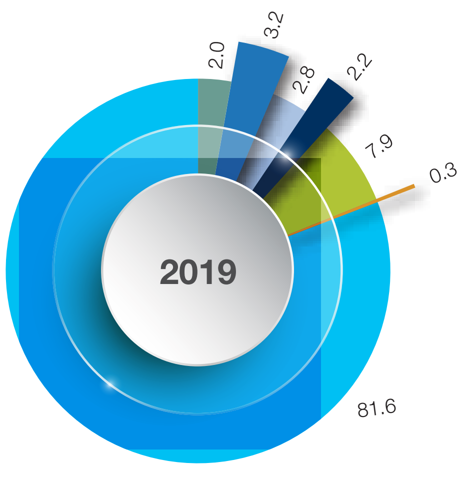
ASSETS

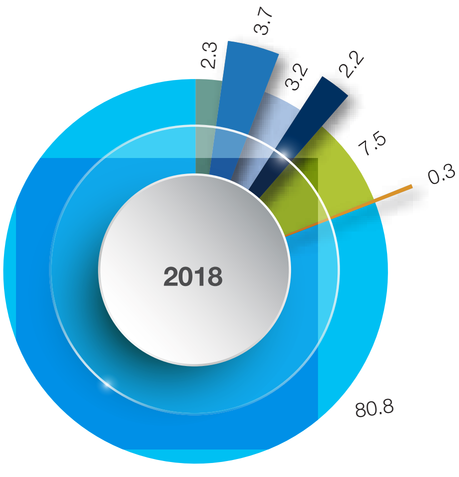




- Cash and balances with banks and reverse repurchase agreements
- Portfolio of financial investments
- Loans, advances and financing
- Statutory deposits with Central Banks
- Other assets (including intangible assets)

LIABILITIES & EQUITY





- Deposits from customers
- Deposits from banks
- Bills and acceptances payable and other liabilities
- Debt securities issued and other borrowed funds
- Share capital
- Reserves
- Non-controlling interests

FIVE-YEAR GROUP FINANCIAL SUMMARY

YEAR ENDED 31 DECEMBER	2019	2018	2017	2016	2015
OPERATING RESULTS (RM'MILLION)					
Operating profit	**7,283**	7,270	7,319	6,745	6,631
Profit before tax expense and zakat	**7,134**	7,101	7,118	6,554	6,491
Net profit attributable to equity holders of the Bank	**5,512**	5,591	5,470	5,207	5,062
KEY BALANCE SHEET DATA (RM'MILLION)					
Total assets	**432,831**	419,693	395,276	380,053	363,758
Gross loans, advances and financing	**330,468**	317,302	304,453	293,959	273,447
Total liabilities	**388,084**	377,597	356,831	344,689	331,450
Deposits from customers	**353,340**	339,160	319,259	309,974	301,157
Core customer deposits	**294,646**	283,846	269,723	258,155	245,171
Share capital	**9,418**	9,418	9,418*	3,882	3,882
Shareholders' equity	**43,594**	40,973	37,365	34,213	31,231
Commitments and contingencies	**94,315**	96,368	95,443	105,592	107,533
SHARE INFORMATION AND VALUATION					
Share Information					
Per share (sen)					
Basic/Diluted earnings	**142.0**	144.4	141.7	134.8	131.1
Dividend	**73.0**	69.0	61.0	58.0	56.0
Net assets	**1,122.9**	1,055.4	967.6	886.0	808.8
Share price as at 31 December (RM)	**19.44**	24.76	20.78	19.72	18.52
Market capitalisation (RM'Million)	**75,469**	96,122	80,671	76,556	71,897
Valuations					
Dividend yield (%)	**3.8**	2.8	2.9	2.9	3.0
Dividend payout ratio (%)	**51.4**	47.9	43.1	43.0	42.7
Price to earnings multiple (times)	**13.7**	17.2	14.7	14.6	14.1
Price to book multiple (times)	**1.7**	2.3	2.1	2.2	2.3

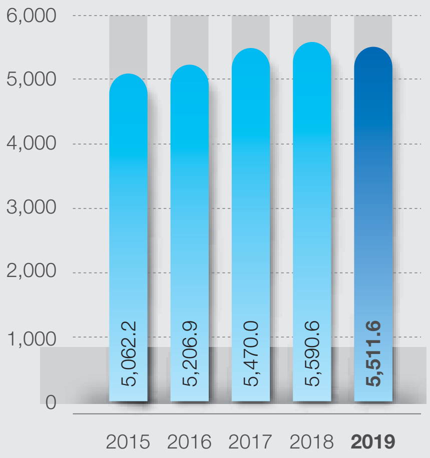
* *The Bank's share premium account was transferred to form part of the Bank's share capital pursuant to the Companies Act 2016 which came into force on 31 January 2017.*

YEAR ENDED 31 DECEMBER	2019	2018	2017	2016	2015
FINANCIAL RATIOS (%)					
Profitability Ratios					
Net interest margin on average interest bearing assets	**2.2**	2.2	2.3	2.2	2.2
Net return on equity[1]	**13.6**	14.8	15.8	16.5	17.8
Return on average assets	**1.7**	1.7	1.8	1.8	1.8
Return on average risk-weighted assets	**2.6**	2.7	2.8	2.7	2.8
Cost/income ratio	**34.4**	33.0	31.9	32.3	30.5
Asset Quality Ratios					
Gross loans to fund ratio	**88.9**	88.4	90.0	90.8	86.8
Gross loans to fund and equity ratio	**79.2**	79.0	80.7	81.8	78.7
Gross impaired loans ratio	**0.5**	0.5	0.5	0.5	0.5
Loan loss coverage					
– Exclude regulatory reserve	**124.1**	126.0	95.5	102.7	120.8
– Include regulatory reserve	**249.8**	237.5	256.5	248.5	258.6
Capital Adequacy Ratios[2]					
Common Equity Tier I (“CET I”) capital ratio	**13.5**	13.1	12.2	11.4	10.9
Tier I capital ratio	**13.5**	13.7	13.0	12.2	12.0
Total capital ratio	**16.8**	16.3	16.0	15.5	15.4
PRODUCTIVITY RATIOS					
Number of employees	**19,260**	18,721	18,553	18,651	18,373
Gross loans per employee (RM’000)	**17,158**	16,949	16,410	15,761	14,883
Deposits per employee (RM’000)	**18,346**	18,117	17,208	16,620	16,391
Profit before tax per employee (RM’000)	**370**	379	384	351	353
MARKET SHARE (%)					
Domestic market share[3]					
Loans, advances & financing	**17.3**	17.2	17.8	17.7	17.4
Deposits from customers	**16.5**	16.2	16.6	16.9	16.6
Core customer deposits	**16.9**	16.8	17.4	17.5	16.8

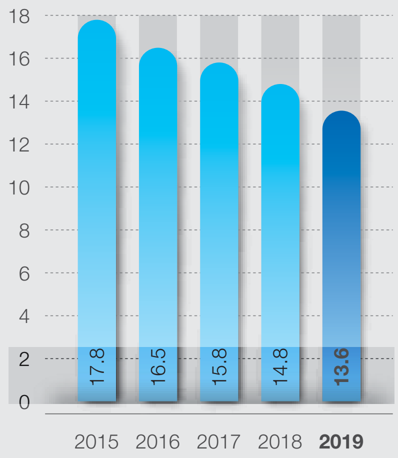
1 Based on equity attributable to equity holders of the Bank, adjusted for dividend declared subsequent to year end.
2 After deducting second interim dividend declared subsequent to year end.
3 From year 2018 onwards, industry figures were revised to include data from MBSB Bank Bhd.

SUMMARY OF FIVE-YEAR GROUP GROWTH

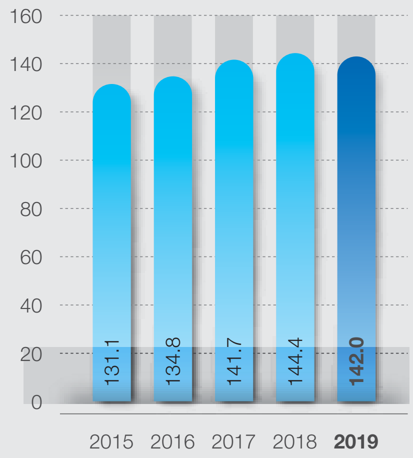
NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS
RM'Million



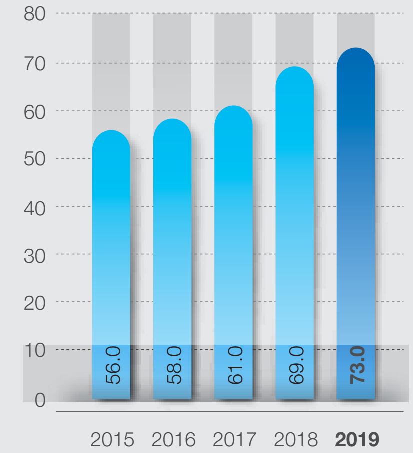
NET RETURN ON EQUITY
Percentage (%)



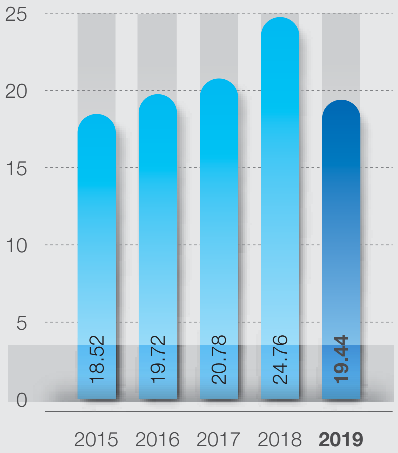
EARNINGS PER SHARE
Sen



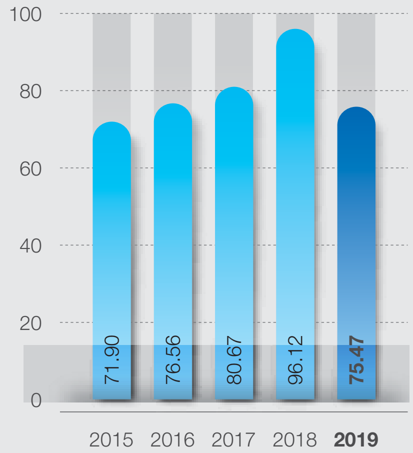
DIVIDEND PER SHARE
Sen



SHARE PRICE
RM



MARKET CAPITALISATION
RM'Billion

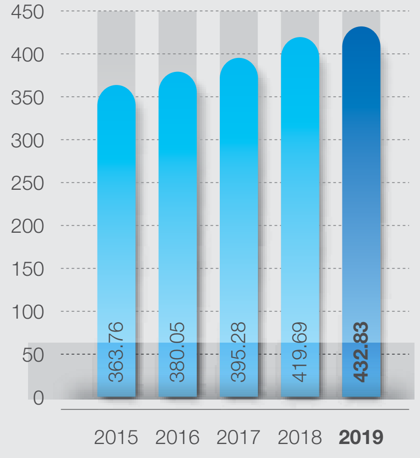


PUBLIC BANK'S RANKING BY MARKET CAPITALISATION ON BURSA MALAYSIA SECURITIES BERHAD

Year	2015	2016	2017	2018	2019
Ranking	3rd	3rd	3rd	2nd	**2nd**

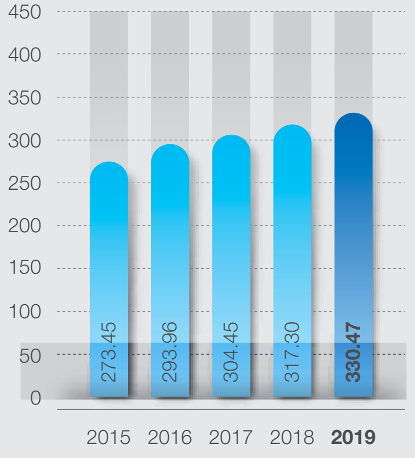
TOTAL ASSETS

RM'Billion



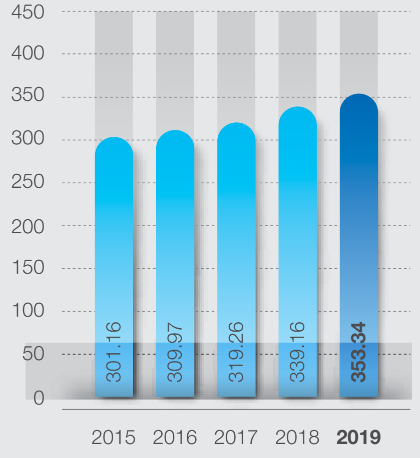
GROSS LOANS, ADVANCES AND FINANCING

RM'Billion



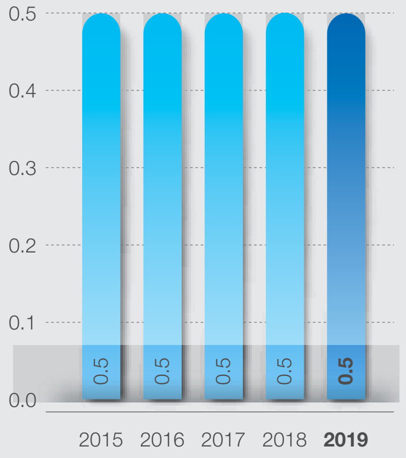
CUSTOMER DEPOSITS

RM'Billion



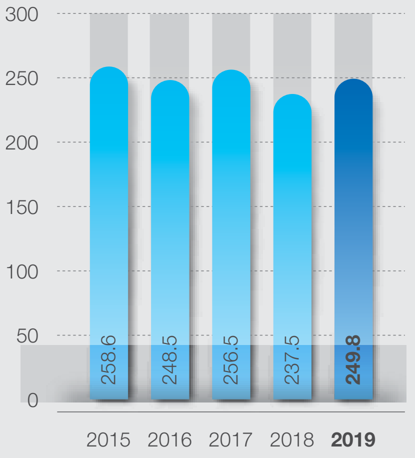
GROSS IMPAIRED LOANS RATIO

Percentage (%)



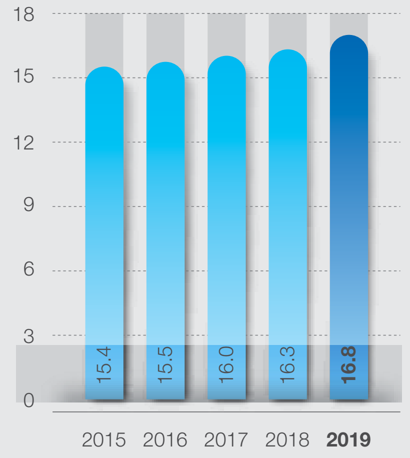
LOAN LOSS COVERAGE*

Percentage (%)



TOTAL CAPITAL RATIO**

Percentage (%)

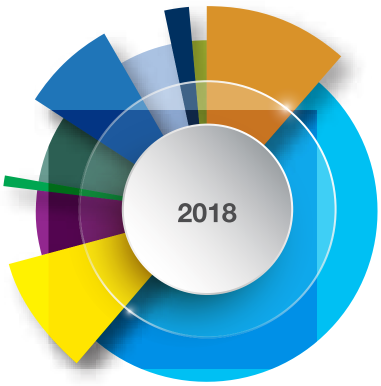


* *Including regulatory reserves*

** *After deducting second interim dividend declared subsequent to year end*

SEGMENTAL ANALYSIS

OPERATING REVENUE



	2019 %	2018 %
Hire purchase	**11.3**	11.6
Retail operations	**49.8**	50.3
Corporate lending	**8.9**	9.0
Treasury and capital market operations	**6.3**	6.3
Investment banking	**0.7**	0.8
Fund management	**5.9**	6.3
Others	**8.4**	7.6
Total domestic	**91.3**	91.9
Hong Kong SAR	**5.2**	4.9
Cambodia	**2.0**	1.9
Other countries	**1.5**	1.3
Total overseas	**8.7**	8.1
Total	**100.0**	**100.0**

PROFIT BEFORE TAX

	2019 %	2018 %
Hire purchase	**5.6**	4.6
Retail operations	**52.2**	51.4
Corporate lending	**7.2**	7.8
Treasury and capital market operations	**3.9**	8.8
Investment banking	**0.6**	0.7
Fund management	**9.1**	9.4
Others	**11.0**	7.6
Total domestic	**89.6**	90.3
Hong Kong SAR	**4.2**	4.5
Cambodia	**4.9**	4.2
Other countries	**1.3**	1.0
Total overseas	**10.4**	9.7
Total	**100.0**	**100.0**

TOTAL ASSETS

	2019 %	2018 %
Hire purchase	**9.3**	9.4
Retail operations	**50.9**	50.4
Corporate lending	**8.0**	8.0
Treasury and capital market operations	**14.6**	15.1
Investment banking	**0.4**	0.4
Fund management	**0.1**	0.1
Others	**9.2**	9.2
Total domestic	**92.5**	92.6
Hong Kong SAR	**4.2**	4.5
Cambodia	**2.1**	2.0
Other countries	**1.2**	0.9
Total overseas	**7.5**	7.4
Total	**100.0**	**100.0**

STATEMENT OF RESPONSIBILITY BY DIRECTORS

In respect of the preparation of the annual audited financial statements

The Directors are responsible for ensuring that the annual audited financial statements of the Group and of the Bank are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, the requirements of the Companies Act 2016 in Malaysia, Bank Negara Malaysia's Guidelines and the Listing Requirements of Bursa Malaysia Securities Berhad.

The Directors are also responsible for ensuring that the annual audited financial statements of the Group and of the Bank are prepared with reasonable accuracy from the accounting records of the Group and of the Bank so as to give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2019 and of their financial performance and cash flows for the year then ended.

In preparing the annual audited financial statements, the Directors have:

a. applied the appropriate and relevant accounting policies on a consistent basis;
b. made judgements and estimates that are reasonable and prudent; and
c. prepared the audited financial statements on a going concern basis.

The Directors also have a general responsibility to take reasonable steps to safeguard the assets of the Group and of the Bank to prevent and detect fraud and other irregularities.

FINANCIAL STATEMENTS

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The Directors have pleasure in presenting to the members their report together with the audited financial statements of the Group and of the Bank for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in all aspects of commercial banking and the provision of related financial services.

The principal activities of the subsidiary and associated companies are as disclosed in Notes 15 and 16 to the financial statements respectively.

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

FINANCIAL RESULTS

	Group	Bank
	RM'000	RM'000
Profit before tax expense and zakat	7,134,144	5,911,072
Tax expense and zakat	(1,554,701)	(1,166,249)
Profit for the year	5,579,443	4,744,823
Attributable to:		
Equity holders of the Bank	5,511,558	4,744,823
Non-controlling interests	67,885	–
Profit for the year	5,579,443	4,744,823

DIVIDENDS

The amount of dividends paid by the Bank since 31 December 2018 were as follows:

	RM'000
In respect of financial year ended 31 December 2018:	
Second interim dividend of 37.0 sen on 3,882,138,347 ordinary shares paid on 14 March 2019	1,436,391
In respect of financial year ended 31 December 2019:	
First interim dividend of 33.0 sen on 3,882,138,347 ordinary shares paid on 10 September 2019	1,281,106
	2,717,497

Subsequent to the financial year end, on 26 February 2020 the Directors declared a second interim dividend of 40.0 sen, with the total amounting to approximately RM1,552,855,339 in respect of the current financial year. This is computed based on 3,882,138,347 ordinary shares as at 31 December 2019, to be paid and distributed to shareholders whose names appear in the Record of Depositors at the close of business on 12 March 2020. The financial statements for the current financial year do not reflect these dividends. Upon declaration, this dividend payment will be accounted for in equity as an appropriation of retained earnings during the financial year ending 31 December 2020.

The Directors do not propose any final dividend for the financial year ended 31 December 2019.

ISSUANCE OF SHARES AND DEBENTURES

There were no issuance of new shares by the Bank during the year.

During the year, the Group and the Bank made various issuances and redemptions of debt securities, as disclosed in Note 25 to the financial statements.

SHARE BUY-BACK

There were no share buy-backs, shares held as treasury shares nor resale of treasury shares by the Bank during the year.

RESERVES, PROVISIONS AND ALLOWANCES

There were no material transfers to or from reserves or provisions or allowances during the year other than those as disclosed in Notes 7, 8, 9, 10, 26, 30 and 31 and the statements of changes in equity to the financial statements.

BAD AND DOUBTFUL DEBTS AND FINANCING

Before the statements of profit or loss and statements of financial position of the Group and 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 debts and financing and the making of allowance for doubtful debts and financing, and satisfied themselves that all known bad debts and financing had been written off and adequate allowance had been made for doubtful debts and financing.

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

CURRENT ASSETS

Before the statements of profit or loss and statements of financial position of the Group and of the Bank were made, the Directors took reasonable steps to ensure that current assets, other than debts and financing, which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Group and of the Bank have 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 Group and 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 Group and 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 Group or 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 Group or 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 Group and of the Bank.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

CONTINGENT AND OTHER LIABILITIES (CONTINUED)

No contingent liability or other liability of the Group and 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 Group or of the Bank to meet their 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 Group and of the Bank, which would render any amount stated in the financial statements misleading.

ITEMS OF UNUSUAL NATURE

The results of the operations of the Group and 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 Group and 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 57 to the financial statements.

SUBSEQUENT EVENTS

There were no material events subsequent to the reporting date that require disclosure or adjustments to the financial statements.

INDEMNIFICATION OF DIRECTORS

The Bank maintained on a group basis, a Directors' and Officers' Liability Insurance up to an aggregate limit of RM435,000,000 (2018: RM435,000,000) against any legal liability incurred by the Directors and officers in the discharge of their duties while holding office for the Bank 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 for the current financial year was RM8,537,000 (2018: RM8,019,000).

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
Mr Lai Wan
Tan Sri Dato' Sri Tay Ah Lek
Mr Tang Wing Chew
Ms Lai Wai Keen
Ms Cheah Kim Ling
Mr Lee Chin Guan
Dato' Mohd Hanif bin Sher Mohamed (appointed on 22 January 2019)
Ms Tham Chai Fhong (appointed on 1 June 2019)

DIRECTORS OF THE BANK (CONTINUED)

The names of the directors of the Bank's subsidiary companies who served on the respective board of the subsidiary companies since the beginning of the financial year to the date of this report are disclosed in the Appendix to the financial statements.

In accordance with Clause 105 of the Bank's Constitution, Ms Tham Chai Fhong retires at the forthcoming Annual General Meeting and, being eligible, offers herself for re-election.

In accordance with Clause 107 of the Bank's Constitution, Tan Sri Dato' Sri Dr. Teh Hong Piow, Mr Tang Wing Chew and Ms Cheah Kim Ling 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 and in shares of its subsidiary company during the financial year were as follows:

Shares Held in the Bank

	Number of Ordinary Shares			
Direct interests:	**Balance at 1.1.2019**	**Acquired**	**Disposed**	**Balance at 31.12.2019**
Tan Sri Dato' Sri Dr. Teh Hong Piow	24,711,282	–	–	**24,711,282**
Tan Sri Dato' Sri Tay Ah Lek	4,888,845	–	**(1,400,000)**	**3,488,845**
Mr Lee Chin Guan	200,030	–	–	**200,030**
Ms Tham Chai Fhong (appointed on 1 June 2019)	14,700	–	–	**14,700**

	Number of Ordinary Shares			
Deemed interests:	**Balance at 1.1.2019**	**Acquired**	**Disposed**	**Balance at 31.12.2019**
Tan Sri Dato' Sri Dr. Teh Hong Piow	884,194,971	–	–	**884,194,971**
Tan Sri Dato' Sri Tay Ah Lek	1,389,745	**1,400,000**	–	**2,789,745**
Mr Lai Wan	18,654	–	–	**18,654**
Ms Cheah Kim Ling	10,392	–	–	**10,392**

Shares Held in a Subsidiary Company, Public Financial Holdings Limited

	Number of Ordinary Shares			
Direct interests:	**Balance at 1.1.2019**	**Acquired**	**Disposed**	**Balance at 31.12.2019**
Tan Sri Dato' Sri Tay Ah Lek	350,000	–	–	**350,000**

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

DIRECTORS' INTERESTS (CONTINUED)

Other than as disclosed above, none of the Directors in office at the end of the financial year had any interest in shares in the Bank 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 the Bank, and pursuant to Section 8(4)(c) of the Companies Act 2016, is deemed interested in the shares in all of the Bank's subsidiary and associated companies to the extent that the Bank has interests.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Bank or its subsidiary companies 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 38 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which 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 44(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, Deputy Chief Executive Officer 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 Tang Wing Chew (Independent)
Mr Lai Wan (Independent)
Ms Lai Wai Keen (Independent)
Ms Cheah Kim Ling (Independent)
Mr Lee Chin Guan (Non-Independent)

BUSINESS REVIEW 2019

The operating environment in 2019 remained supportive of the banking industry and was mainly driven by domestic economic activities. In support of the Government's initiative to further boost the Malaysian digital economy, banks continued to evolve from traditional banking.

Despite volatility in the financial markets amid headwinds in both the domestic and global economy, the domestic banking sector remained stable underpinned by sustained profits, strong capitalisation and ample liquidity. Total loans in the banking system grew, albeit at a more moderate pace. Nevertheless, intense competition in the banking sector for loans and deposits continued to further compress net interest margins.

The Public Bank Group achieved favourable results in 2019, despite challenges in the operating environment. The Group recorded loans growth of 4.1% in 2019, backed by growth in home mortgages, passenger vehicle hire purchase financing and retail commercial lending to small and medium enterprises ("SMEs"). The Group maintained its leading market position in the financing for residential property and commercial property segments with market shares of 19.9% and 35.0% respectively.

BUSINESS REVIEW 2019 (CONTINUED)

The Public Bank Group's deposit-taking business also continued to expand driven by marketing strategies to attract new deposits. In 2019, the Group's fixed deposits, saving deposits and demand deposits increased by 4.6%, 1.9% and 2.2% respectively.

The Public Bank Group continued to grow its fee-based income, particularly in the unit trust management business, bancassurance and transactional banking services. The Group's unit trust management business, undertaken by Public Mutual, which is Public Bank's wholly-owned subsidiary, maintained its market leadership in the private unit trust business in Malaysia with retail market share of 35.0%. In the bancassurance business, the Group's partnership with AIA Berhad yielded favourable results with continued growth in annualised new premiums.

The Public Bank Group's gross impaired loans ratio remained low at 0.5% as at the end of 2019 mainly attributed to its prudent lending and strong credit risk management practices. The Group's loan loss coverage ratio of 124.1% was also significantly higher than the banking industry's ratio of 89.6%.

The Public Bank Group remained the most cost efficient bank in the industry with cost-to-income ratio of 34.4% in 2019, which was well below the banking industry's average of 44.6%.

The Public Bank Group has a total branch network of 264 branches across Malaysia, with more than 2,000 self-service terminals and a team of dedicated employees to serve the needs of its customers. Apart from improving its traditional banking services, the Group also continued to enhance its digital capabilities to provide seamless and intuitive banking experience to its customers.

The Public Bank Group continued to strengthen its presence within the region. As at the end of 2019, the Group has a regional network of 79 branches in Hong Kong, 5 in China, 31 in Cambodia, 20 in Vietnam, 4 in Laos and 3 in Sri Lanka.

ECONOMIC OUTLOOK AND PROSPECTS FOR 2020

The global economic outlook remains uncertain with risks skewed to the downside. Heightened trade tension, policy uncertainties as well as the impact from the Covid-19 outbreak are drags to business confidence, investment decisions and global trades. However, global monetary conditions are expected to be accommodative and supportive of growth.

The Malaysian economy is expected to be supported by private sector in 2020. Firm economic fundamentals and accommodative policies are expected to be supportive of economic growth. On the demand side, stable employment, implementation of higher minimum wage and accommodative financial conditions will continue to support private consumption.

On the supply side, growth is expected to be driven mainly by the services and manufacturing sectors. The services sector will be supported by information and communication technology, transport as well as financial services whilst the manufacturing sector is expected to be driven by continued demand for electrical and electronics products.

Monetary policy will remain accommodative and supportive of economic growth amidst a stable price environment. The domestic financial sector will continue to be supported by strong capital and liquidity buffers. However, downside risks to the economy emanate from protracted trade tensions, uncertainties in global economic and financial conditions, weakness in commodity-related sectors and the prolonged impact from the Covid-19 outbreak.

BUSINESS OUTLOOK FOR 2020

The overall business outlook will be dependent on the macro developments in both the domestic and external environment. The Malaysian economy is expected to be supported by domestic demand whilst the banking sector is expected to remain stable underpinned by ample liquidity and strong capital buffers. Nevertheless, the risks to the business outlook are expected to tilt to the downside mainly due to on-going trade conflicts, volatility in the global financial markets and geopolitical unrest.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

BUSINESS OUTLOOK FOR 2020 (CONTINUED)

The Public Bank Group will continue to pursue its long-term organic growth strategy, which focuses on its core retail banking and financing business. In the lending business, the Group remains focused on home mortgages, hire purchase financing for passenger vehicles and retail commercial loans for SMEs. In the residential property financing segment, the Group will continue to focus on home mortgages for owner occupation and the broader base mass market segment. The Group will also continue to extend lending to the SMEs by delivering products and services that cater to the needs of businesses.

On the funding side, the Public Bank Group will continue to source and attract new deposits by adopting competitive pricing strategy and introducing new products and services as well as improving customers' banking experience leveraging on FinTech partnerships.

The Public Bank Group will also continue to broaden its non-interest income streams from unit trust, bancassurance, credit cards, foreign exchange-related transactions and transactional banking services.

The Public Bank Group remains committed to improving the digital features and user interfaces of its digital channels for enhanced customer experience. The Group will also continue to enhance its ICT infrastructure as well as digital capabilities and knowledge to drive digital innovation.

The Public Bank Group is committed to pursuing its organic growth strategy to further expand its overseas operations across Asia.

Given the challenging business environment, the Public Bank Group will continue to be vigilant and prudent in lending as well as uphold strong risk management practices. The Group will also leverage on its strong PB brand as well as efficient banking resources and infrastructure to deliver best-in-class customer service.

Within the banking landscape in Malaysia, banks will continue to explore new opportunities to enhance innovation of products and services, especially in the area of digitalisation. The application for virtual banking licenses will be opened in 2020, which will pave the way for closer collaboration between financial institutions and FinTech players going forward.

AUDITORS

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

Auditors' remuneration is disclosed in Note 37 to the financial statements.

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

TAN SRI DATO' SRI DR. TEH HONG PIOW
Director

TAN SRI DATO' SRI TAY AH LEK
Director

Kuala Lumpur
Date: 26 February 2020

STATEMENT BY DIRECTORS

We, TAN SRI DATO' SRI DR. TEH HONG PIOW and TAN SRI DATO' SRI TAY AH LEK, being two of the Directors of PUBLIC BANK BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 24 to 257 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 Group and of the Bank as at 31 December 2019 and of their 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:

TAN SRI DATO' SRI DR. TEH HONG PIOW
Director

TAN SRI DATO' SRI TAY AH LEK
Director

Kuala Lumpur
Date: 26 February 2020

STATUTORY DECLARATION

I, YIK SOOK LING, being the officer primarily responsible for the financial management of PUBLIC BANK BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 24 to 257, 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 26 February 2020

YIK SOOK LING
MIA No: CA11419

BEFORE ME:

Commissioner for Oaths
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PUBLIC BANK BERHAD (INCORPORATED IN MALAYSIA)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Public Bank Berhad, which comprise the statements of financial position as at 31 December 2019 of the Group and of the Bank, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 24 to 257.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2019, and of their financial performance and their 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 Group and of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Group and of the Bank for the current financial year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Bank as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements of the Group and of the Bank. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matters (continued)

Risk area and rationale	Our response
<u>Impairment of goodwill and investment in subsidiaries</u>	
As at 31 December 2019, (i) the goodwill recognised in the financial statements of the Group and of the Bank are RM2,387 million and RM695 million respectively; and (ii) the carrying amount of investment in subsidiaries in the financial statements of the Bank stood at RM6,494 million. Goodwill impairment testing of cash-generating units ("CGUs") relies on estimates of value-in-use ("VIU") based on estimated future cash flows. The Group and the Bank are required to annually test the amount of goodwill for impairment. Similarly, we focused on impairment assessment of investment in subsidiaries as the impairment testing relies on VIU estimates based on estimated future cash flows. These involve management judgment and are based on assumptions that are affected by expected future market and economic conditions. *Refer to summary of significant accounting policies in Note 2(iii)(l)(i) and Note 2(iii)(b)(i), significant accounting estimates and judgment in Note 2(iii)(a)(iii) and the disclosure of goodwill and investment in subsidiaries in Note 20 and Note 15 respectively to the financial statements.*	Our audit procedures included, among others, evaluating the assumptions and methodologies used by the Group and the Bank in performing the impairment assessment. We tested the basis of preparing the cash flow forecasts taking into account the back testing results on the accuracy of previous forecasts and the historical evidence supporting underlying assumptions. We also assessed the appropriateness of the other key assumptions, such as the growth rates used to extrapolate the cash flows and the discount rates applied, by comparing against internal information, and external economic and market data. We also assessed the sensitivity analysis performed by management on the key inputs to the impairment models, to understand the impact that reasonable alternative assumptions would have on the overall carrying amounts. We also reviewed the adequacy of the Group's and the Bank's disclosures within the financial statements about those assumptions to which the outcome of the impairment test is most sensitive.
<u>Expected credit losses of loans, advances and financing and investments not carried at fair value through profit or loss</u>	
As at 31 December 2019, the loans, advances and financing represent 75.9% and 75.5% of the total assets of the Group and of the Bank respectively, and the investments carried at amortised cost and fair value through other comprehensive income represent 15.7% and 13.7% of the total assets of the Group and of the Bank respectively. MFRS 9 requires the Group and the Bank to account for loan and financing loss using forward-looking expected credit loss ("ECL") approach.	Our audit procedures included the assessment of key controls over the origination, segmentation, ongoing internal credit quality assessments, recording and monitoring of loans, advances and financing and the investments. We also assessed the processes and effectiveness of key controls over the transfer criteria (for the three stages of credit exposures under MFRS 9 in accordance with credit quality), impairment measurement methodologies, governance for development, maintenance and validation of ECL models, inputs, basis and assumptions used by the Group and the Bank in staging the credit exposures and calculating the ECL.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PUBLIC BANK BERHAD (INCORPORATED IN MALAYSIA)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matters (continued)

Risk area and rationale	Our response
Expected credit losses of loans, advances and financing and investments not carried at fair value through profit or loss (continued)	
The measurement of ECL requires the application of significant judgment and increased complexity which include the identification of on-balance sheet and off-balance sheet credit exposures with significant deterioration in credit quality, assumptions used in the ECL models (for exposures assessed individually or collectively) such as the expected future cash flows, forward-looking macroeconomic factors and probability-weighted multiple scenarios. *Refer to summary of significant accounting policies in Note 2(iii)(h), significant accounting judgments, estimates and assumptions in Note 2(iii)(a)(ii) and the disclosures of loans, advances and financing and investments in Note 9, 7 and 8 to the financial statements.*	For staging and identification of credit exposures with significant deterioration in credit quality, we assessed and tested the reasonableness of the transfer criteria applied by the Group and the Bank for different types of credit exposures. We evaluated if the transfer criteria are consistent with the Group's and the Bank's credit risk management practices. For the measurement of ECL, we assessed and tested reasonableness of the Group's and the Bank's ECL models, including model input, model design, model performance for significant portfolios. We challenged whether historic experience is representative of current circumstances and of the recent losses incurred in the portfolios and assessed the reasonableness of forward-looking adjustments, macroeconomic factor analysis and probability-weighted multiple scenarios. We evaluated if changes in modelling approaches, parameters and assumptions are needed and if any changes made were appropriate. We also assessed and tested and monitored the sensitivity of the credit loss provisions to changes in modelling assumptions. With respect to individually assessed ECL which are mainly in relation to the impaired assets in Stage 3, we reviewed and tested a sample of loans, advances and financing and investments to evaluate the timely identification by the Group and the Bank of exposures with significant deterioration in credit quality or which have been impaired. For cases where impairment has been identified, we assessed the Group's and the Bank's assumptions on the expected future cash flows, including the value of realisable collaterals based on available market information and the multiple scenarios considered. We also challenged the assumptions and compared estimates to external evidence where available. We also assessed whether the financial statement disclosures appropriately reflect the Group's and the Bank's exposure to credit risk. We involved our credit modelling specialists and information technology specialists in the performance of these procedures where their specific expertise was required.

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 annual report, but does not include the financial statements of the Group and of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Group and 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 Group and 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 Group and of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PUBLIC BANK BERHAD (INCORPORATED IN MALAYSIA)

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

- 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 Group's and 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 Group or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements of the Group and of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Bank for the current financial year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER MATTERS

This report is made solely to the members 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

Yap Seng Chong
No. 02190/12/2021 J
Chartered Accountant

Kuala Lumpur, Malaysia
Date: 26 February 2020

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

		Group		Bank	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
ASSETS					
Cash and balances with banks	3	**14,075,699**	14,740,218	**8,485,285**	9,416,853
Reverse repurchase agreements	4(a)	**8,208**	200,881	**8,208**	–
Financial assets at fair value through profit or loss	5	**4,210,265**	2,380,134	**3,868,383**	2,293,636
Derivative financial assets	6	**152,330**	185,891	**232,254**	193,101
Financial investments at fair value through other comprehensive income	7	**40,153,493**	42,342,483	**25,996,097**	29,070,703
Financial investments at amortised cost	8	**27,638,168**	27,018,444	**20,620,456**	20,572,364
Loans, advances and financing	9	**328,476,494**	315,259,166	**256,270,074**	247,690,397
Other assets	10	**2,147,400**	2,393,887	**2,200,892**	2,366,764
Statutory deposits with Central Banks	12	**10,044,185**	10,279,227	**6,953,274**	7,258,452
Deferred tax assets	13	**83,484**	81,374	**11,307**	–
Collective investments	14	**–**	–	**5,723,435**	5,517,109
Investment in subsidiary companies	15	**–**	–	**6,494,294**	5,955,494
Investment in associated companies	16	**75,080**	70,416	**45,000**	45,000
Investment properties	17	**753,095**	719,207	**–**	–
Right-of-use assets	18(i)(a)	**1,427,160**	–	**1,322,521**	–
Property and equipment	19	**1,142,575**	1,567,199	**618,579**	711,274
Intangible assets	20	**2,443,039**	2,454,755	**695,393**	695,393
TOTAL ASSETS		**432,830,675**	419,693,282	**339,545,452**	331,786,540
LIABILITIES					
Deposits from customers	21	**353,340,475**	339,159,892	**268,259,690**	258,877,559
Deposits from banks	22	**8,494,073**	9,483,154	**11,795,402**	12,487,063
Obligations on securities sold under repurchase agreements	4(b)	**970,654**	4,045,605	**639,154**	4,045,605
Bills and acceptances payable	23	**234,786**	214,592	**234,409**	214,388
Recourse obligations on loans sold to Cagamas	24	**5,500,004**	5,500,003	**5,500,004**	5,500,003
Derivative financial liabilities	6	**345,724**	297,664	**322,935**	289,995
Debt securities issued and other borrowed funds	25	**12,317,450**	13,436,794	**10,223,214**	11,341,598
Lease liabilities	18(i)(b)	**1,087,808**	–	**1,344,637**	–
Other liabilities	26	**5,196,397**	4,975,470	**3,734,769**	3,416,816
Provision for tax expense and zakat	27	**540,107**	341,697	**412,868**	249,207
Deferred tax liabilities	13	**56,993**	141,948	**–**	84,502
TOTAL LIABILITIES		**388,084,471**	377,596,819	**302,467,082**	296,506,736

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

		Group		Bank	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
EQUITY					
Share capital	28	**9,417,653**	9,417,653	**9,417,653**	9,417,653
Regulatory reserves	30	**2,017,353**	1,806,123	**1,619,452**	1,461,892
Other reserves	31	**1,606,357**	1,431,367	**873,228**	849,167
Retained profits		**30,552,967**	28,317,913	**25,168,037**	23,551,092
Equity attributable to equity holders of the Bank		**43,594,330**	40,973,056	**37,078,370**	35,279,804
Non-controlling interests		**1,151,874**	1,123,407	**–**	–
TOTAL EQUITY		**44,746,204**	42,096,463	**37,078,370**	35,279,804
TOTAL LIABILITIES AND EQUITY		**432,830,675**	419,693,282	**339,545,452**	331,786,540
COMMITMENTS AND CONTINGENCIES	51	**94,315,048**	96,368,336	**84,291,554**	88,123,035
Net assets per share attributable to equity holders of the Bank (RM)		**11.23**	10.55	**9.55**	9.09

The accompanying notes form an integral part of the financial statements

STATEMENTS OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
Operating revenue	2(iii)(w)	**22,454,734**	22,041,785	**16,337,793**	15,994,188
Interest income	32	**16,429,372**	16,261,206	**14,545,402**	14,529,609
Interest expense	33	**(8,857,086)**	(8,698,239)	**(8,519,282)**	(8,409,986)
Net interest income		**7,572,286**	7,562,967	**6,026,120**	6,119,623
Net income from Islamic banking business	59	**1,129,061**	1,065,885	**–**	–
		8,701,347	8,628,852	**6,026,120**	6,119,623
Fee and commission income	34(a)	**2,533,716**	2,626,779	**1,055,196**	1,063,803
Fee and commission expense	34(b)	**(793,253)**	(848,687)	**(369,392)**	(366,217)
Net fee and commission income	34	**1,740,463**	1,778,092	**685,804**	697,586
Net gains and losses on financial instruments	35	**167,726**	45,875	**156,549**	43,772
Other operating income	36	**492,715**	390,611	**1,509,930**	1,164,961
Net income		**11,102,251**	10,843,430	**8,378,403**	8,025,942
Other operating expenses	37	**(3,819,192)**	(3,573,486)	**(2,421,329)**	(2,271,866)
Operating profit before impairment losses		**7,283,059**	7,269,944	**5,957,074**	5,754,076
Allowance for impairment on loans, advances and financing	39	**(154,466)**	(169,263)	**(50,355)**	(106,310)
Writeback of allowance/(Allowance) for impairment on other assets	40	**2,175**	(4,766)	**4,353**	(3,274)
		7,130,768	7,095,915	**5,911,072**	5,644,492
Share of profit after tax of equity accounted associated companies		**3,376**	5,250	**–**	–
Profit before tax expense and zakat		**7,134,144**	7,101,165	**5,911,072**	5,644,492
Tax expense and zakat	41	**(1,554,701)**	(1,436,253)	**(1,166,249)**	(1,093,427)
Profit for the year		**5,579,443**	5,664,912	**4,744,823**	4,551,065
Attributable to:					
Equity holders of the Bank		**5,511,558**	5,590,611	**4,744,823**	4,551,065
Non-controlling interests		**67,885**	74,301	**–**	–
Profit for the year		**5,579,443**	5,664,912	**4,744,823**	4,551,065
Earnings per share:					
– basic/diluted (sen)	42	**142.0**	144.4		

The accompanying notes form an integral part of the financial statements

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

		Group		Bank	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Profit for the year		**5,579,443**	5,664,912	**4,744,823**	4,551,065
Other comprehensive (loss)/income:					
Items that will not be reclassified to profit or loss:					
(Loss)/Gain on remeasurements of defined benefit plans	11,31	**(228,874)**	63,213	**(225,263)**	61,542
Net change in revaluation of					
– Equity instruments		**6,993**	28,165	**7,048**	28,166
– Property and equipment	17	**2,093**	–	**–**	–
Gain on disposal of equity instruments		**5**	–	**5**	–
		(219,783)	91,378	**(218,210)**	89,708
Items that may be reclassified to profit or loss:					
Translation differences in respect of					
– Foreign operations		**(104,305)**	114,333	**(18,090)**	3,090
– Net investment hedge	6,31	**32,426**	(105,190)	**–**	–
Net change in revaluation of financial investments at fair value through other comprehensive income		**473,827**	(71,117)	**286,673**	(61,061)
Net change in cash flow hedges	31	**(86,885)**	45,692	**(15,221)**	45,512
		315,063	(16,282)	**253,362**	(12,459)
Income tax effect	13,31	**(19,107)**	(12,794)	**(11,086)**	(11,038)
Share of changes in associated companies' reserves	31	**1,290**	97	**–**	–
Other comprehensive income for the year, net of tax		**77,463**	62,399	**24,066**	66,211
Total comprehensive income for the year		**5,656,906**	5,727,311	**4,768,889**	4,617,276
Total comprehensive income for the year attributable to:					
– Equity holders of the Bank		**5,596,487**	5,637,447	**4,768,889**	4,617,276
– Non-controlling interests		**60,419**	89,864	**–**	–
		5,656,906	5,727,311	**4,768,889**	4,617,276

The accompanying notes form an integral part of the financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

		<--------------- Attributable to Equity Holders of the Bank --------------->						
		Non-distributable			Distributable			
2019 Group	**Note**	**Share Capital RM'000**	**Regulatory Reserves RM'000**	**Other Reserves RM'000**	**Retained Profits RM'000**	**Total Shareholders' Equity RM'000**	**Non-controlling Interests RM'000**	**Total Equity RM'000**
At 1 January 2019								
– as previously stated		**9,417,653**	**1,806,123**	**1,431,367**	**28,317,913**	**40,973,056**	**1,123,407**	**42,096,463**
– effects of changes in accounting policies	55	**–**	**–**	**–**	**(257,716)**	**(257,716)**	**(1,054)**	**(258,770)**
At 1 January 2019, as restated		**9,417,653**	**1,806,123**	**1,431,367**	**28,060,197**	**40,715,340**	**1,122,353**	**41,837,693**
Profit for the year		**–**	**–**	**–**	**5,511,558**	**5,511,558**	**67,885**	**5,579,443**
Other comprehensive income/ (loss) for the year		**–**	**–**	**84,924**	**5**	**84,929**	**(7,466)***	**77,463**
Total comprehensive income for the year		**–**	**–**	**84,924**	**5,511,563**	**5,596,487**	**60,419**	**5,656,906**
Transactions with owners/ other equity movements:								
Transfer to statutory reserves		**–**	**–**	**8,196**	**(8,196)**	**–**	**–**	**–**
Transfer to regulatory reserves		**–**	**211,230**	**–**	**(211,230)**	**–**	**–**	**–**
Transfer to general reserves		**–**	**–**	**81,870**	**(81,870)**	**–**	**–**	**–**
Dividends paid	43	**–**	**–**	**–**	**(2,717,497)**	**(2,717,497)**	**(30,898)**	**(2,748,395)**
		–	**211,230**	**90,066**	**(3,018,793)**	**(2,717,497)**	**(30,898)**	**(2,748,395)**
At 31 December 2019		**9,417,653**	**2,017,353**	**1,606,357**	**30,552,967**	**43,594,330**	**1,151,874**	**44,746,204**
		Note 28	Note 30	Note 31				

* Represent non-controlling interests' share of currency translation differences in respect of foreign operations.

The accompanying notes form an integral part of the financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

		<---------------------- Attributable to Equity Holders of the Bank ---------------------->							
		Non-distributable			Distributable				
2018 Group	**Note**	**Share Capital RM'000**	**Regulatory Reserves RM'000**	**Other Reserves RM'000**	**Retained Profits RM'000**	**Treasury Shares RM'000**	**Total Shareholders' Equity RM'000**	**Non-controlling Interests RM'000**	**Total Equity RM'000**
At 1 January 2018		9,417,653	1,658,994	1,295,847	25,193,187	(149,337)	37,416,344	1,067,695	38,484,039
Profit for the year		–	–	–	5,590,611	–	5,590,611	74,301	5,664,912
Other comprehensive income for the year		–	–	46,836	–	–	46,836	15,563*	62,399
Total comprehensive income for the year		–	–	46,836	5,590,611	–	5,637,447	89,864	5,727,311
Transactions with owners/ other equity movements:									
Disposal of treasury shares		–	–	–	325,120	149,337	474,457	–	474,457
Transfer to statutory reserves		–	–	5,964	(5,964)	–	–	–	–
Transfer to regulatory reserves		–	147,129	–	(147,129)	–	–	–	–
Transfer to general reserves		–	–	82,720	(82,720)	–	–	–	–
Dividends paid	43	–	–	–	(2,555,192)	–	(2,555,192)	(34,152)	(2,589,344)
		–	147,129	88,684	(2,465,885)	149,337	(2,080,735)	(34,152)	(2,114,887)
At 31 December 2018		9,417,653	1,806,123	1,431,367	28,317,913	–	40,973,056	1,123,407	42,096,463
		Note 28	Note 30	Note 31		Note 29			

* Represent non-controlling interests' share of currency translation differences in respect of foreign operations.

The accompanying notes form an integral part of the financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

		<------------------- Attributable to Equity Holders of the Bank ------------------->				
		Non-distributable			Distributable	
2019 **Bank**	**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						
– as previously stated		**9,417,653**	**1,461,892**	**849,167**	**23,551,092**	**35,279,804**
– effects of changes in accounting policies	55	**–**	**–**	**–**	**(252,826)**	**(252,826)**
At 1 January 2019, as restated		**9,417,653**	**1,461,892**	**849,167**	**23,298,266**	**35,026,978**
Profit for the year		**–**	**–**	**–**	**4,744,823**	**4,744,823**
Other comprehensive income for the year		**–**	**–**	**24,061**	**5**	**24,066**
Total comprehensive income for the year		**–**	**–**	**24,061**	**4,744,828**	**4,768,889**
Transactions with owners/ other equity movements:						
Transfer to regulatory reserves		**–**	**157,560**	**–**	**(157,560)**	**–**
Dividends paid	43	**–**	**–**	**–**	**(2,717,497)**	**(2,717,497)**
		–	**157,560**	**–**	**(2,875,057)**	**(2,717,497)**
At 31 December 2019		**9,417,653**	**1,619,452**	**873,228**	**25,168,037**	**37,078,370**
		Note 28	Note 30	Note 31		

The accompanying notes form an integral part of the financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

		<------------------- Attributable to Equity Holders of the Bank ------------------->					
		Non-distributable			Distributable		
2018 **Bank**	**Note**	**Share Capital RM'000**	**Regulatory Reserves RM'000**	**Other Reserves RM'000**	**Retained Profits RM'000**	**Treasury Shares RM'000**	**Total Equity RM'000**
At 1 January 2018		9,417,653	1,373,080	782,664	21,319,203	(149,337)	32,743,263
Profit for the year		–	–	–	4,551,065	–	4,551,065
Other comprehensive income for the year		–	–	66,211	–	–	66,211
Total comprehensive income for the year		–	–	66,211	4,551,065	–	4,617,276
Transactions with owners/ other equity movements:							
Disposal of treasury shares		–	–	–	325,120	149,337	474,457
Transfer to statutory reserves		–	–	292	(292)	–	–
Transfer to regulatory reserves		–	88,812	–	(88,812)	–	–
Dividends paid	43	–	–	–	(2,555,192)	–	(2,555,192)
		–	88,812	292	(2,319,176)	149,337	(2,080,735)
At 31 December 2018		9,417,653	1,461,892	849,167	23,551,092	–	35,279,804
		Note 28	Note 30	Note 31		Note 29	

The accompanying notes form an integral part of the financial statements

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
Cash flows from operating activities					
Profit before tax expense and zakat		**7,134,144**	7,101,165	**5,911,072**	5,644,492
Adjustments for:					
Share of profit after tax of equity accounted associated companies		**(3,376)**	(5,250)	**–**	–
Depreciation of right-of-use assets	18(i)(a),37(a)	**167,225**	–	**140,650**	–
Depreciation of property and equipment	19,37(a)	**184,947**	228,677	**132,142**	178,263
Amortisation of core deposits intangible	20,37(a)	**4,639**	4,638	**–**	–
Net gain on disposal of property and equipment	36	**(986)**	(485)	**(774)**	(408)
Net loss/(gain) on disposal of foreclosed properties	36	**959**	(1,127)	**959**	(1,127)
Allowance for impairment on loans, advances and financing		**415,205**	421,325	**183,589**	220,301
Net gain arising from disposal of financial investments at fair value through other comprehensive income	35	**(118,853)**	(33,296)	**(109,822)**	(32,682)
Amortisation of cost and accretion of discount relating to debt securities issued and other borrowed funds	25	**4,931**	5,679	**4,731**	5,388
Unrealised gain on revaluation of financial assets at fair value through profit or loss	35	**(24,399)**	(8,217)	**(23,078)**	(7,753)
Unrealised loss/(gain) on revaluation of trading derivatives	35	**77**	(111)	**77**	(111)
Loss representing ineffective portions of hedging derivatives	35	**1,594**	201	**1,250**	64
Dividends from financial investments at fair value through other comprehensive income	35	**(4,962)**	(1,224)	**(4,181)**	(186)
Distributions from collective investments	36	**–**	–	**(206,173)**	(200,451)
Dividends from subsidiary companies	36	**–**	–	**(884,632)**	(781,374)
Gain on remeasurement of lease contracts		**(9,325)**	–	**(9,581)**	–
Property and equipment written off	37(a)	**2,852**	588	**2,446**	402
Gain on revaluation of investment properties	17,36	**(50,387)**	(49,035)	**–**	–
(Writeback of allowance)/Allowance for impairment on other assets	40	**(2,175)**	4,766	**(4,353)**	3,274
Operating profit before working capital changes		**7,702,110**	7,668,294	**5,134,322**	5,028,092

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
Cash flows from operating activities (continued)					
(Increase)/Decrease in operating assets:					
Placements with banks with original maturity more than three months		**(465,579)**	(312,153)	**(562,530)**	2,420
Reverse repurchase agreements		**192,673**	450,184	**(8,208)**	–
Financial assets at fair value through profit or loss		**(1,805,732)**	(579,476)	**(1,551,669)**	(1,193,985)
Loans, advances and financing		**(13,720,253)**	(13,350,999)	**(8,829,965)**	(7,954,203)
Other assets		**68,421**	438,443	**155,279**	255,178
Statutory deposits with Central Banks		**235,042**	(753,300)	**305,178**	(318,014)
Increase/(Decrease) in operating liabilities:					
Deposits from customers		**14,180,583**	19,900,466	**9,382,131**	13,545,831
Deposits from banks		**(989,081)**	(1,962,903)	**(691,661)**	(479,830)
Obligations on securities sold under repurchase agreements		**(3,074,951)**	2,808,077	**(3,406,451)**	2,808,077
Bills and acceptances payable		**20,194**	(72,357)	**20,021**	(72,196)
Recourse obligations on loans sold to Cagamas		**1**	(422,003)	**1**	(422,003)
Other liabilities		**(89,285)**	(253,834)	**(18,182)**	(102,136)
Cash generated from/(used in) operations		**2,254,143**	13,558,439	**(71,734)**	11,097,231
Income tax expense and zakat paid		**(1,379,464)**	(1,680,812)	**(1,027,209)**	(1,259,523)
Net cash generated from/(used in) operating activities		**874,679**	11,877,627	**(1,098,943)**	9,837,708
Cash flows from investing activities					
Purchase of property and equipment	19	**(205,119)**	(217,833)	**(132,802)**	(148,236)
Addition to investment properties	17	**–**	(24,892)	**–**	–
Proceeds from disposal of property and equipment		**1,125**	509	**793**	410
Proceeds from disposal of foreclosed properties		**29,540**	9,324	**27,994**	9,065
Proceeds from disposal of investment properties		**2,200**	–	**–**	–
Net sale/(purchase) of financial investments		**2,196,021**	(10,260,364)	**3,433,366**	(5,892,556)
Additional investment in a subsidiary company	15	**–**	–	**(538,800)**	–
Additional investment in an associated company		**–**	(30,000)	**–**	(15,000)
Investment in collective investments		**–**	–	**(206,326)**	(198,100)
Distributions received from collective investments		**–**	–	**206,326**	198,100
Dividends received from subsidiary companies		**–**	–	**715,005**	772,360
Dividends received from financial investments at fair value through other comprehensive income		**4,962**	1,224	**4,181**	186
Net cash generated from/(used in) investing activities		**2,028,729**	(10,522,032)	**3,509,737**	(5,273,771)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Group		Bank	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash flows from financing activities					
Dividends paid to equity holders of the Bank		**(2,717,497)**	(2,555,192)	**(2,717,497)**	(2,555,192)
Dividends paid to non-controlling interests		**(30,898)**	(34,152)	**–**	–
Repayment of lease liabilities	18(i)(d)	**(131,159)**	–	**(99,395)**	–
Net proceeds from disposal of treasury shares		**–**	474,457	**–**	474,457
Net drawdown/(repayment) of borrowings	25	**1,619**	(3,714)	**–**	–
Net proceeds from issuance of debt securities	25	**2,500,000**	3,418,240	**2,000,000**	2,898,500
Redemption of debt securities	25	**(3,588,000)**	(2,350,000)	**(3,088,000)**	(2,350,000)
Net cash used in financing activities		**(3,965,935)**	(1,050,361)	**(3,904,892)**	(1,532,235)
Net (decrease)/increase in cash and cash equivalents		**(1,062,527)**	305,234	**(1,494,098)**	3,031,702
Cash and cash equivalents at beginning of year		**13,320,248**	12,898,446	**9,416,853**	6,385,151
Exchange differences on translation of opening balances		**(65,883)**	116,568	**–**	–
Cash and cash equivalents at end of year		**12,191,838**	13,320,248	**7,922,755**	9,416,853
Note:					
Cash and balances with banks	3	**14,075,699**	14,740,218	**8,485,285**	9,416,853
Less: Balances with banks with original maturity more than three months		**(1,883,861)**	(1,419,970)	**(562,530)**	–
Cash and cash equivalents at end of year		**12,191,838**	13,320,248	**7,922,755**	9,416,853
Non-cash investing activities	18(i)(a)	**218,934**	–	**192,560**	–

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Group is principally engaged in all aspects of commercial banking, investment banking, financing and Islamic banking business, stock-broking, provision of related financial services, management of unit trust funds and sale of trust units, underwriting of general insurance, trustee services and investment holding.

The Bank is principally engaged in all aspects of commercial 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 public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office of the Bank is located at 27th Floor, Menara Public Bank, 146, Jalan Ampang, 50450 Kuala Lumpur.

The financial statements were approved and authorised for issue by the Board of Directors on 26 February 2020.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

(i) (a) Malaysian Financial Reporting Standard ("MFRS") and Amendments to MFRS that were Adopted by the Group and the Bank

The Group and the Bank have adopted the following in the current financial year:

Effective for annual periods commencing on or after 1 January 2019

– MFRS 16 Leases
– Plan Amendment, Curtailment or Settlement (Amendments to MFRS 119 Employee Benefits)

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

(i) **MFRS 16 Leases** – MFRS 16 'Leases' supersedes MFRS 117 'Leases' and its related interpretations. MFRS 16 introduces a single accounting model for a lessee and eliminates the classification of leases by the lessee as either finance leases (on-balance sheet) or operating leases (off-balance sheet). The details and financial effects of the adoption of MFRS 16 are discussed in Note 55 Changes in Accounting Policies.

(ii) **Plan Amendment, Curtailment or Settlement (Amendments to MFRS 119 Employee Benefits)** – The amendments to MFRS 119 require an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset). As there are no proposed changes in the terms or membership of the Group's defined benefit plan which may result in plan amendment, curtailment or settlement, the adoption of the amendments did not have any financial impact on the financial statements of the Group and of the Bank.

(b) Bank Negara Malaysia ("BNM")'s Revised Policy Documents on Credit Risk, Financial Reporting and Financial Reporting for Islamic Banking Institutions

On 27 September 2019, BNM issued the revised policy documents on Credit Risk, Financial Reporting and Financial Reporting for Islamic Banking Institutions which are effective on 1 October 2019. The revised policy documents were updated to clarify the classification of a credit facility as credit-impaired, specifically the treatment of rescheduled and restructured credit facilities. The application of the revised policy documents only affected disclosure and classification of a rescheduled and restructured credit facility as credit-impaired and did not have any financial impact to the Group and the Bank.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(i) (c) Change in Management Remuneration Policy

During the current financial year, the Group and the Bank revised their remuneration policy in which a new assessment process was established to align with revised internal remuneration policy to determine variable pay compensation for employees of the Group and of the Bank. The effects of the realignment of variable pay compensation have been adjusted to the opening retained profits as at 1 January 2019. The financial effects of the realignment of variable pay compensation are discussed in Note 55 Changes in Accounting Policies.

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

Effective for annual periods commencing on or after 1 January 2020

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

Effective for annual periods commencing on or after 1 January 2021

– MFRS 17 Insurance Contracts

Interest Rate Benchmark Reform (Amendments to MFRS 9, MFRS 139 and MFRS 7) – These 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.

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. The adoption of MFRS 17 is not expected to have any material financial impact on the financial statements of the Group as the Group's insurance business is immaterial.

(iii) Significant Accounting Policies

(a) Basis of Accounting

The financial statements of the Group and 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 Group and of the Bank have been prepared on a historical cost basis unless otherwise indicated in the notes to the financial statements.

The financial statements incorporate all activities relating to the Islamic banking business which have been undertaken by the Group. Islamic banking business refers generally to the acceptance of deposits and granting of financing under the principles of Shariah.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(a) Basis of Accounting (continued)

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 47)* – 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 Group and the Bank generally use 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 interest/profit rate yield curves, exchange rates, volatilities and prepayment and default rates.

(ii) *Impairment losses on loans, advances and financing (Note 9)* – The measurement of impairment losses on loans, advances and financing 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 loans 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 loans, advances and financing ("loan(s)") 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 borrower's financial position. These estimations are based on assumptions and the actual results may differ, hence resulting in changes to impairment losses recognised.

(iii) *Impairment of goodwill and intangible assets (Note 20)* – The Group and the Bank perform an annual assessment of the carrying value of its goodwill and intangible assets against the recoverable amount of the cash-generating units ("CGU") to which the goodwill and intangible assets have been allocated. The measurement of the recoverable amount of CGUs are determined based on the value-in-use method, incorporating the present value of estimated future cash flows expected to arise from the respective CGU's ongoing operations. Management judgment is used in the determination of the assumptions made, particularly the cash flow projections, discount rates and the growth rates used. The estimation of pre-tax cash flows is sensitive to the periods for which the forecasts are available and to assumptions regarding the long-term sustainable cash flows, and reflect management's view of future performance.

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):

(iv) *Impairment of other assets* – The assessment of impairment of properties held under property and equipment (Note 19) requires management judgment in the assessment of whether negative fluctuations in values of similar properties in the same location represent an indication of impairment in the value of the individual properties.

(v) *Valuation of investment properties (Note 17)* – The measurement of the fair values for investment properties performed by management are determined with reference to quotations of market value provided by independent professional valuers.

(vi) *Income taxes (Note 41)* – The Group and the Bank are subject to income taxes in many jurisdictions. 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.

(vii) *Deferred tax assets (Note 13)* – 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.

(viii) *Defined Benefit Plan (Note 11)* – 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.

(ix) *Leases (Note 18)* – 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 dependant on market rate and calculating the appropriate discount rate to use.

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Bank, its subsidiary companies and its controlled entities made up to the end of the financial year.

(i) Subsidiary Companies

Control is achieved when the Group:

– has power over the investee;
– is exposed, or has rights, to variable returns from the involvement with the investee; and
– has the ability to affect those returns through its power over investee.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(b) Basis of Consolidation (continued)

(i) Subsidiary Companies (continued)

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control listed above.

When the Group has less than a majority of the voting rights but has rights that are sufficient to give it the practical ability to direct the relevant activities unilaterally, the Group considers all facts and circumstances in assessing whether or not the voting rights give it power, including:

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

Subsidiary companies are consolidated from the date on which the Group controls, and ceases from the date that control ceases. The financial results of the subsidiary companies are included in the consolidated financial statements from the date that control is obtained until the date that the Group loses control.

The acquisition method of accounting is used to account for the purchase of subsidiary companies. The consideration transferred for the acquisition of a subsidiary company is measured at the fair value of the assets given, the equity instruments issued and liabilities incurred or assumed at the date of exchange, as well as any contingent consideration given. Acquisition-related costs are expensed off in profit or loss as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed are initially measured at fair value as at acquisition date.

Goodwill is measured as the excess of consideration transferred, any non-controlling interest and the acquisition-date fair value of any previously-held equity interest in the subsidiary company over the fair value of the Group's share of the identifiable net assets acquired. The accounting policy on goodwill is set out in Note 2(iii)(l)(i). In the event that the fair value of the Group's share of the identifiable net assets acquired exceeds the amount of consideration transferred, any non-controlling interest and the acquisition-date fair value of any previously-held equity interest (i.e. a bargain purchase), the entire resulting gain is recognised in profit or loss of the Group. Non-controlling interests represent the portion of profit or loss and net assets of subsidiary companies not attributable, directly or indirectly, to the Group. Non-controlling interests are presented separately in the consolidated statement of profit or loss and consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from equity holders of the Bank. For each business combination, the Group will elect to measure the amount of non-controlling interests either at fair value or at the non-controlling interest's proportionate share of the subsidiary company's identifiable net assets.

In a business combination achieved in stages, the previously-held equity interest is remeasured at the acquisition-date fair value with the resulting gain or loss recognised in profit or loss. Changes in the Group's ownership interest in a subsidiary company which does not result in a loss of control are treated as transactions between equity holders and are reported in equity.

In preparing the consolidated financial statements, intragroup transactions and balances and intragroup gains on transactions between companies are eliminated in full. Intragroup losses are also eliminated unless the transaction provides evidence of impairment of the relevant asset. Consistent accounting policies are applied by the subsidiary companies for transactions and events in similar circumstances. The non-controlling interests' portion of total comprehensive income is attributed to non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(b) Basis of Consolidation (continued)

(i) Subsidiary Companies (continued)

If the Group loses control of a subsidiary company, the assets and liabilities of the subsidiary company, including any goodwill, and non-controlling interests are derecognised at their carrying value on the date that control is lost. Any remaining investment in the entity is recognised at fair value. The difference between the fair value of consideration received and the amounts derecognised and the remaining fair value of the investment is recognised as a gain or loss on disposal in the consolidated statement of profit or loss.

In the Bank's separate financial statements, investment in subsidiary companies 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.

(ii) Collective Investments

Collective investments are those investments in unit trust funds which the Group is deemed to have control, and hence consolidates the financial results of the funds. The basis of consolidating the collective investments is similar to that used in the consolidation of the subsidiary companies.

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

(iii) Associated Companies

Associated companies are those entities in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the associated companies but not control or joint control of those policies.

Investment in associated companies is accounted for in the consolidated financial statements using the equity method. The Group's investment in associated companies is initially recognised in the consolidated statement of financial position at cost. This initial carrying amount is increased or decreased to recognise the Group's share of post-acquisition net results and other changes to comprehensive income of the associated company less impairment loss, if any, determined on an individual basis. The Group's share of results of the associated company is recognised in profit or loss from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associated company. Consistent accounting policies are applied for transactions and events in similar circumstances.

Goodwill, if any, relating to an associated company is included in the carrying amount of the investment. Any excess of the Group's share of the fair value of the associated company's net identifiable assets and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the results of the associated company in the period in which the investment is acquired.

The gain or loss on disposal of an associated company is the difference between the net disposal proceeds and the Group's share of its net assets as of the date of disposal including the cumulative amount of any exchange differences that relate to the associated company being disposed. All gains or losses on disposal of associated companies are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(b) Basis of Consolidation (continued)

(iii) Associated Companies (continued)

In the Bank's separate financial statements, the investment in associated companies 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.

(c) Foreign Currency

(i) Functional and Presentation Currency

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

(ii) Foreign Currency Transactions and Balances

In preparing the financial statements of the individual entities, transactions in currencies other than each entity's 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.

(iii) Net Investment in Foreign Operations

In the Bank's separate financial statements, exchange differences arising from monetary items that form part of the Bank's net investment in foreign operations and that are denominated in the functional currency of the Bank or the foreign operations are recognised in profit or loss. In the consolidated financial statements, such exchange differences are recognised initially in other comprehensive income and will be reclassified to profit or loss only upon disposal of the net investment.

(iv) Consolidation of Financial Statements of Foreign Operations

The results and financial position of the Group's foreign operations and its subsidiary companies incorporated in the Federal Territory of Labuan, whose functional currencies are not the presentation currency or the currency of a hyperinflationary economy, are translated into the presentation currency at average exchange rates for the year and at the closing exchange rates as at reporting date respectively. All resulting exchange differences are recognised in other comprehensive income as a foreign currency translation reserve and are subsequently reclassified to profit or loss upon disposal of the foreign operation. Exchange differences arising from foreign currency borrowings and foreign currency forwards designated as hedges of a net investment in a foreign operation are recognised in the foreign currency translation reserve via other comprehensive income until the disposal of the net investment, at which time the accumulated translation differences are taken to profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(d) 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.

(e) Financial Assets and Liabilities

(i) Initial Recognition

Financial assets and financial liabilities are recognised when the Group and the Bank become a party to the contractual provisions of the instrument. At initial recognition, the Group and the Bank measure 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 Group and the Bank classify financial assets in the following measurement categories – amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

The classification requirements for debt and equity instruments are described below:

(1) Debt instruments

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 Group's and the Bank's business model for managing the asset and the cash flow characteristics of the asset. Based on these factors, the Group and the Bank classify its debt instruments into one of the following three measurement categories:

Amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVTPL, are measured at amortised cost using the effective interest method. The carrying amount of these assets is adjusted by impairment losses recognised and measured using the expected credit loss models described in Note 2(iii)(h)(ii). Interest income on financial assets measured at amortised cost is recognised in "interest income" in the statement of profit or loss. The losses arising from impairment on loans, advances and financing are recognised in the statement of profit or loss as "Allowance for impairment on loans, advances and financing". The losses arising from impairment on financial assets other than loans, advances and financing are recognised in the statement of profit or loss as "Allowance for impairment on other assets".

NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(e) Financial Assets and Liabilities (continued)

(ii) Classification and Subsequent Measurement (continued)

(a) Financial Assets (continued)

(1) Debt instruments (continued)

FVOCI

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. The changes in the fair value are recognised through other comprehensive income, except for the recognition of impairment losses measured using the expected credit loss models as described in Note 2(iii)(h)(ii), interest income and foreign exchange gains or losses on the financial assets' amortised cost which are recognised in profit or loss. Interest earned whilst holding the assets are reported as "Interest income" using the effective interest method. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss and recognised in "Net gains and losses on financial instruments".

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". Interest earned whilst holding the assets are reported as "Interest income" using the effective interest method.

Business model assessment

The Group and the Bank make an assessment of the objective of a business model in which an asset is held at a portfolio level which best reflects the way the business is managed and information is provided to management. The factors considered 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 interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets. Other factors considered also include the frequency, volume and timing of sales in prior periods, how the asset's performance is evaluated and reported to key management personnel, and how risks are assessed and managed.

Assessment whether contractual cash flows are solely payments of principal and interest (the SPPI test)

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(e) Financial Assets and Liabilities (continued)

(ii) Classification and Subsequent Measurement (continued)

(a) Financial Assets (continued)

(1) Debt instruments (continued)

Reclassification of debt investments

The Group and the Bank reclassify debt instruments when and only when its business model for managing those assets changes. The Group and the Bank do 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.

(2) Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

Upon initial recognition, the Group and the Bank may occasionally elect to classify irrevocably an equity investment that is not held for trading at FVOCI. Such classification is determined on an instrument-by-instrument basis. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Dividends earned whilst holding the equity investment are recognised in "Net gains and losses on financial instruments" in the statement of profit or loss when the right to the payment has been established.

Upon derecognition, the gains and losses on equity investments at FVTPL, including dividends earned, are recognised in "Net gains and losses on financial instruments" in the statement of profit or loss.

(b) Derecognition other than a modification of loan

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 Group and the Bank transfer substantially all the risks and rewards of ownership, or (ii) the Group and the Bank neither transfer nor retain substantially all the risks and rewards of ownership and the Group and the Bank have not retained control.

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

(c) Financial Liabilities

The Group and the Bank classify 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 loan commitments.

NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(e) Financial Assets and Liabilities (continued)

(ii) Classification and Subsequent Measurement (continued)

(c) Financial Liabilities (continued)

Amortised cost

Financial liabilities issued by the Group and the Bank are classified as financial liabilities at amortised cost, where the substance of the contractual arrangement results in the Group and 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 interest 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 interest rate. Financial liabilities measured at amortised cost include deposits from customers, deposits from banks, repurchase agreements, lease liabilities and debt securities issued and other borrowed funds.

FVTPL

The classification and measurement of financial liabilities at FVTPL is applied to derivative financial instruments as described in Note 2(iii)(f). The Group and the Bank do not have any non-derivative financial liabilities designated at FVTPL. Certain debt securities issued by the Group and the Bank have been designated in effective hedges of interest rate risk, and the carrying value of these financial liabilities have been adjusted for changes in fair value related to the hedged exposure.

Derecognition of financial liabilities

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

(iii) Reclassification of Financial Assets

The Group and the Bank may choose to reclassify non-derivative financial assets out from the FVTPL category (other than equity securities), in rare circumstances, where the financial assets are no longer held for the purpose of selling or repurchasing in the short term. In addition, the Group and the Bank may also choose to reclassify financial assets that would meet the definition of loans and receivables out of the FVTPL or FVOCI categories if the Group and the Bank have the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Reclassifications are made at fair value as at the reclassification date, whereby the fair value becomes the new cost or amortised cost, as applicable. Any fair value gains or losses previously recognised in profit or loss is not reversed.

During the reporting period, the Group and the Bank have not made any such reclassification of financial assets.

(iv) 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 47.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(e) Financial Assets and Liabilities (continued)

(v) 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.

(f) Derivative Financial Instruments and Hedge Accounting

The Group and 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 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 Group and the Bank apply either fair value, cash flow or net investment hedge accounting.

At inception of the hedge relationship, the Group and the Bank formally document 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 Group and 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.

(i) Fair Value Hedge

Fair value hedges are hedges against exposure to changes in the fair value of a recognised asset or liability, or an unrecognised firm commitment that is attributable to a particular risk, and could affect profit or loss. For designated and qualifying fair value hedges, changes in the fair value of the hedging instrument are recognised in profit or loss, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The net result is reported as hedge ineffectiveness under "Net gains and losses on financial instruments" in the statement of profit or loss.

If the hedging instrument is sold, terminated or exercised or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised to profit or loss over the remaining period to maturity using the effective interest rate.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

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

(ii) 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.

(iii) Net Investment Hedge

Net investment hedges are hedges against the exposure to exchange rate fluctuations on the net assets of the Group's foreign operations and are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in the foreign currency translation reserve in equity via other comprehensive income while any gain or loss relating to the ineffective portion is recognised directly in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised in other comprehensive income is transferred to profit or loss.

(g) Embedded Derivatives

Some hybrid financial instruments contain both an embedded derivative and a non-derivative component. Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value through profit or loss, the embedded derivative is bifurcated and separately accounted for at fair value, with changes in fair value recognised in profit or loss.

(h) Impairment of Financial Assets

(i) Definition of Credit-impaired and Default

At each reporting date, the Group and the Bank assess 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.

Loans, advances and financing ("loan(s)") of the Group and of the Bank are classified as credit-impaired when they fulfil any of the following criteria:

(1) principal or interest/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 loan is in arrears or the outstanding amount has been in excess of the approved limit for less than ninety (90) days, the loan exhibits indications of significant credit weaknesses; or
(4) where a credit-impaired loan is rescheduled and restructured ("R&R"), the loan 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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(h) Impairment of Financial Assets (continued)

(i) Definition of Credit-impaired and Default (continued)

Loans, advances and financing ("loan(s)") of the Group and of the Bank are classified as credit-impaired when they fulfil any of the following criteria (continued):

(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 Group and the Bank consider 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.

(ii) Measurement of Impairment – Expected Credit Losses

The Group and the Bank assess 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 loan commitments and financial guarantee contracts. The Group and the Bank recognise 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. No impairment loss is recognised on equity investments.

The Group and the Bank assess whether the credit risk on an exposure has increased significantly on an individual or collective basis. The Group and the Bank first assess whether objective evidence of impairment exists for financial assets which are individually significant. If the Group and the Bank determine 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 loans, advances and financing.

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)

(h) 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 Group and the Bank assess 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 Group and the Bank consider both quantitative and qualitative information and analysis based on the Group's and 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 Group and the Bank assign 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 Group and 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 Group and the Bank have not used the low credit risk exemption for any financial assets in the financial year ended 31 December 2019.

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 interest from the reporting date to the default event together with any expected drawdown of a facility. The 12-month ECL is equal to the discounted sum over the next 12 months of monthly PD multiplied by LGD and EAD. Lifetime ECL is calculated using the discounted sum of monthly PD over the remaining life multiplied by LGD and EAD. The discount rate used in the ECL measurement is the original effective interest rate or an approximation thereof.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(h) Impairment of Financial Assets (continued)

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

Forward looking information

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

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 Group and the Bank for other purposes such as budgeting. The projections based on the respective economic scenarios are approved by the 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 loan commitments and financial guarantee contracts, the loss allowance is recognised as allowance for impairment on loan commitments and financial guarantees which is reported under "Other liabilities" in the statement of financial position.

(iii) Write-off

Where a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(h) Impairment of Financial Assets (continued)

(iv) Modification of Loans

Where a loan shows evidence of significant credit weaknesses, the Group and the Bank sometimes renegotiate or otherwise modify the contractual cash flows of the loans rather than take possession of the collateral. When this happens, the Group and the Bank assess whether the new terms are substantially different from the original terms. The Group and the Bank consider, among others, the following factors:

(a) If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;

(b) Whether any substantial new terms are introduced that substantially affects the risk profile of the loan;

(c) Significant extension of the loan term;

(d) Significant change in the interest rate; and

(e) Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

The Group and the Bank derecognise a loan when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan and recalculates a new effective interest rate for the loan. 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 Group and the Bank also assess whether the new loan recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments.

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.

(i) Investment Properties

Investment properties are properties which are held to earn rental income or for capital appreciation or both. Properties that are occupied by companies in the Group for conduct of business operations are accounted for as owner-occupied rather than as investment properties upon consolidation.

The Group has adopted the fair value method in measuring investment properties. Investment properties are measured initially at cost, including transaction cost. Subsequent to initial recognition, all properties are measured at fair value, with any changes recognised in profit or loss.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction. Fair values of investment properties are determined with reference to quotations of market value provided by independent professional valuers.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. For a transfer from owner-occupied property to investment property, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in other comprehensive income as a property revaluation reserve. If a fair value gain reverses a previously recognised impairment loss, the gain is recognised in profit or loss. Upon disposal of the investment property, any surplus previously recorded in revaluation reserve is transferred to retained profits.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(i) Investment Properties (continued)

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

(j) Leases

The Group and the Bank have applied MFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under MFRS 117. The details of accounting policy under MFRS 117 are disclosed separately if they are different from those under MFRS 16 and the impact of changes is disclosed in Note 55.

(i) Recognition of Leases as a Lessee

Policy applicable from 1 January 2019 (MFRS 16)

For any new contracts entered into on or after 1 January 2019, the Group and the Bank consider 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 Group and the Bank assess 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 Group and the Bank;
- the Group and the Bank have 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 Group and the Bank have the right to direct the use of the identified asset throughout the period of use. The Group and the Bank assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

Policy applicable before 1 January 2019 (MFRS 117)

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Leases in which the Group is a lessee and assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases in which the Group is a lessee are classified as operating leases.

(ii) Measurement of Leases as a Lessee

Policy applicable from 1 January 2019 (MFRS 16)

At lease commencement date, the Group and the Bank recognise a right-of-use asset (other than leasehold land) 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 Group and 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(j) Leases (continued)

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

Policy applicable from 1 January 2019 (MFRS 16) (continued)

The right-of-use asset (other than leasehold land) 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 interest method, and is initially measured at the present value of the lease payments unpaid at the commencement date, discounted using the incremental borrowing rates of the Bank and of the respective entities within the Group.

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 Group and the Bank exclude 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 interest 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 Group and the Bank present right-of-use assets that do not meet the definition of investment property and lease liabilities separately in the statement of financial position.

The Group and the Bank have elected not to recognise right-of-use assets and lease liabilities for leases with lease term of less than 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.

Leasehold land which was reclassified from property and equipment with effect from 1 January 2019 arising from the adoption of MFRS 16 Leases, will continue to be recognised at cost on initial measurement. Subsequent to initial recognition, leasehold land is stated at cost less accumulated depreciation and accumulated impairment loss, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(iii)(n).

Leasehold land is depreciated over the remaining leasehold period. When the use of leasehold land changes from owner-ocupied to investment property, the leasehold land is remeasured to fair value and reclassified as investment property.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(j) Leases (continued)

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

Policy applicable before 1 January 2019 (MFRS 117)

(a) Finance Lease

Leases in which the Group and the Bank assume substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased assets and the corresponding lease obligations are measured at an amount equal to the lower of the fair value of the leased asset at the beginning of the lease term and the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor used is the incremental borrowing rate of the Group or of the Bank. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to property and equipment. Depreciation is provided at rates which write off the cost or valuation of the asset over the term of the relevant lease or, where it is likely that the Group and the Bank will obtain ownership of the asset, the life of the asset. Finance charges implicit in the lease payments are charged to profit or loss over the period of the lease so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(b) Operating Lease

All assets under operating leases are not recognised on the statement of financial position. All lease rentals payable are accounted for on a straight-line basis over the lease term and are charged to profit or loss. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised in profit or loss in the period the termination takes place.

(iii) Recognition and Measurement of Leases as a Lessor

Lessor accounting under MFRS 16 is substantially the same as the accounting under the previous MFRS 117. The Group and the Bank continue to classify its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

(k) 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 Group and 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 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 other than freehold land are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Freehold land is stated at cost less accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(iii)(n).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(k) Property and Equipment and Depreciation (continued)

Freehold land with an indefinite useful life and work-in-progress which are not yet available for use are not depreciated. Depreciation of other 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, summarised as follows:

Leasehold land (Before 1 January 2019)	Over the remaining leasehold period
Buildings	50 years
Renovations	Over the term of the leases ranging from 2 – 10 years
Office equipment, furniture and fittings	3 – 10 years
Computer equipment and software	2 – 6 years
Motor vehicles	5 – 6 years

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.

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property.

Leasehold land was reclassified to right-of-use assets with effective from 1 January 2019 arising from the adoption of MFRS 16 Leases.

(l) Intangible Assets

(i) Goodwill

Goodwill is measured as the excess of consideration transferred, any non-controlling interests and the acquisition-date fair value of any previously-held equity interest over the fair value of the Group’s share of the identifiable net assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. For the purpose of impairment assessment, goodwill is allocated to cash-generating units (“CGU”) which are expected to benefit from the synergies of the business combination. Each CGU represents the lowest level at which the goodwill is monitored for internal management purposes and is not larger than an operating segment in accordance with MFRS 8 Operating Segments. The carrying amount of goodwill is assessed annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, by comparing the recoverable amount from the CGU against the carrying amount of its net assets, including attributable goodwill. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Where the fair value of the Group’s share of the identifiable net assets acquired exceeds the amount of consideration transferred, any non-controlling interests and the acquisition-date fair value of any previously-held equity interest, the entire resulting gain is recognised immediately in profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(l) Intangible Assets (continued)

(ii) Intangible Assets

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Intangible assets are recognised only when the identifiability and economic benefit probability criterion are met.

Intangible assets with an indefinite useful life are not amortised but are reviewed annually for impairment or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Intangible assets with an indefinite useful life are reviewed annually to determine whether the indefinite useful life assumption continues to be supportable.

Intangible assets with a finite useful life will be amortised on a straight line basis over the estimated useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

(m) Foreclosed Properties

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

(n) Impairment of Non-Financial Assets

Non-financial assets other than goodwill, such as right-of-use assets, property and equipment, investments in subsidiary and associated companies 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.

Impairment of goodwill is discussed under the accounting policy on goodwill in Note 2(iii)(l)(i).

(o) Repurchase and Reverse Repurchase Agreements

Securities purchased under resale agreements (i.e. reverse repurchase agreements) at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recognised in 'reverse repurchase agreements' in the statement of financial position, reflecting the transaction's economic substance as a collateralised loan by the Group and the Bank. The difference between the purchase and resale prices is recognised in 'Interest income' in the statement of profit or loss and is accrued over the life of the agreement using the effective interest method.

Securities sold under repurchase agreements (i.e. repurchase agreements) at a specified future date are not derecognised from the statement of financial position as the Group and the Bank retain substantially all the risks and rewards of ownership. The consideration received is recognised as an asset with the corresponding obligation, including accrued interest as a liability, reflecting the transaction's economic substance as a collateralised loan given to the Group and the Bank. The difference between the sale and the repurchase prices is recognised in 'Interest expense' in the statement of profit or loss and is accrued over the life of the agreement using the effective interest method.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(p) Bills and Acceptances Payable

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

(q) General Insurance

General insurance underwriting results are determined after taking into account reinsurances, unearned premium reserves, net commissions and net claims incurred.

Unearned premium reserves ("UPR") represent the unexpired risks at the end of the financial year. A fixed percentage method or time apportionment method is used in determining the UPR at reporting date.

Provision is made for outstanding claims based on the estimated costs of all claims together with related expenses less reinsurance recoveries in respect of claims notified but not settled at reporting date. Provision is also made for the cost of claims together with related expenses incurred but not reported at reporting date using a mathematical method of estimation determined by the management on a case by case basis.

(r) 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.

(s) 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 Group's debt securities issued consist mainly of senior medium term notes, senior sukuk murabahah, subordinated notes, subordinated sukuk murabahah and borrowings. These debt securities are classified as liabilities in the statement of financial position as there is a contractual obligation by the Group to make cash payments of either principal or interest/profit or both to holders of the debt securities and that the Group is contractually obliged to settle the debt securities in cash or another financial instrument.

The Group has also issued Additional Tier I capital securities which are perpetual debt instruments and Non-Innovative Tier I stapled securities which are potentially perpetual debt instruments, subject to the occurrence of certain events. These debt securities are classified as a liability in the statement of financial position as there are contractual obligation to deliver cash or other financial instruments to the holders in the form of regular interest payments, potentially extending into the indefinite future.

Subsequent to initial recognition, debt securities issued are recognised at amortised cost. Generally, it is the Group's policy to hedge the fixed interest rate risk on these debt securities, and apply fair value hedge accounting. When hedge accounting is applied to fixed-rate debt instruments, the carrying values of the debt securities are adjusted for changes in fair value related to the hedged exposure, instead of being carried at amortised cost.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(t) 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.

(u) Treasury Shares

When the Bank re-acquires its own equity shares, the amount of the consideration paid, including directly attributable costs, is recognised in equity. Shares re-acquired are held as treasury shares and presented as a deduction from equity. No gain or loss is recognised in profit or loss on the sale, re-issuance or cancellation of the treasury shares. Should such treasury shares be reissued by resale in the open market, the difference between the sales consideration and the carrying amount are shown as a movement in equity, as appropriate. Where treasury shares are distributed as share dividends, the cost of the treasury shares is applied in the reduction of the distributable retained profits.

(v) 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.

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 Group. The Group does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

(w) Operating Revenue

Operating revenue of the Group comprises all types of revenue derived from commercial banking, investment banking, financing and other Islamic banking activities, stock-broking, general insurance, trustee services, management of unit trust funds and sale of trust units but excluding all related company transactions.

Operating revenue of the Bank comprises gross interest income, commissions earned and other income derived from commercial banking operations.

(x) Interest and Financing Income and Expense

For all financial instruments measured at amortised cost and interest/profit-bearing financial assets classified as FVTPL and FVOCI, interest and financing income and expense are recognised under “Interest income”, “Interest expense” and “Net income from Islamic banking business” respectively in the statement of profit or loss using the effective interest/profit method.

The effective interest/profit method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest/financing income or expense over the relevant period. The effective interest/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 interest/profit rate, as well as premiums or discounts are also considered.

For impaired financial assets where the value of the financial asset has been written down as a result of an impairment loss, interest/financing income continues to be recognised using the rate of interest/profit 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)

(y) Fee and Commission Income

The Group and the Bank earn 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 services have been provided.

Fees earned for the provision of services over a period of time, such as asset management and loan arrangement and management, are accrued over the period. Fee income from the provision of transaction services, such as funds remittances and stock-broking, are recognised upon completion of the underlying transaction. Fees that are linked to the performance of a certain activity or service, such as corporate advisory services, are recognised upon completion of the performance criteria.

(z) Dividend Income

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

(aa) 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 Group and 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.

(ii) Defined Contribution Plan

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

(iii) Defined Benefit Plan

The Bank and certain subsidiary companies contribute 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 interest), 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 interest income or cost is calculated by applying the discount rate to the net defined benefit asset or liability. The Group recognises the changes in the net defined benefit obligation which includes current service costs, past service costs and net interest expense or income under "Personnel costs" 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)

(aa) Employee Benefits (continued)

(iv) Share-based Compensation Benefits

Where the Group pays for services of its employees using share options, the fair value of the transaction is recognised as an expense in profit or loss over the vesting periods of the grants, with a corresponding increase in equity. The total amount to be recognised as compensation expense is determined by reference to the fair value of the share option at the date of the grant and the number of share options to be vested by the vesting date taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. The Group could revise its estimate of the number of share options that are expected to vest by the vesting date. Any revision of this estimate is included in profit or loss and a corresponding adjustment to equity over the remaining vesting period.

(ab) Tax Expense

Tax expense comprises current and deferred tax. Tax expense is calculated on the basis of the applicable tax law in the respective jurisdictions 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 goodwill which is not deductible for tax purposes and the initial recognition of assets and liabilities that at the time of transaction, 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.

For investment properties which are carried at fair value, the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held with the objective to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised 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.

(ac) Dividends

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

(iii) Significant Accounting Policies (continued)

(ad) Earnings Per Share

The Group 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 shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period, net of treasury shares. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders 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.

(ae) 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 Group 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 Group'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 revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

3. CASH AND BALANCES WITH BANKS

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Cash and bank balances	**5,169,275**	4,018,662	**3,150,523**	2,254,065
Money market deposit placements:				
– maturing within one month	**6,163,734**	9,175,471	**3,292,130**	6,944,368
– maturing after one month	**2,742,690**	1,546,085	**2,042,632**	218,420
	8,906,424	10,721,556	**5,334,762**	7,162,788
	14,075,699	14,740,218	**8,485,285**	9,416,853

4. REVERSE REPURCHASE AGREEMENTS AND OBLIGATIONS ON SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

(a) Reverse Repurchase Agreements:

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
At amortised cost				
Malaysian Government Securities	**–**	200,881	**–**	–
Foreign government treasury bills	**8,208**	–	**8,208**	–
	8,208	200,881	**8,208**	–

The fair value of securities accepted as collateral under reverse repurchase agreements that the Group and the Bank are permitted to sell or repledge in the absence of default by their owners was RM8,210,000 (2018 – RM206,870,000) and RM8,210,000 (2018 – Nil) respectively, of which none (2018 – none) has been resold.

4. REVERSE REPURCHASE AGREEMENTS AND OBLIGATIONS ON SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (CONTINUED)

(b) Obligations on Securities Sold under Repurchase Agreements:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
At amortised cost				
Financial investments at fair value through other comprehensive income	**638,131**	4,038,770	**638,131**	4,038,770
Financial investments at amortised cost	**332,523**	6,835	**1,023**	6,835
	970,654	4,045,605	**639,154**	4,045,605

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
At fair value				
Government securities and treasury bills:				
Malaysian Government Securities	**2,166,786**	286,951	**2,166,786**	286,951
Malaysian Government Investment Issues	**1,313,536**	100,964	**1,281,657**	70,654
Bank Negara Malaysia Monetary Notes	**–**	1,536,341	**–**	1,536,341
	3,480,322	1,924,256	**3,448,443**	1,893,946
Money market instruments:				
Negotiable instruments of deposit and negotiable Islamic debt certificates	**249,541**	–	**–**	–
Non-money market instruments:				
Equity securities				
– Unquoted shares in Malaysia	**445,428**	423,949	**419,940**	399,690
Debt securities				
– Unquoted corporate bonds/sukuk	**34,974**	31,929	**–**	–
	480,402	455,878	**419,940**	399,690
	4,210,265	2,380,134	**3,868,383**	2,293,636

6. 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, interest/profit rates and equity prices) of the underlying instruments. These instruments further allow the Group and the Bank to transfer, modify or reduce its foreign exchange and interest/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 Group and the Bank may also take conservative positions, within certain pre-set limits, with the expectation to make arbitrage gains from favourable movements in prices or rates via its trading derivatives.

The following tables show the Group's and 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 46 to the financial statements.

	2019			2018		
	Contract/ Notional	Fair Value		Contract/ Notional	Fair Value	
Group	**Amount RM'000**	**Assets RM'000**	**Liabilities RM'000**	**Amount RM'000**	**Assets RM'000**	**Liabilities RM'000**
At fair value						
Trading derivatives:						
Foreign exchange contracts						
– Currency forwards	**1,324,857**	**6,531**	**5,910**	954,169	4,074	3,703
– Currency swaps	**20,835,248**	**92,438**	**205,893**	21,392,281	53,759	125,955
– Currency options	**12,761**	**–**	**–**	25,158	–	–
Interest rate related contracts						
– Interest rate swaps	**430,000**	**–**	**95**	–	–	–
Precious metal contracts						
– Forwards	**120**	**–**	**1**	382	–	1
	22,602,986	**98,969**	**211,899**	22,371,990	57,833	129,659
Hedging derivatives:						
Fair value hedge						
Interest rate related contracts						
– Interest rate swaps	**723,501**	**393**	**22,142**	3,940,808	23,663	7,064
Cash flow hedge						
Foreign exchange contracts						
– Cross currency interest rate swaps	**1,432,725**	**39,253**	**22,309**	1,654,400	56,819	71,876
Interest/profit rate related contracts						
– Interest/profit rate swaps	**4,842,645**	**7,409**	**25,428**	6,251,120	47,576	4,751
Net investment hedge						
Foreign exchange contracts						
– Forwards	**1,998,516**	**6,306**	**63,946**	1,801,981	–	84,314
	8,997,387	**53,361**	**133,825**	13,648,309	128,058	168,005
Total	**31,600,373**	**152,330**	**345,724**	36,020,299	185,891	297,664

6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONTINUED)

Bank	2019 Contract/ Notional Amount RM'000	2019 Fair Value Assets RM'000	2019 Fair Value Liabilities RM'000	2018 Contract/ Notional Amount RM'000	2018 Fair Value Assets RM'000	2018 Fair Value Liabilities RM'000
At fair value						
Trading derivatives:						
Foreign exchange contracts						
– Currency forwards	**1,012,878**	**4,207**	**3,637**	915,011	4,039	3,689
– Currency swaps	**20,107,328**	**84,949**	**205,718**	20,897,196	51,070	122,127
– Currency options	**12,761**	**–**	**–**	25,158	–	–
Interest rate related contracts						
– Interest rate swaps	**560,000**	**19**	**95**	–	–	–
Precious metal contracts						
– Forwards	**120**	**–**	**1**	382	–	1
	21,693,087	**89,175**	**209,451**	21,837,747	55,109	125,817
Hedging derivatives:						
Fair value hedge						
Interest rate related contracts						
– Interest rate swaps	**220,000**	**–**	**1,801**	3,308,000	10,705	–
Cash flow hedge						
Foreign exchange contracts						
– Cross currency interest rate swaps	**1,432,725**	**39,253**	**22,309**	1,654,400	56,819	71,876
Interest rate related contracts						
– Interest rate swaps	**7,342,645**	**97,520**	**25,428**	9,181,120	70,468	7,988
Net investment hedge at Group level						
Foreign exchange contracts						
– Forwards	**1,998,516**	**6,306**	**63,946**	1,801,981	–	84,314
	10,993,886	**143,079**	**113,484**	15,945,501	137,992	164,178
Total	**32,686,973**	**232,254**	**322,935**	37,783,248	193,101	289,995

With the exception of options contracts, 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 interest/profit rates and/or foreign exchange rates relative to the terms of the respective contracts.

The fair value at inception of options contracts purchased represents the consideration paid for these contracts, with subsequent changes in the fair value dependent on the movements in the value of the underlying asset and/or index.

6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONTINUED)

As at 31 December 2019, the Group and the Bank have positions in the following types 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 interest/profit rates.

Options

Options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date during a set period, a specific amount of an underlying asset at a pre-determined price. The seller receives a premium from the purchaser in consideration of risk. Options may be either exchange-traded or negotiated between the purchaser and the seller in the over-the-counter market.

Over-the-counter derivatives may expose the Group and the Bank to the risks associated with the absence of an exchange to close out an open position. This credit risk represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation. To control the level of credit risk, the Group and the Bank continually monitor and assess the credit standing of these counterparties.

Hedge Accounting

Where derivatives of the Group and of the Bank have been designated for the purpose of hedging and meet the hedge effectiveness criteria, the accounting treatment of these derivatives will depend on the nature of the instrument hedged and the type of hedge transaction, as described in Note 2(iii)(f). The Group and the Bank apply hedge accounting in three separate hedging strategies, namely fair value hedge, cash flow hedge and net investment hedge.

Fair Value Hedge

The Group and the Bank use fair value hedges to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates. The financial instruments hedged for interest rate risk include the Bank's debt securities issued and financial investments at fair value through other comprehensive income ("FVOCI"). The Group and the Bank primarily use interest rate swaps as hedges of interest rate risk.

The Group and the Bank only hedge the interest rate risk element and other risks such as credit risk, are managed but not hedged by the Group and the Bank. The interest rate risk component is determined as the change in fair value of the long-term fixed rate debt securities (liabilities) and the bonds (assets), i.e. the hedged items, arising solely from changes in 3-month Kuala Lumpur Inter-bank Offer Rate ("KLIBOR") and United States Dollar 3-month London Inter-bank Offer Rate ("LIBOR") (the benchmark rates of interest). Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the hedged items attributable to the changes in benchmark KLIBOR and LIBOR with changes in the fair value of the interest rate swaps (hedging instruments).

The accounting policies for fair value hedge are as disclosed in Note 2(iii)(f).

The Group and the Bank establish the hedging ratio by matching the notional of the derivatives with the principal of the hedged items. The main potential sources of hedge ineffectiveness are as follows:

(i) Counterparty credit risk which impacts the fair value of the interest rate swaps but not the hedged items; and

(ii) Mismatches in the terms of hedged items and hedging instruments such as the frequency and the timing of when the interest rates are reset.

6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONTINUED)

Fair Value Hedge (continued)

The following tables show the notional amount of derivatives designated in fair value hedge relationships in time bands based on the maturity of the derivatives:

	2019					2018				
Interest rate swaps	Up to 3 Months RM'000	3 – 12 Months RM'000	1 – 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 3 Months RM'000	3 – 12 Months RM'000	1 – 5 Years RM'000	> 5 Years RM'000	Total RM'000
Group										
Hedge of RM bonds (Pay fixed)	**–**	**–**	**220,000**	**–**	**220,000**	–	–	220,000	–	220,000
Average fixed interest rate (%)	**–**	**–**	**3.59**	**–**		–	–	3.59	–	
Hedge of USD bonds (Pay fixed)	**–**	**–**	**81,870**	**421,631**	**503,501**	–	124,080	82,720	426,008	632,808
Average fixed interest rate (%)	**–**	**–**	**3.04**	**3.82**		–	5.25	3.04	3.82	
Hedge of RM debt securities (Receive fixed)	**–**	**–**	**–**	**–**	**–**	–	3,088,000	–	–	3,088,000
Average fixed interest rate (%)	**–**	**–**	**–**	**–**		–	6.35	–	–	
Bank										
Hedge of RM bonds (Pay fixed)	**–**	**–**	**220,000**	**–**	**220,000**	–	–	220,000	–	220,000
Average fixed interest rate (%)	**–**	**–**	**3.59**	**–**		–	–	3.59	–	
Hedge of RM debt securities (Receive fixed)	**–**	**–**	**–**	**–**	**–**	–	3,088,000	–	–	3,088,000
Average fixed interest rate (%)	**–**	**–**	**–**	**–**		–	6.35	–	–	

The carrying amount of hedged items in fair value hedge relationships, and the accumulated amount of fair value hedge adjustments included in these carrying amounts are as follows:

	Group				Bank			
	2019		2018		2019		2018	
	Carrying Amount RM'000	Fair Value Hedge Adjustments* RM'000	Carrying Amount RM'000	Fair Value Hedge Adjustments* RM'000	Carrying Amount RM'000	Fair Value Hedge Adjustments* RM'000	Carrying Amount RM'000	Fair Value Hedge Adjustments* RM'000
Financial investments at FVOCI	**723,501**	**(21,749)**	852,808	6,965	**220,000**	**(1,801)**	220,000	1,071
Debt securities issued	**–**	**–**	3,088,000	9,634	**–**	**–**	3,088,000	9,634
	723,501	**(21,749)**	3,940,808	16,599	**220,000**	**(1,801)**	3,308,000	10,705

* The carrying amount of financial investments at FVOCI does not include a fair value adjustment as the hedged item is measured at fair value. The accounting for the hedge relationships results in a transfer from other comprehensive income to the profit or loss.

6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONTINUED)

Fair Value Hedge (continued)

Fair value hedge relationships resulted in the following changes in value used as the basis for recognising hedge ineffectiveness during the year:

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Loss on hedging instruments	**(38,346)**	(19,808)	**(12,505)**	(20,622)
Gain on hedged items attributable to the hedged risk	**38,099**	19,644	**12,596**	20,601
Exchange differences	**(6)**	6	**–**	–
Ineffectiveness charged to profit or loss (Note 35)	**(253)**	(158)	**91**	(21)

The gains and losses on the ineffective portions of the Group's and of the Bank's fair value hedges are recognised immediately in the statement of profit or loss under "Net gains and losses on financial instruments".

Cash Flow Hedge

The Group and the Bank principally use interest/profit rate and cross currency interest rate swaps to protect against exposures to variability in future cash flows on non-trading financial assets and liabilities which bear interest/profit at variable rates. The derivatives are entered into after taking into consideration of the interest 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 a cash flow hedge relationships to manage the profit and loss volatility associated with the derivatives which would otherwise 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 forecast future cash flows attributable to interest/profit rate risk from the benchmark interest rate on variable rate assets and liabilities. The accounting policies for cash flow hedge are as disclosed in Note 2(iii)(f).

To test hedge effectiveness, a comparison is performed to ensure the expected interest/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 interest rates are reset.

6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONTINUED)

Cash Flow Hedge (continued)

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

	2019					2018				
	Up to 3 Months RM'000	3 – 12 Months RM'000	1 – 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 3 Months RM'000	3 – 12 Months RM'000	1 – 5 Years RM'000	> 5 Years RM'000	Total RM'000
Group										
Interest/profit rate swaps										
– Pay fixed	**500,000**	**–**	**4,192,645**	**150,000**	**4,842,645**	–	1,927,200	4,323,920	–	6,251,120
Cross currency interest rate swaps										
– Pay fixed	**–**	**–**	**1,023,375**	**–**	**1,023,375**	–	–	1,034,000	–	1,034,000
– Pay LIBOR/Receive KLIBOR	**–**	**–**	**409,350**	**–**	**409,350**	–	206,800	413,600	–	620,400
	500,000	**–**	**5,625,370**	**150,000**	**6,275,370**	–	2,134,000	5,771,520	–	7,905,520
Bank										
Interest rate swaps										
– Pay fixed	**500,000**	**–**	**4,192,645**	**150,000**	**4,842,645**	–	1,627,200	4,323,920	–	5,951,120
– Receive fixed	**–**	**–**	**500,000**	**2,000,000**	**2,500,000**	–	600,000	630,000	2,000,000	3,230,000
Cross currency interest rate swaps										
– Pay fixed	**–**	**–**	**1,023,375**	**–**	**1,023,375**	–	–	1,034,000	–	1,034,000
– Pay LIBOR/Receive KLIBOR	**–**	**–**	**409,350**	**–**	**409,350**	–	206,800	413,600	–	620,400
	500,000	**–**	**6,125,370**	**2,150,000**	**8,775,370**	–	2,434,000	6,401,520	2,000,000	10,835,520

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, a gain of RM10,465,000 (2018 – gain of RM1,509,000) was recognised by the Group and 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 RM1,341,000 (2018 – loss of RM43,000) (Note 35) was recognised by the Group and the Bank.

6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONTINUED)

Net Investment Hedge

The Group's statement of financial position is affected by gains and losses as a result of the translation of net assets of its subsidiary companies denominated in currencies other than its functional currency. The Group hedges its exposures to foreign exchange risk via the designation of liabilities (certain short-term interbank borrowing funding pools) and forward foreign exchange contracts.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The accounting policies for net investment hedge are as disclosed in Note 2(iii)(f).

For hedging instruments which are liabilities, effectiveness is assessed by comparing changes in the carrying amount of the liabilities with changes in the investment in foreign operations which is due to movement in the spot exchange rate.

For hedging instruments which are forward foreign exchange contracts, the Group only designates the spot element of the derivatives as hedging instruments. Changes in the fair value of the hedging instruments attributable to changes in forward points are recognised directly in profit or loss under "Other operating income – foreign exchange profit" and these amounts are not included in the assessment of hedge effectiveness.

Due to the pegging of Hong Kong Dollar ("HKD") to United States Dollar ("USD") and, as part of the risk management strategy, the Group has designated USD interbank borrowings to hedge part of its HKD exposure. Such designation will result in potential hedge ineffectiveness as the movement in HKD does not perfectly correlated with the movement in USD.

Ineffectiveness may also arise if there are significant losses recorded in the net assets of the foreign operations.

The following table shows the notional amount of financial instruments designated as net investment hedge relationships in time bands based on the maturity of the financial instruments:

	2019				2018			
Group	Foreign Currency FCY'000	Up to 3 Months RM'000	3 – 5 Years RM'000	Total RM'000	Foreign Currency FCY'000	Up to 3 Months RM'000	3 – 5 Years RM'000	Total RM'000
USD Short-term interbank borrowings	**815,000**	**3,336,203**	**–**	**3,336,203**	865,000	3,577,640	–	3,577,640
HKD:MYR Forward foreign exchange contracts	**3,801,990**	**–**	**1,998,516**	**1,998,516**	3,411,551	–	1,801,981	1,801,981
		3,336,203	**1,998,516**	**5,334,719**		3,577,640	1,801,981	5,379,621

6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONTINUED)

Net Investment Hedge (continued)

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

	Notional Amount RM'000	Carrying Amount Liabilities RM'000	Change in Fair Value Used for Calculating Hedge Ineffectiveness RM'000	Change in the Value of the Hedging Instruments Recognised in Other Comprehensive Income RM'000	Hedge Ineffectiveness Recognised in Profit or Loss RM'000
2019					
USD Short-term interbank borrowings	**–**	**3,336,203**	**28,316**	**24,435**	**3,881**
HKD:MYR Forward foreign exchange contracts	**1,998,516**	**–**	**7,991**	**7,991**	**–**
	1,998,516	**3,336,203**	**36,307**	**32,426**	**3,881**
2018					
USD Short-term interbank borrowings	–	3,577,640	(64,411)	(59,688)	(4,723)
HKD:MYR Forward foreign exchange contracts	1,801,981	–	(45,502)	(45,502)	–
	1,801,981	3,577,640	(109,913)	(105,190)	(4,723)

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

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
At fair value				
Government securities and treasury bills:				
Malaysian Government Securities	**11,982,825**	12,265,159	**11,819,642**	11,895,739
Malaysian Government Investment Issues	**21,806,968**	21,653,696	**11,477,222**	12,288,291
Other government treasury bills	**160,557**	58,125	**–**	–
	33,950,350	33,976,980	**23,296,864**	24,184,030
Money market instruments:				
Negotiable instruments of deposit and negotiable Islamic debt certificates	**426,813**	3,051,128	**426,813**	2,910,720
Non-money market instruments:				
Equity securities				
– Quoted shares and convertible loan stocks outside Malaysia	**1,556**	2,204	**–**	–
– Unquoted shares	**351,538**	344,996	**345,113**	338,498
Debt securities				
– Cagamas bonds	**610,409**	390,528	**507,554**	289,423
– Unquoted corporate bonds/sukuk	**4,799,974**	4,563,691	**1,419,753**	1,348,032
Unit trust funds	**12,853**	12,956	**–**	–
	5,776,330	5,314,375	**2,272,420**	1,975,953
	40,153,493	42,342,483	**25,996,097**	29,070,703

Included in financial investments at FVOCI are the following securities sold under repurchase agreements (Note 4(b)):

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Malaysian Government Securities	**478,258**	2,744,730	**478,258**	2,744,730
Malaysian Government Investment Issues	**190,120**	1,421,334	**190,120**	1,421,334
	668,378	4,166,064	**668,378**	4,166,064

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

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 fair value through other comprehensive income is equivalent to their fair value:

Group	12-Month ECL (Stage 1) RM'000	Lifetime ECL Not Credit-Impaired (Stage 2) RM'000	Lifetime ECL Credit-Impaired (Stage 3) RM'000	Total RM'000
At 1 January 2018	6,375	–	–	6,375
Net allowance made (Note 40)	987	1,207	–	2,194
New financial investments purchased	7,728	1,207	–	8,935
Allowance written back	(314)	–	–	(314)
Amount derecognised	(6,427)	–	–	(6,427)
Exchange differences	9	18	–	27
At 31 December 2018	7,371	1,225	–	8,596
Net allowance made/(written back) (Note 40)	**249**	**(406)**	**–**	**(157)**
New financial investments purchased	**6,796**	**135**	**–**	**6,931**
Allowance made	**210**	**–**	**–**	**210**
Amount derecognised	**(6,734)**	**(541)**	**–**	**(7,275)**
Change in models/risk parameters	**(23)**	**–**	**–**	**(23)**
Exchange differences	**(4)**	**(23)**	**–**	**(27)**
At 31 December 2019	**7,616**	**796**	**–**	**8,412**

Bank	12-Month ECL (Stage 1) RM'000	Lifetime ECL Not Credit-Impaired (Stage 2) RM'000	Lifetime ECL Credit-Impaired (Stage 3) RM'000	Total RM'000
At 1 January 2018	4,470	–	–	4,470
Net allowance made (Note 40)	390	–	–	390
New financial investments purchased	6,342	–	–	6,342
Allowance written back	(348)	–	–	(348)
Amount derecognised	(5,604)	–	–	(5,604)
At 31 December 2018	4,860	–	–	4,860
Net allowance written back (Note 40)	**(508)**	**–**	**–**	**(508)**
New financial investments purchased	**4,984**	**–**	**–**	**4,984**
Allowance written back	**(493)**	**–**	**–**	**(493)**
Amount derecognised	**(4,998)**	**–**	**–**	**(4,998)**
Change in models/risk parameters	**(1)**	**–**	**–**	**(1)**
At 31 December 2019	**4,352**	**–**	**–**	**4,352**

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8. FINANCIAL INVESTMENTS AT AMORTISED COST

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
At amortised cost				
Government securities and treasury bills:				
Malaysian Government Securities	**1,016,394**	1,125,105	**1,016,394**	1,125,105
Malaysian Government Investment Issues	**7,098,076**	6,512,720	**4,030,824**	4,078,918
Foreign government treasury bills	**1,118,597**	1,019,500	**34,236**	27,080
Other foreign government securities	**1,232,825**	1,710,079	**6,835**	7,897
	10,465,892	10,367,404	**5,088,289**	5,239,000
Money market instruments:				
Negotiable instruments of deposit and negotiable Islamic debt certificates	**1,163,001**	1,198,530	**1,310,142**	1,842,223
Non-money market instruments:				
Debt securities				
– Cagamas bonds	**5,605,977**	5,611,030	**5,605,977**	5,611,030
– Unquoted corporate bonds/sukuk	**10,407,844**	9,845,596	**8,619,793**	7,883,611
	16,013,821	15,456,626	**14,225,770**	13,494,641
Allowance for impairment	**(4,546)**	(4,116)	**(3,745)**	(3,500)
	27,638,168	27,018,444	**20,620,456**	20,572,364

8. FINANCIAL INVESTMENTS AT AMORTISED COST (CONTINUED)

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

Group	12-Month ECL (Stage 1) RM'000	Lifetime ECL Not Credit-Impaired (Stage 2) RM'000	Lifetime ECL Credit-Impaired (Stage 3) RM'000	Total RM'000
At 1 January 2018	3,704	–	35	3,739
Net allowance made (Note 40)	386	–	–	386
New financial investments purchased	1,018	–	–	1,018
Allowance written back	(309)	–	–	(309)
Amount derecognised	(323)	–	–	(323)
Amount written off	–	–	(16)	(16)
Exchange differences	7	–	–	7
At 31 December 2018	4,097	–	19	4,116
Net allowance made (Note 40)	**352**	**–**	**–**	**352**
New financial investments purchased	**556**	**–**	**–**	**556**
Allowance made	**140**	**–**	**–**	**140**
Amount derecognised	**(341)**	**–**	**–**	**(341)**
Change in models/risk parameters	**(3)**	**–**	**–**	**(3)**
Exchange differences	**78**	**–**	**–**	**78**
At 31 December 2019	**4,527**	**–**	**19**	**4,546**

Bank	12-Month ECL (Stage 1) RM'000	Lifetime ECL Not Credit-Impaired (Stage 2) RM'000	Lifetime ECL Credit-Impaired (Stage 3) RM'000	Total RM'000
At 1 January 2018	2,869	–	35	2,904
Net allowance made (Note 40)	612	–	–	612
New financial investments purchased	665	–	–	665
Allowance written back	(24)	–	–	(24)
Amount derecognised	(29)	–	–	(29)
Amount written off	–	–	(16)	(16)
At 31 December 2018	3,481	–	19	3,500
Net allowance made (Note 40)	**166**	**–**	**–**	**166**
New financial investments purchased	**179**	**–**	**–**	**179**
Allowance made	**71**	**–**	**–**	**71**
Amount derecognised	**(80)**	**–**	**–**	**(80)**
Change in models/risk parameters	**(4)**	**–**	**–**	**(4)**
Exchange differences	**79**	**–**	**–**	**79**
At 31 December 2019	**3,726**	**–**	**19**	**3,745**

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8. FINANCIAL INVESTMENTS AT AMORTISED COST (CONTINUED)

Included in financial investments at amortised cost are the following securities sold under repurchase agreements (Note 4(b)):

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Foreign government treasury bills	**1,230**	6,835	**1,230**	6,835
Other foreign government securities	**360,228**	–	**–**	–
	361,458	6,835	**1,230**	6,835

9. LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
At amortised cost				
Overdrafts	**11,181,394**	11,558,286	**7,939,545**	8,356,059
Term loans/financing				
– Housing loans/financing	**121,626,130**	112,302,675	**95,310,475**	89,027,872
– Syndicated term loans/financing	**3,762,298**	3,129,190	**1,134,368**	595,341
– Hire purchase receivables	**51,552,787**	50,487,731	**40,583,747**	38,196,616
– Other term loans/financing	**124,159,645**	121,090,161	**96,806,613**	95,910,951
Credit card receivables	**2,161,229**	2,064,840	**2,113,070**	2,025,895
Bills receivables	**108,825**	155,074	**87,066**	133,739
Trust receipts	**254,153**	254,809	**152,614**	170,085
Claims on customers under acceptance credits#	**3,551,070**	3,803,866	**3,254,785**	3,482,087
Revolving credits	**10,076,109**	10,483,874	**8,537,705**	9,529,290
Staff loans*	**2,034,801**	1,971,073	**1,784,760**	1,729,331
Gross loans, advances and financing	**330,468,441**	317,301,579	**257,704,748**	249,157,266
Less: Allowance for impairment on loans and financing				
– Expected credit losses	**(1,991,947)**	(2,042,413)	**(1,434,674)**	(1,466,869)
– Stage 1: 12-Month ECL	**(970,934)**	(1,086,325)	**(670,917)**	(775,726)
– Stage 2: Lifetime ECL not credit-impaired	**(649,912)**	(546,221)	**(535,186)**	(452,091)
– Stage 3: Lifetime ECL credit-impaired	**(371,101)**	(409,867)	**(228,571)**	(239,052)
Net loans, advances and financing	**328,476,494**	315,259,166	**256,270,074**	247,690,397

\# Included in claims on customers under acceptance credits of the Group and of the Bank are bankers' acceptance rediscounted of RM25,814,000 (2018 – RM2,500,000).

* Included in staff loans of the Group and of the Bank are loans to directors of subsidiary companies amounting to RM7,613,000 (2018 – RM5,012,000) and RM7,370,000 (2018 – RM4,709,000) respectively.

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Retail loans/financing*				
– Housing loans/financing	**121,626,147**	112,302,874	**95,310,475**	89,027,872
– Hire purchase	**51,347,164**	50,250,640	**40,583,747**	38,196,616
– Credit cards	**2,161,229**	2,064,840	**2,113,070**	2,025,895
– Other loans/financing^	**108,217,642**	106,352,920	**82,218,399**	81,988,983
	283,352,182	270,971,274	**220,225,691**	211,239,366
Corporate loans/financing	**47,116,259**	46,330,305	**37,479,057**	37,917,900
	330,468,441	317,301,579	**257,704,748**	249,157,266

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

^ Included in other loans/financing are term loans, trade financing, overdrafts and revolving credits.

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Maturity within one year	**30,074,737**	33,476,534	**20,934,050**	24,078,602
More than one year to three years	**28,380,117**	25,630,391	**22,617,780**	19,976,992
More than three years to five years	**33,530,946**	30,813,477	**26,812,787**	25,891,581
More than five years	**238,482,641**	227,381,177	**187,340,131**	179,210,091
	330,468,441	317,301,579	**257,704,748**	249,157,266

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Non-bank financial institutions				
– Stock-broking companies	**1,210**	2,973	**1,210**	2,973
– Others	**12,995,158**	10,302,928	**11,407,279**	9,248,247
Business enterprises				
– Small and medium enterprises	**68,397,014**	67,924,905	**55,665,614**	56,246,440
– Others	**28,904,318**	31,029,206	**22,770,623**	24,502,526
Government and statutory bodies	**1,020,098**	1,318,357	**14,325**	10,033
Individuals	**215,333,895**	204,066,228	**166,003,229**	156,821,699
Other entities	**31,808**	37,248	**24,939**	27,620
Foreign entities	**3,784,940**	2,619,734	**1,817,529**	2,297,728
	330,468,441	317,301,579	**257,704,748**	249,157,266

Gross loans, advances and financing analysed by geographical distribution are as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Malaysia	**307,164,075**	294,073,885	**256,906,982**	248,304,984
Hong Kong SAR and the People's Republic of China	**15,164,688**	15,884,112	**–**	–
Cambodia	**4,720,804**	4,355,773	**–**	–
Other countries	**3,418,874**	2,987,809	**797,766**	852,282
	330,468,441	317,301,579	**257,704,748**	249,157,266

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

Gross loans, advances and financing analysed by interest rate/rate of return sensitivity are as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Fixed rate				
– Housing loans/financing	**849,134**	1,762,168	**39,532**	711,476
– Hire purchase receivables	**48,956,560**	47,872,472	**40,412,009**	37,995,624
– Other fixed rate loans/financing	**21,679,909**	21,387,571	**10,572,924**	10,361,819
Variable rate				
– Base rate/Base lending rate plus	**209,523,638**	197,504,090	**175,186,208**	167,638,242
– Cost plus	**35,281,822**	34,198,485	**31,130,503**	32,050,311
– Other variable rates	**14,177,378**	14,576,793	**363,572**	399,794
	330,468,441	317,301,579	**257,704,748**	249,157,266

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Purchase of securities	**4,215,419**	2,764,420	**3,686,897**	2,389,565
Purchase of transport vehicles	**51,770,061**	50,720,776	**40,810,981**	38,438,216
Purchase of landed properties	**207,792,100**	196,597,670	**167,126,742**	159,761,279
(of which: – residential	**125,850,883**	116,258,068	**98,888,486**	92,398,172
– non-residential)	**81,941,217**	80,339,602	**68,238,256**	67,363,107
Purchase of fixed assets (excluding landed properties)	**433,035**	470,118	**83,595**	140,252
Personal use	**13,648,878**	13,064,948	**7,316,469**	6,996,922
Credit card	**2,161,229**	2,064,840	**2,113,070**	2,025,895
Purchase of consumer durables	**801**	924	**101**	104
Construction	**7,401,779**	7,143,581	**5,808,391**	5,953,919
Mergers and acquisitions	**9,730**	16,222	**9,730**	16,222
Working capital	**38,576,599**	39,968,394	**26,456,630**	28,994,446
Other purpose	**4,458,810**	4,489,686	**4,292,142**	4,440,446
	330,468,441	317,301,579	**257,704,748**	249,157,266

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9. LOANS, ADVANCES AND FINANCING (CONTINUED)

Gross loans, advances and financing analysed by sector are as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Agriculture, hunting, forestry and fishing	**3,545,062**	3,808,415	**2,524,728**	2,708,867
Mining and quarrying	**334,813**	213,243	**165,225**	160,547
Manufacturing	**11,004,846**	10,533,986	**8,345,617**	8,420,878
Electricity, gas and water	**162,295**	130,928	**47,363**	36,695
Construction	**12,903,477**	11,572,927	**9,878,302**	9,349,268
Wholesale & retail trade and restaurants & hotels	**27,306,914**	26,441,872	**22,475,527**	21,979,280
Transport, storage and communication	**4,153,801**	4,161,820	**3,033,476**	2,989,153
Finance, insurance and business services	**19,332,370**	18,399,137	**16,036,222**	15,572,218
Real estate	**32,182,576**	34,655,850	**25,915,549**	28,028,137
Community, social and personal services	**3,190,201**	3,230,185	**1,844,962**	1,686,753
Households	**214,862,347**	203,135,000	**167,387,862**	158,182,539
Others	**1,489,739**	1,018,216	**49,915**	42,931
	330,468,441	317,301,579	**257,704,748**	249,157,266

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
At 1 January	**1,620,733**	1,475,666	**1,143,782**	1,064,009
Impaired during the year	**3,066,488**	3,109,654	**2,106,495**	2,136,046
Reclassified as non-impaired	**(2,172,788)**	(2,110,795)	**(1,559,030)**	(1,527,447)
Recoveries	**(357,532)**	(347,887)	**(265,130)**	(262,641)
Amount written off	**(470,169)**	(482,440)	**(212,200)**	(244,913)
Loans/financing converted to foreclosed properties	**(78,196)**	(27,799)	**(68,007)**	(22,822)
Exchange differences	**(3,617)**	4,334	**(1,777)**	1,550
At 31 December	**1,604,919**	1,620,733	**1,144,133**	1,143,782
Gross impaired loans/financing as percentage of gross loans, advances and financing	**0.49%**	0.51%	**0.44%**	0.46%

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

Impaired loans/financing analysed by geographical distribution are as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Malaysia	**1,310,329**	1,300,431	**1,031,067**	1,020,145
Hong Kong SAR and the People's Republic of China	**103,643**	104,861	**–**	–
Cambodia	**45,233**	65,858	**–**	–
Other countries	**145,714**	149,583	**113,066**	123,637
	1,604,919	1,620,733	**1,144,133**	1,143,782

Impaired loans/financing analysed by economic purpose are as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Purchase of securities	**724**	722	**724**	722
Purchase of transport vehicles	**241,765**	304,027	**161,236**	201,474
Purchase of landed properties	**856,891**	803,830	**672,131**	629,105
(of which: – residential	**629,565**	569,671	**470,280**	428,029
– non-residential)	**227,326**	234,159	**201,851**	201,076
Purchase of fixed assets (excluding landed properties)	**8,523**	7,500	**992**	364
Personal use	**153,351**	141,699	**57,930**	46,402
Credit card	**17,983**	19,572	**17,035**	19,141
Purchase of consumer durables	**1**	–	**1**	–
Construction	**57,119**	69,316	**52,463**	67,218
Working capital	**256,412**	263,975	**169,509**	169,303
Other purpose	**12,150**	10,092	**12,112**	10,053
	1,604,919	1,620,733	**1,144,133**	1,143,782

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

Impaired loans/financing analysed by sector are as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Agriculture, hunting, forestry and fishing	**22,385**	40,216	**22,335**	15,109
Mining and quarrying	**1,579**	1,689	**1,577**	636
Manufacturing	**55,698**	56,008	**38,971**	45,561
Electricity, gas and water	**4,848**	2,275	**12**	83
Construction	**107,125**	129,350	**93,545**	120,122
Wholesale & retail trade and restaurants & hotels	**162,315**	170,689	**124,760**	133,636
Transport, storage and communication	**18,107**	18,857	**11,513**	14,072
Finance, insurance and business services	**55,947**	60,621	**44,343**	44,404
Real estate	**41,543**	42,456	**38,914**	37,287
Community, social and personal services	**9,367**	9,569	**7,789**	7,230
Households	**1,099,910**	1,066,953	**759,083**	725,551
Others	**26,095**	22,050	**1,291**	91
	1,604,919	1,620,733	**1,144,133**	1,143,782

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

	<--------------- Retail Loans/Financing --------------->					
Group 2019	**Housing Loans/ Financing RM'000**	**Hire Purchase RM'000**	**Credit Cards RM'000**	**Other Loans/ Financing RM'000**	**Corporate Loans/ Financing RM'000**	**Total RM'000**
Stage 1: 12-Month ECL						
At 1 January 2019	**110,958**	**242,541**	**26,816**	**418,504**	**287,506**	**1,086,325**
Changes due to loans, advances and financing recognised as at 1 January 2019	**54,879**	**25,899**	**3,512**	**64,202**	**7,302**	**155,794**
– Transfer to Stage 1: 12-Month ECL	**57,920**	**39,322**	**4,526**	**76,794**	**12,409**	**190,971**
– Transfer to Stage 2: Lifetime ECL not credit-impaired	**(2,850)**	**(12,870)**	**(887)**	**(9,477)**	**(5,104)**	**(31,188)**
– Transfer to Stage 3: Lifetime ECL credit-impaired	**(191)**	**(553)**	**(127)**	**(3,115)**	**(3)**	**(3,989)**

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

Group 2019	<-------------- Retail Loans/Financing -------------->				Corporate Loans/ Financing RM'000	Total RM'000
	Housing Loans/ Financing RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans/ Financing RM'000		
Stage 1: 12-Month ECL (continued)						
New loans, advances and financing originated	10,098	28,315	2,362	48,255	25,010	114,040
Net remeasurement due to changes in credit risk	(51,478)	(34,397)	(2,310)	(94,343)	(16,622)	(199,150)
Loans, advances and financing derecognised (other than write-off)	(2,697)	(11,321)	(423)	(33,953)	(21,300)	(69,694)
Modifications to contractual cash flows of loans, advances and financing	(820)	(1)	(1,498)	(1,730)	(327)	(4,376)
Changes in models/risk parameters	(16,725)	(65,416)	(5,267)	(12,461)	(11,588)	(111,457)
Exchange differences	(132)	(49)	(5)	(353)	(9)	(548)
At 31 December 2019	104,083	185,571	23,187	388,121	269,972	970,934
Stage 2: Lifetime ECL not credit-impaired						
At 1 January 2019	115,450	96,497	4,011	193,716	136,547	546,221
Changes due to loans, advances and financing recognised as at 1 January 2019	(31,969)	(13,067)	(189)	(22,831)	(7,584)	(75,640)
– Transfer to Stage 1: 12-Month ECL	(50,867)	(32,218)	(2,258)	(30,010)	(12,409)	(127,762)
– Transfer to Stage 2: Lifetime ECL not credit-impaired	24,452	24,056	2,344	22,611	5,104	78,567
– Transfer to Stage 3: Lifetime ECL credit-impaired	(5,554)	(4,905)	(275)	(15,432)	(279)	(26,445)
New loans, advances and financing originated	2,433	6,456	179	22,394	92,240	123,702
Net remeasurement due to changes in credit risk	26,319	(2,174)	(244)	29,713	(34,729)	18,885
Loans, advances and financing derecognised (other than write-off)	(5,180)	(4,044)	(408)	(9,583)	(35,500)	(54,715)
Modifications to contractual cash flows of loans, advances and financing	6	(8)	(516)	101	5,579	5,162
Changes in models/risk parameters	(20,681)	2,085	(602)	25,346	80,332	86,480
Exchange differences	–	(10)	(1)	(173)	1	(183)
At 31 December 2019	86,378	85,735	2,230	238,683	236,886	649,912

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9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

Group 2019	<--------------- Retail Loans/Financing ---------------> Housing Loans/ Financing RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans/ Financing RM'000	Corporate Loans/ Financing RM'000	Total RM'000
Stage 3: Lifetime ECL credit-impaired						
At 1 January 2019	69,729	157,017	16,497	154,326	12,298	409,867
Changes due to loans, advances and financing recognised as at 1 January 2019	(22,911)	(12,832)	(3,323)	(41,370)	282	(80,154)
– Transfer to Stage 1: 12-Month ECL	(7,053)	(7,104)	(2,268)	(46,784)	–	(63,209)
– Transfer to Stage 2: Lifetime ECL not credit-impaired	(21,603)	(11,186)	(1,457)	(13,133)	–	(47,379)
– Transfer to Stage 3: Lifetime ECL credit-impaired	5,745	5,458	402	18,547	282	30,434
New loans, advances and financing originated*	1,596	1,593	378	60,271	–	63,838
Net remeasurement due to changes in credit risk	76,346	170,548	22,411	211,865	1,788	482,958
Loans, advances and financing derecognised (other than write-off)	(5,375)	(23,003)	(1,911)	(10,665)	–	(40,954)
Modifications to contractual cash flows of loans, advances and financing	1,202	174	4,647	842	1,077	7,942
Changes in models/risk parameters	311	3,938	(648)	(1,521)	(12)	2,068
Amount written off	(39,346)	(156,137)	(23,577)	(251,109)	–	(470,169)
Exchange differences	(13)	(62)	(9)	(1,892)	–	(1,976)
Amount transferred to allowance for impairment loss on foreclosed properties	–	–	–	(2,319)	–	(2,319)
At 31 December 2019	81,539	141,236	14,465	118,428	15,433	371,101
Total ECL as at 31 December 2019	272,000	412,542	39,882	745,232	522,291	1,991,947

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

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

Group 2018	Retail Loans/Financing: Housing Loans/ Financing RM'000	Retail Loans/Financing: Hire Purchase RM'000	Retail Loans/Financing: Credit Cards RM'000	Retail Loans/Financing: Other Loans/ Financing RM'000	Corporate Loans/ Financing RM'000	Total RM'000
Stage 1: 12-Month ECL						
At 1 January 2018	101,319	246,220	26,578	508,043	304,483	1,186,643
Changes due to loans, advances and financing recognised as at 1 January 2018	48,647	24,111	3,435	33,238	17,578	127,009
– Transfer to Stage 1: 12-Month ECL	51,592	39,759	4,645	45,119	20,657	161,772
– Transfer to Stage 2: Lifetime ECL not credit-impaired	(2,770)	(15,432)	(1,057)	(8,874)	(3,077)	(31,210)
– Transfer to Stage 3: Lifetime ECL credit-impaired	(175)	(216)	(153)	(3,007)	(2)	(3,553)
New loans, advances and financing originated	10,760	56,265	2,601	60,851	35,318	165,795
Net remeasurement due to changes in credit risk	(45,462)	(72,917)	(3,562)	(144,236)	(38,741)	(304,918)
Loans, advances and financing derecognised (other than write-off)	(3,607)	(11,156)	(410)	(40,783)	(31,142)	(87,098)
Modifications to contractual cash flows of loans, advances and financing	(796)	(30)	(1,828)	(381)	(5)	(3,040)
Exchange differences	97	48	2	1,772	15	1,934
At 31 December 2018	110,958	242,541	26,816	418,504	287,506	1,086,325
Stage 2: Lifetime ECL not credit-impaired						
At 1 January 2018	102,553	108,714	5,080	201,091	116,831	534,269
Changes due to loans, advances and financing recognised as at 1 January 2018	(20,698)	(9,270)	226	(37,335)	(17,580)	(84,657)
– Transfer to Stage 1: 12-Month ECL	(36,645)	(33,311)	(2,510)	(38,012)	(20,657)	(131,135)
– Transfer to Stage 2: Lifetime ECL not credit-impaired	20,045	25,818	3,118	17,987	3,077	70,045
– Transfer to Stage 3: Lifetime ECL credit-impaired	(4,098)	(1,777)	(382)	(17,310)	–	(23,567)

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

Group 2018	<--------------- Retail Loans/Financing --------------->					
	Housing Loans/ Financing RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans/ Financing RM'000	Corporate Loans/ Financing RM'000	Total RM'000
Stage 2: Lifetime ECL not credit-impaired (continued)						
New loans, advances and financing originated	3,007	6,554	244	15,313	57,482	82,600
Net remeasurement due to changes in credit risk	36,436	(5,510)	(242)	22,280	14,191	67,155
Loans, advances and financing derecognised (other than write-off)	(5,531)	(3,979)	(455)	(8,001)	(34,365)	(52,331)
Modifications to contractual cash flows of loans, advances and financing	(318)	(13)	(842)	(214)	(10)	(1,397)
Exchange differences	1	1	–	582	(2)	582
At 31 December 2018	115,450	96,497	4,011	193,716	136,547	546,221
Stage 3: Lifetime ECL credit-impaired						
At 1 January 2018	73,907	143,791	17,725	132,241	8,786	376,450
Changes due to loans, advances and financing recognised as at 1 January 2018	(27,949)	(14,841)	(3,661)	4,097	2	(42,352)
– Transfer to Stage 1: 12-Month ECL	(14,947)	(6,448)	(2,135)	(7,107)	–	(30,637)
– Transfer to Stage 2: Lifetime ECL not credit-impaired	(17,275)	(10,386)	(2,061)	(9,113)	–	(38,835)
– Transfer to Stage 3: Lifetime ECL credit-impaired	4,273	1,993	535	20,317	2	27,120
New loans, advances and financing originated*	1,671	1,230	197	52,721	14	55,833
Net remeasurement due to changes in credit risk	59,052	215,308	24,333	220,427	3,495	522,615
Loans, advances and financing derecognised (other than write-off)	(4,614)	(16,517)	(2,046)	(12,172)	–	(35,349)
Modifications to contractual cash flows of loans, advances and financing	1,028	623	4,661	3,772	–	10,084
Amount written off	(33,368)	(172,632)	(24,717)	(251,723)	–	(482,440)
Exchange differences	38	55	5	4,963	1	5,062
Amount transferred to allowance for impairment loss on foreclosed properties	(36)	–	–	–	–	(36)
At 31 December 2018	69,729	157,017	16,497	154,326	12,298	409,867
Total ECL as at 31 December 2018	296,137	496,055	47,324	766,546	436,351	2,042,413

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

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

Bank 2019	Retail Loans: Housing Loans RM'000	Retail Loans: Hire Purchase RM'000	Retail Loans: Credit Cards RM'000	Retail Loans: Other Loans RM'000	Corporate Loans RM'000	Total RM'000
Stage 1: 12-Month ECL						
At 1 January 2019	86,902	182,898	26,416	208,521	270,989	775,726
Changes due to loans and advances recognised as at 1 January 2019	45,221	16,941	3,444	18,275	6,969	90,850
– Transfer to Stage 1: 12-Month ECL	47,700	26,253	4,447	25,433	12,006	115,839
– Transfer to Stage 2: Lifetime ECL not credit-impaired	(2,336)	(8,929)	(877)	(7,006)	(5,037)	(24,185)
– Transfer to Stage 3: Lifetime ECL credit-impaired	(143)	(383)	(126)	(152)	–	(804)
New loans and advances originated	7,573	25,657	1,937	8,421	20,387	63,975
Net remeasurement due to changes in credit risk	(44,407)	(19,660)	(2,316)	(36,477)	(17,079)	(119,939)
Loans and advances derecognised (other than write-off)	(2,293)	(8,567)	(413)	(6,099)	(18,616)	(35,988)
Modifications to contractual cash flows of loans and advances	(820)	–	(1,455)	(1,317)	(327)	(3,919)
Changes in models/risk parameters	(13,850)	(56,901)	(5,188)	(13,397)	(10,340)	(99,676)
Exchange differences	–	–	–	(112)	–	(112)
At 31 December 2019	78,326	140,368	22,425	177,815	251,983	670,917
Stage 2: Lifetime ECL not credit-impaired						
At 1 January 2019	97,910	64,962	3,943	150,576	134,700	452,091
Changes due to loans and advances recognised as at 1 January 2019	(28,113)	(9,231)	(231)	(10,768)	(7,248)	(55,591)
– Transfer to Stage 1: 12-Month ECL	(42,424)	(21,749)	(2,229)	(22,946)	(12,006)	(101,354)
– Transfer to Stage 2: Lifetime ECL not credit-impaired	18,820	16,013	2,266	15,084	5,037	57,220
– Transfer to Stage 3: Lifetime ECL credit-impaired	(4,509)	(3,495)	(268)	(2,906)	(279)	(11,457)

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9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

Bank 2019	Retail Loans Housing Loans RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans RM'000	Corporate Loans RM'000	Total RM'000
Stage 2: Lifetime ECL not credit-impaired (continued)						
New loans and advances originated	1,714	5,810	169	4,580	91,656	103,929
Net remeasurement due to changes in credit risk	24,350	(391)	(298)	16,095	(35,376)	4,380
Loans and advances derecognised (other than write-off)	(4,463)	(2,917)	(374)	(7,479)	(35,391)	(50,624)
Modifications to contractual cash flows of loans and advances	(18)	(1)	(455)	94	5,579	5,199
Changes in models/risk parameters	(18,311)	488	(589)	15,267	78,947	75,802
At 31 December 2019	73,069	58,720	2,165	168,365	232,867	535,186
Stage 3: Lifetime ECL credit-impaired						
At 1 January 2019	51,672	105,727	16,149	53,249	12,255	239,052
Changes due to loans and advances recognised as at 1 January 2019	(17,108)	(7,710)	(3,213)	(7,507)	279	(35,259)
– Transfer to Stage 1: 12-Month ECL	(5,276)	(4,504)	(2,218)	(2,487)	–	(14,485)
– Transfer to Stage 2: Lifetime ECL not credit-impaired	(16,484)	(7,084)	(1,389)	(8,078)	–	(33,035)
– Transfer to Stage 3: Lifetime ECL credit-impaired	4,652	3,878	394	3,058	279	12,261
New loans and advances originated*	1,292	1,439	339	721	–	3,791
Net remeasurement due to changes in credit risk	57,530	115,401	21,404	63,265	1,365	258,965
Loans and advances derecognised (other than write-off)	(4,373)	(16,889)	(1,853)	(8,822)	–	(31,937)
Modifications to contractual cash flows of loans and advances	1,149	111	4,590	262	1,077	7,189
Changes in models/risk parameters	232	2,935	(639)	(1,394)	–	1,134
Amount written off	(30,030)	(106,527)	(23,079)	(52,564)	–	(212,200)
Amount transferred to allowance for impairment loss on foreclosed properties	–	–	–	(2,164)	–	(2,164)
At 31 December 2019	60,364	94,487	13,698	45,046	14,976	228,571
Total ECL as at 31 December 2019	211,759	293,575	38,288	391,226	499,826	1,434,674

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

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

Bank 2018	Retail Loans: Housing Loans RM'000	Retail Loans: Hire Purchase RM'000	Retail Loans: Credit Cards RM'000	Retail Loans: Other Loans RM'000	Corporate Loans RM'000	Total RM'000
Stage 1: 12-Month ECL						
At 1 January 2018	82,484	180,860	26,257	255,558	287,540	832,699
Changes due to loans and advances recognised as at 1 January 2018	39,531	16,179	3,419	22,407	9,895	91,431
– Transfer to Stage 1: 12-Month ECL	41,945	26,575	4,619	30,571	12,914	116,624
– Transfer to Stage 2: Lifetime ECL not credit-impaired	(2,283)	(10,396)	(1,048)	(7,950)	(3,019)	(24,696)
– Transfer to Stage 3: Lifetime ECL credit-impaired	(131)	–	(152)	(214)	–	(497)
New loans and advances originated	7,430	47,123	2,451	8,945	30,127	96,076
Net remeasurement due to changes in credit risk	(39,388)	(53,016)	(3,487)	(72,459)	(29,152)	(197,502)
Loans and advances derecognised (other than write-off)	(2,361)	(8,220)	(401)	(5,718)	(27,421)	(44,121)
Modifications to contractual cash flows of loans and advances	(794)	(28)	(1,823)	(94)	–	(2,739)
Exchange differences	–	–	–	(118)	–	(118)
At 31 December 2018	86,902	182,898	26,416	208,521	270,989	775,726
Stage 2: Lifetime ECL not credit-impaired						
At 1 January 2018	86,534	71,885	5,045	156,084	100,772	420,320
Changes due to loans and advances recognised as at 1 January 2018	(17,896)	(5,691)	225	(18,291)	(9,895)	(51,548)
– Transfer to Stage 1: 12-Month ECL	(29,978)	(22,305)	(2,494)	(27,275)	(12,914)	(94,966)
– Transfer to Stage 2: Lifetime ECL not credit-impaired	15,492	16,614	3,098	13,038	3,019	51,261
– Transfer to Stage 3: Lifetime ECL credit-impaired	(3,410)	–	(379)	(4,054)	–	(7,843)

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9. LOANS, ADVANCES AND FINANCING (CONTINUED)

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

Bank 2018	<-------------------- Retail Loans -------------------->				Corporate Loans RM'000	Total RM'000
	Housing Loans RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans RM'000		
Stage 2: Lifetime ECL not credit-impaired (continued)						
New loans and advances originated	1,821	4,736	220	2,178	51,393	60,348
Net remeasurement due to changes in credit risk	32,562	(3,166)	(270)	14,628	19,156	62,910
Loans and advances derecognised (other than write-off)	(4,801)	(2,798)	(445)	(3,806)	(26,726)	(38,576)
Modifications to contractual cash flows of loans and advances	(310)	(4)	(832)	(217)	–	(1,363)
At 31 December 2018	97,910	64,962	3,943	150,576	134,700	452,091
Stage 3: Lifetime ECL credit-impaired						
At 1 January 2018	55,984	98,224	17,514	58,299	8,786	238,807
Changes due to loans and advances recognised as at 1 January 2018	(21,635)	(10,488)	(3,644)	(4,116)	–	(39,883)
– Transfer to Stage 1: 12-Month ECL	(11,967)	(4,270)	(2,125)	(3,296)	–	(21,658)
– Transfer to Stage 2: Lifetime ECL not credit-impaired	(13,209)	(6,218)	(2,050)	(5,088)	–	(26,565)
– Transfer to Stage 3: Lifetime ECL credit-impaired	3,541	–	531	4,268	–	8,340
New loans and advances originated*	1,546	1,050	178	372	–	3,146
Net remeasurement due to changes in credit risk	45,021	150,416	24,005	74,351	3,469	297,262
Loans and advances derecognised (other than write-off)	(3,922)	(12,133)	(1,986)	(6,512)	–	(24,553)
Modifications to contractual cash flows of loans and advances	1,034	383	4,514	3,291	–	9,222
Amount written off	(26,320)	(121,725)	(24,432)	(72,436)	–	(244,913)
Amount transferred to allowance for impairment loss on foreclosed properties	(36)	–	–	–	–	(36)
At 31 December 2018	51,672	105,727	16,149	53,249	12,255	239,052
Total ECL as at 31 December 2018	236,484	353,587	46,508	412,346	417,944	1,466,869

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

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

Financial assets that are purchased or originated and credit-impaired

The Group and the Bank do not purchase or originate credit-impaired loans, advances and financing.

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

The contractual amount outstanding on loans, advances and financing that were written off during the year and that are still subject to enforcement activity for the Group and the Bank are RM578,836,000 (2018 – RM603,617,000) and RM212,200,000 (2018 – RM244,913,000) respectively.

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

The amortised costs prior to modification of loans, advances and financing of the Group and 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 are RM240,542,000 (2018 – RM103,109,000) and RM180,063,000 (2018 – RM49,226,000) respectively.

Gross carrying amount of previously modified loans, advances and financing for which loss allowance has changed to 12-Month ECL measurement during the year for the Group and the Bank are RM77,231,000 (2018 – RM85,568,000) and RM30,102,000 (2018 – RM22,802,000) respectively as at the end of the year.

Collateral and other credit enhancements

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

In line with the Group's and the Bank's ECL model, no loss allowance was recognised for certain loans, advances and financing 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 for the Group and the Bank are RM86,522,000 (2018 – RM112,718,000) and RM66,536,000 (2018 – RM55,942,000) respectively as at the end of the year.

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

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

Overall, the total allowance for impairment on loans, advances and financing for the Group and the Bank decreased by RM50.5 million and RM32.2 million respectively, due to the following:

(a) 12-month ECL (Stage 1) – decrease of RM115.4 million and RM104.8 million respectively for the Group and the Bank, mainly due to:

- recalibration of impairment models' risk parameters which has resulted in a writeback of ECL charge; and
- loans and advances that were derecognised due to full settlement; partially offset by
- loans and advances that were transferred to Stage 1 from Stage 2 or Stage 3 due to improvement in credit quality; and
- loans and advances that were newly originated.

(b) Lifetime ECL Not Credit-Impaired (Stage 2) – increase of RM103.7 million and RM83.1 million respectively for the Group and the Bank, mainly due to:

- loans and advances that migrated to Stage 2 from Stage 1 primarily from refinements to the stage transfer criteria during the year and deterioration in credit quality; partially offset by
- loans and advances that were derecognised due to full settlement.

9. LOANS, ADVANCES AND FINANCING (CONTINUED)

Impact of movements in gross carrying amount of loans, advances and financing on allowance for loans, advances and financing (continued)

Overall, the total allowance for impairment on loans, advances and financing for the Group and the Bank decreased by RM50.5 million and RM32.2 million respectively, due to the following (continued):

(c) Lifetime ECL Credit-Impaired (Stage 3) – decrease of RM38.8 million and RM10.5 million respectively for the Group and the Bank, mainly due to:

- loans and advances that were written off; and
- loans and advances that migrated to Stage 1 or Stage 2 due to improvement in credit quality; partially offset by
- loans and advances that migrated into Stage 3 due to deterioration in credit quality.

10. OTHER ASSETS

		Group		Bank	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Deferred handling fees	(i)	**234,967**	226,549	**196,046**	178,288
Interest/Income receivable		**42,896**	53,356	**6,073**	7,889
Other receivables, deposits and prepayments		**1,005,633**	1,106,278	**767,756**	969,935
Collateral pledged for derivative transactions		**192,877**	118,620	**192,877**	118,620
Employee benefits	11	**48,430**	327,462	**47,633**	322,256
Amount due from trust funds	(ii)	**230,324**	206,628	**–**	–
Foreclosed properties#		**177,617**	125,622	**161,053**	117,987
Outstanding contracts on clients' accounts@	(iii)	**214,656**	229,372	**–**	–
Amount due from subsidiary companies	(iv)	**–**	–	**47,711**	39,521
Distribution receivable from collective investments	44(b)	**–**	–	**31,618**	31,772
Dividend receivable from subsidiary companies	44(b)	**–**	–	**750,125**	580,496
		2,147,400	2,393,887	**2,200,892**	2,366,764
# Stated net of accumulated allowance for impairment loss		**39,624**	40,389	**38,086**	39,112
@ Stated net of accumulated allowance for bad and doubtful debts		**–**	1,243	**–**	–

(i) This represents the unamortised balance of handling fees paid to motor vehicle dealers for hire purchase loans/financing.

(ii) This balance refers to amount due from trust funds managed by the fund management subsidiary company in respect of cancellation and creation of trust units. It also includes management fee receivable from trust funds.

(iii) This balance represents outstanding purchase contracts in respect of the stock-broking business of the subsidiary companies entered into on behalf of clients where settlements have yet to be made by clients.

(iv) These balances are unsecured, non-interest bearing and are repayable on demand.

11. EMPLOYEE BENEFITS

Defined Benefit Plan

The Bank and certain subsidiary companies contribute 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 Group 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 certain subsidiary companies 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 2018 by Actuarial Partners Consulting Sdn. Bhd.

As at 31 December 2019, the plan is in surplus of RM48,430,000 (31 December 2018: RM327,462,000) and no contributions are required to be made to the plan in the forthcoming financial year by the participating subsidiary companies and the Bank. However, should there be a significant fall in value of the asset portfolio of the plan, an actuarial valuation will be conducted to re-assess the funding requirement.

The assets of the Fund are held separately from the assets of the Group and 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 and the remaining two (2) trustees are members of senior management of the Bank.

The defined benefit plan exposes the Group and the Bank to actuarial risks such as market (investment) risk, interest rate risk and salary risk. Market risk arises from investments delivering an inadequate return; changes in interest rate would affect the cost of borrowings 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 30% of investment properties, 20% to 25% of government securities and 45% to 60% in a combination of equities, unit trusts and cash.

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

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

		Group		Bank	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Present value of funded obligations		**(1,197,152)**	(1,160,420)	**(1,178,144)**	(1,141,969)
Fair value of plan assets		**1,245,582**	1,487,882	**1,225,777**	1,464,225
Net assets	10	**48,430**	327,462	**47,633**	322,256

11. EMPLOYEE BENEFITS (CONTINUED)

Defined Benefit Plan (continued)

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Obligation at 1 January	**1,160,420**	1,074,594	**1,141,969**	1,058,582
Recognised in profit or loss				
– current service cost	**67,513**	57,194	**66,439**	56,285
– interest cost	**54,104**	58,911	**53,245**	57,974
– allocation adjustment	**–**	–	**–**	(1,075)
Benefits paid – the Fund	**(177,843)**	(45,233)	**(175,016)**	(44,514)
Remeasurements recognised in other comprehensive income				
– effects of changes in demographic assumptions	**–**	26,420	**–**	26,000
– effects of changes in financial assumptions	**92,958**	30,825	**91,507**	30,335
– effects of experience adjustments	**–**	(42,291)	**–**	(41,618)
Obligation at 31 December	**1,197,152**	1,160,420	**1,178,144**	1,141,969

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Fair value at 1 January	**1,487,882**	1,378,991	**1,464,225**	1,358,444
Recognised in profit or loss				
– interest income	**71,459**	75,957	**70,324**	74,749
– allocation adjustment	**–**	–	**–**	(713)
Benefits paid – the Fund	**(177,843)**	(45,233)	**(175,016)**	(44,514)
Remeasurements recognised in other comprehensive income				
– remeasurements on plan assets	**(135,916)**	78,167	**(133,756)**	76,925
– allocation adjustment	**–**	–	**–**	(666)
Fair value at 31 December	**1,245,582**	1,487,882	**1,225,777**	1,464,225

11. EMPLOYEE BENEFITS (CONTINUED)

Defined Benefit Plan (continued)

The fair value of plan assets constitutes the following:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Deposit placements and cash	**15**	32	**15**	31
Government securities	**553,275**	575,828	**544,478**	566,673
Unquoted corporate bonds	**307,804**	304,164	**302,910**	299,327
Quoted equity securities[1]	**940,371**	1,073,826	**925,419**	1,056,753
Unit trust funds[2]	**103,429**	92,359	**101,784**	90,891
Properties[3]	**807,429**	779,416	**794,590**	767,023
Plan assets (gross)	**2,712,323**	2,825,625	**2,669,196**	2,780,698
Other liabilities (net)	**(11,938)**	(8,197)	**(11,747)**	(8,067)
Borrowings	**(1,454,803)**	(1,329,546)	**(1,431,672)**	(1,308,406)
	1,245,582	1,487,882	**1,225,777**	1,464,225

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Financial institutions*	**564,158**	718,149	**555,188**	706,731
Insurance companies	**283,359**	295,369	**278,853**	290,673
Property companies	**92,833**	60,288	**91,357**	59,329
Commercial/trading companies	**21**	20	**21**	20
	940,371	1,073,826	**925,419**	1,056,753

* Included in the fair value of equity securities of the Fund are ordinary shares of the Bank with a fair value of RM562,134,000 (2018 – RM715,970,000).

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Equity funds	**93,018**	82,319	**91,539**	81,010
Dividend funds	**10,411**	10,040	**10,245**	9,881
	103,429	92,359	**101,784**	90,891

11. EMPLOYEE BENEFITS (CONTINUED)

Defined Benefit Plan (continued)

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Terraced shop offices	**756,469**	729,656	**744,440**	718,055
Stratified office lots	**29,870**	29,670	**29,395**	29,198
Commercial buildings	**19,650**	18,730	**19,338**	18,432
Residential buildings	**1,440**	1,360	**1,417**	1,338
	807,429	779,416	**794,590**	767,023

* All the properties held as plan assets of the Group and of the Bank are occupied by the Bank and certain subsidiary companies of the Bank. Certain floors in the commercial buildings and terraced shop offices are tenanted by external parties of which they contributed about 1.3% (2018: 1.5%) of the total rental income from properties.

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

		Group		Bank	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Current service cost		**67,513**	57,194	**66,439**	56,285
Interest cost		**54,104**	58,911	**53,245**	57,974
Interest income		**(71,459)**	(75,957)	**(70,324)**	(74,749)
Allocation adjustment		**–**	–	**–**	(362)
Amount included under "personnel costs"	37(a)	**50,158**	40,148	**49,360**	39,148

Actual return on plan assets is as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Interest income on plan assets	**71,459**	75,957	**70,324**	74,749
Remeasurements on plan assets	**(135,916)**	78,167	**(133,756)**	76,925
Allocation adjustment	**–**	–	**–**	(1,379)
Actual return on plan assets	**(64,457)**	154,124	**(63,432)**	150,295

11. 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:

	Group and Bank	
	2019	**2018**
Discount rate	**4.50%**	5.30%
Expected rate of salary increases	**7.00%**	7.00%

The discount rate used in the actuarial assumptions is based on a blend of yields of long term high quality corporate bonds. 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 2018 with the updated assumptions as at 31 December 2019.

As at 31 December 2019, the weighted average duration of the defined benefit obligation was 10.0 years.

(ii) Sensitivity Analysis

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

	2019		2018	
	Sensitivity		Sensitivity	
	+1% RM'000	-1% RM'000	+1% RM'000	-1% RM'000
Group				
(Decrease)/Increase in present value of funded obligations:				
– Discount rate	**(114,446)**	**134,226**	(106,064)	102,426
– Expected salary	**140,248**	**(121,925)**	97,662	(104,133)
Bank				
(Decrease)/Increase in present value of funded obligations:				
– Discount rate	**(112,626)**	**132,092**	(104,378)	100,797
– Expected salary	**138,018**	**(119,986)**	96,109	(102,477)

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.

12. STATUTORY DEPOSITS WITH CENTRAL BANKS

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Bank Negara Malaysia	**8,763,996**	9,153,911	**6,924,591**	7,230,019
Other central banks	**1,280,189**	1,125,316	**28,683**	28,433
	10,044,185	10,279,227	**6,953,274**	7,258,452

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

The statutory deposits of the overseas subsidiary companies and overseas branches are denominated in foreign currencies and are maintained with the central banks of the respective countries, in compliance with the applicable legislations in the respective countries.

13. DEFERRED TAX

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
At 1 January				
– as previously stated	**(60,574)**	(96,309)	**(84,502)**	(143,643)
– effects of changes in accounting policies (Note 55)	**83,310**	–	**83,007**	–
At 1 January, as restated	**22,736**	(96,309)	**(1,495)**	(143,643)
Recognised in profit or loss (net) (Note 41)				
– relating to changes in tax rate	**(4,983)**	–	**–**	–
– relating to origination and reversal of temporary differences	**41,659**	55,808	**37,255**	76,945
– over provision of net deferred tax assets/under provision of net deferred tax liabilities	**(13,503)**	(6,886)	**(13,367)**	(6,766)
Recognised in equity (net) (Note 31)	**(19,107)**	(12,794)	**(11,086)**	(11,038)
Exchange differences	**(311)**	(393)	**–**	–
At 31 December	**26,491**	(60,574)	**11,307**	(84,502)

13. DEFERRED TAX (CONTINUED)

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

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Deferred tax assets, net	**83,484**	81,374	**11,307**	–
Deferred tax liabilities, net	**(56,993)**	(141,948)	**–**	(84,502)
	26,491	(60,574)	**11,307**	(84,502)

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

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Deferred tax assets	**277,902**	165,640	**177,064**	84,432
Deferred tax liabilities	**(251,411)**	(226,214)	**(165,757)**	(168,934)
	26,491	(60,574)	**11,307**	(84,502)

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

Deferred tax assets of the Group	**Allowance for Losses on Loans and Financing RM'000**	**Other Temporary Differences* RM'000**	**Total RM'000**
At 1 January 2018	33,016	75,359	108,375
Recognised in profit or loss (Note 41)			
– relating to origination and reversal of temporary differences	11,749	50,078	61,827
– over provision	–	(4,537)	(4,537)
Exchange differences	(21)	(4)	(25)
At 31 December 2018, as previously stated	44,744	120,896	165,640
– effects of changes in accounting policies (Note 55)	**–**	**86,984**	**86,984**
At 1 January 2019, as restated	**44,744**	**207,880**	**252,624**
Recognised in profit or loss (Note 41)			
– relating to origination and reversal of temporary differences	**1,550**	**36,637**	**38,187**
– over provision	**(7,454)**	**(5,037)**	**(12,491)**
Exchange differences	**(348)**	**(70)**	**(418)**
At 31 December 2019	**38,492**	**239,410**	**277,902**

* Mainly consist of temporary differences in respect of provision for other operating expenses.

13. 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 of the Group	Defined Benefit Assets RM'000	Revaluation Reserves RM'000	Excess of Capital Allowances Over Depreciation RM'000	Hedging Reserves RM'000	Other Temporary Differences# RM'000	Total RM'000
At 1 January 2018	72,680	30,528	75,263	2,954	23,259	204,684
Recognised in profit or loss (Note 41)						
– relating to origination and reversal of temporary differences	(9,587)	–	7,375	–	8,231	6,019
– under provision	–	–	2,349	–	–	2,349
Recognised in equity (Note 31)	15,139	(13,311)	–	10,966	–	12,794
Exchange differences	–	–	366	–	2	368
At 31 December 2018, as previously stated	78,232	17,217	85,353	13,920	31,492	226,214
– effects of changes in accounting policies (Note 55)	**–**	**–**	**–**	**–**	**3,674**	**3,674**
At 1 January 2019, as restated	**78,232**	**17,217**	**85,353**	**13,920**	**35,166**	**229,888**
Recognised in profit or loss (Note 41)						
– relating to changes in tax rate	**–**	**–**	**–**	**–**	**4,983**	**4,983**
– relating to origination and reversal of temporary differences	**(12,017)**	**–**	**2,782**	**–**	**5,763**	**(3,472)**
– under/(over) provision	**–**	**–**	**1,047**	**–**	**(35)**	**1,012**
Recognised in equity (Note 31)	**(54,817)**	**94,776**	**–**	**(20,852)**	**–**	**19,107**
Exchange differences	**–**	**–**	**(107)**	**–**	**–**	**(107)**
At 31 December 2019	**11,398**	**111,993**	**89,075**	**(6,932)**	**45,877**	**251,411**

Mainly consist of temporary differences in respect of gain on revaluation of investment properties.

13. 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 assets of the Bank	Allowance for Losses on Loans RM'000	Other Temporary Differences* RM'000	Total RM'000
At 1 January 2018	–	27,104	27,104
Recognised in profit or loss (Note 41)			
– relating to origination and reversal of temporary differences	11,547	50,206	61,753
– over provision	–	(4,425)	(4,425)
At 31 December 2018, as previously stated	11,547	72,885	84,432
– effects of changes in accounting policies (Note 55)	**–**	**83,007**	**83,007**
At 1 January 2019, as restated	**11,547**	**155,892**	**167,439**
Recognised in profit or loss (Note 41)			
– relating to origination and reversal of temporary differences	**10,202**	**11,735**	**21,937**
– over provision	**(7,288)**	**(5,024)**	**(12,312)**
At 31 December 2019	**14,461**	**162,603**	**177,064**

* Mainly consist of temporary differences in respect of provision for other operating expenses.

Deferred tax liabilities of the Bank	Defined Benefit Assets RM'000	Revaluation Reserves RM'000	Excess of Capital Allowances Over Depreciation RM'000	Hedging Reserves RM'000	Other Temporary Differences RM'000	Total RM'000
At 1 January 2018	71,748	29,128	57,091	7,796	4,984	170,747
Recognised in profit or loss (Note 41)						
– relating to origination and reversal of temporary differences	(9,368)	–	(5,799)	–	(25)	(15,192)
– under provision	–	–	2,341	–	–	2,341
Recognised in equity (Note 31)	14,770	(14,655)	–	10,923	–	11,038
At 31 December 2018	77,150	14,473	53,633	18,719	4,959	168,934
Recognised in profit or loss (Note 41)						
– relating to origination and reversal of temporary differences	**(11,851)**	**–**	**(3,390)**	**–**	**(77)**	**(15,318)**
– under provision	**–**	**–**	**1,055**	**–**	**–**	**1,055**
Recognised in equity (Note 31)	**(54,063)**	**68,802**	**–**	**(3,653)**	**–**	**11,086**
At 31 December 2019	**11,236**	**83,275**	**51,298**	**15,066**	**4,882**	**165,757**

13. DEFERRED TAX (CONTINUED)

Deferred tax assets have not been recognised in respect of the following items as it is not probable that the respective subsidiary companies will generate sufficient future taxable profits available against which these can be utilised:

	Group	
	2019 RM'000	2018 RM'000
Unutilised tax losses	**5,098**	18,107
Unutilised capital allowances	**22,963**	22,963

Subject to the agreement by the relevant tax authorities, the Group has unabsorbed tax losses and unabsorbed capital allowances carried forward of RM5,098,000 (2018 – RM18,107,000) and RM22,963,000 (2018 – RM22,963,000) respectively which give rise to the recognised and unrecognised deferred tax assets in respect of the above unutilised tax losses and unutilised capital allowances.

14. COLLECTIVE INVESTMENTS

Details of the collective investments of the Bank are as follows:

			Effective Interest	
Name of Funds	Principal Activities	Place of Incorporation	2019 %	2018 %
Public Institutional Bond Fund	Bond fund	Malaysia	**100.0**	100.0
Public Wholesale Income Fund	Wholesale income fund	Malaysia	**100.0**	100.0
Public Islamic Wholesale Income Fund	Wholesale income fund	Malaysia	**100.0**	100.0

The collective investments have been consolidated in accordance with MFRS 10 Consolidated Financial Statements.

15. INVESTMENT IN SUBSIDIARY COMPANIES

	2019		2018	
Bank	Cost RM'000	Market Value RM'000	Cost RM'000	Market Value RM'000
At cost:				
Quoted shares outside Malaysia				
– Quoted shares in Hong Kong SAR	**1,672,195**	**1,343,970**	1,672,195	1,367,477
Unquoted shares				
– In Malaysia	**3,330,611**		3,330,611	
– Outside Malaysia	**1,491,918**		953,118	
	6,494,724		5,955,924	
Less: Accumulated impairment losses	**(430)**		(430)	
	6,494,294		5,955,494	

15. INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

Details of the subsidiary companies are as follows:

Name	Principal Activities	Effective Interest 2019 %	Effective Interest 2018 %
Local subsidiary companies			
Public Islamic Bank Berhad	Islamic banking	**100.0**	100.0
Public Investment Bank Berhad	Investment banking	**100.0**	100.0
Public Invest Nominees (Tempatan) Sdn. Bhd.	Nominee services	**100.0**	100.0
Public Invest Nominees (Asing) Sdn. Bhd.	Nominee services	**100.0**	100.0
Public Consolidated Holdings Sdn. Bhd.	Investment holding	**100.0**	100.0
Public Mutual Berhad	Sale and management of unit trust funds and private retirement schemes	**100.0**	100.0
Public Holdings Sdn. Bhd.	Property holding	**100.0**	100.0
Public Nominees (Tempatan) Sdn. Bhd.	Nominee services	**100.0**	100.0
Public Nominees (Asing) Sdn. Bhd.	Nominee services	**100.0**	100.0
Public Bank (L) Ltd.	Offshore banking	**100.0**	100.0
PB Trust (L) Ltd.	Offshore trust company	**100.0**	100.0
PB Trustee Services Berhad	Trustee services	**100.0**	100.0
PB Venture Capital Sdn. Bhd.	Investment holding	**100.0**	100.0
Public Leasing & Factoring Sdn. Bhd.	Leasing and factoring	**100.0**	100.0
PB International Factors Sdn. Bhd.	Investment holding	**100.0**	100.0
PBFIN Berhad	Special purpose vehicle to issue subordinated notes under its holding company's Stapled Securities Programme	**100.0**	100.0
Overseas subsidiary companies			
Cambodian Public Bank Plc++	Banking	**100.0**	100.0
Campu Securities Plc++	Securities dealing and underwriting	**100.0**	100.0
Campu Lonpac Insurance Plc++	General insurance	**55.0**	55.0
Public Financial Holdings Limited+*	Investment and property holding	**73.2**	73.2
Public Bank (Hong Kong) Limited+	Banking	**73.2**	73.2
Public Finance Limited+	Deposit-taking and finance	**73.2**	73.2
Public Financial Limited+	Investment holding	**73.2**	73.2
Public Securities Limited+	Stock and share broking	**73.2**	73.2
Public Securities (Nominees) Limited+	Nominee services	**73.2**	73.2
Public Financial Securities Limited+	Stock and share broking	**73.2**	73.2
Public Bank (Nominees) Limited+	Nominee services	**73.2**	73.2
Public Futures Limited+	Dormant	**73.2**	73.2
Public Credit Limited+	In members' voluntary liquidation	**–**	73.2
Public Pacific Securities Limited+	In members' voluntary liquidation	**–**	73.2
Winton (B.V.I.) Limited+	Investment holding	**73.2**	73.2
Winton Financial Limited+	Provision of financing	**73.2**	73.2
Winton Motors, Limited+	Trading of taxi cabs and taxi licences, and leasing of taxis	**73.2**	73.2
Public Bank Vietnam Limited#	Banking	**100.0**	100.0

15. INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

Details of the subsidiary companies are as follows (continued):

* Shares quoted on The Stock Exchange of Hong Kong Limited.
+ Subsidiary companies audited by Ernst & Young Hong Kong.
++ Subsidiary companies audited by Ernst & Young Cambodia.
# Subsidiary company audited by Ernst & Young Vietnam.

All the local subsidiary companies are incorporated in Malaysia. All the overseas subsidiary companies are incorporated in Hong Kong SAR except for Public Financial Holdings Limited which is incorporated in Bermuda, Cambodian Public Bank Plc, Campu Securities Plc and Campu Lonpac Insurance Plc which are incorporated in Cambodia, Winton (B.V.I.) Limited which is incorporated in the British Virgin Islands, and Public Bank Vietnam Limited which is incorporated in Socialist Republic of Vietnam.

Public Credit Limited and Public Pacific Securities Limited which were dormant and 73.2% owned indirect subsidiary companies of the Bank, commenced Members' Voluntary Winding-up on 30 April 2019. The winding-up proceedings have no material effect on the earnings and net assets of the Group for the year ended 31 December 2019.

During the year, the Bank injected additional capital of VND3.0 trillion (RM538,800,000 equivalent) into its wholly-owned subsidiary company, Public Bank Vietnam Ltd for business expansion.

There are no significant restrictions on the ability of the subsidiary companies to transfer funds to the Group in the form of cash dividends or repayment of loans and advances. Generally, for all subsidiary companies which are not wholly-owned by the Bank, non-controlling shareholders hold protective rights restricting the Bank's ability to use the assets of the subsidiary companies and settle the liabilities of the Group, unless approval is obtained from non-controlling shareholders.

The Bank's subsidiary companies which have non-controlling interests are not material individually or in aggregate to the financial position, financial performance and cash flows of the Group.

16. INVESTMENT IN ASSOCIATED COMPANIES

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Unquoted shares, at cost	**90,010**	90,010	**45,000**	45,000
Share of post-acquisition reserves	**(14,930)**	(19,594)	**–**	–
	75,080	70,416	**45,000**	45,000
Represented by:				
Group's share of net assets	**75,080**	70,416		

The summarised financial information of associated companies is as follows:

	Group	
	2019 RM'000	**2018 RM'000**
Total assets	**1,709,047**	1,272,826
Total liabilities	**1,474,869**	1,038,198
Operating revenue	**1,082,102**	797,504
(Loss)/Profit after tax	**(4,120)**	18,070
Total comprehensive income	**400**	18,162

16. INVESTMENT IN ASSOCIATED COMPANIES (CONTINUED)

Details of the associated companies, all of which are unquoted, are as follows:

			Effective Interest	
Name	Principal Activities	Place of Incorporation	2019 %	2018 %
AIA PUBLIC Takaful Berhad	Family takaful	Malaysia	**30.0**	30.0
CPB Properties Co., Ltd.	Property holding	Cambodia	**49.0**	49.0

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

The Group's associated companies are not material individually or in aggregate to the financial position, financial performance and cash flows of the Group.

17. INVESTMENT PROPERTIES

		Group	
	Note	2019 RM'000	2018 RM'000
At fair value			
At 1 January		**719,207**	688,052
Net transfer to owner-occupied property		**(11,008)**	(22,290)
– Right-of-use assets	18(i)(a)	**(10,428)**	–
– Property and equipment	19	**(580)**	(22,290)
Reversal of over provision		**(4,320)**	(24,000)
Fair valuation gain recognised in profit or loss	36	**50,387**	49,035
Fair valuation gain recognised in other comprehensive income		**2,093**	–
Addition		**–**	24,892
Disposals		**(2,200)**	–
Exchange differences		**(1,064)**	3,518
At 31 December		**753,095**	719,207
Included in the above are:			
Freehold land and building		**546,450**	533,850
Short term leasehold land and building		**195,164**	157,517
Long term leasehold land and building		**11,481**	27,840
		753,095	719,207

The Group's investment properties are stated at fair value and are situated in Malaysia and Hong Kong SAR. The investment properties in Malaysia amounting to RM547,400,000 (2018 – RM536,600,000) have been determined with reference to quotations of market value provided by an independent professional valuer, Raine & Horne International Zaki + Partners Sdn Bhd. The investment properties in Hong Kong SAR amounting to RM205,695,000 (2018 – RM182,607,000) have been revalued by CS Surveyors Limited, a firm of independent professionally qualified valuers, on an open market value based on their existing use. The Group has assessed that the highest and best use of its properties do not differ from their existing use. The increase in the fair values of RM50,387,000 (2018 – RM49,035,000) has been recognised in profit or loss during the year.

17. INVESTMENT PROPERTIES (CONTINUED)

The investment properties held by the Group are let under operating leases to third parties, from which the Group earned rental income of RM15,981,000 (2018 – 15,813,000) (Note 36) during the year.

No investment properties were pledged as security for banking facilities at the reporting date.

18. LEASES

(i) As a Lessee

The Group and the Bank lease various assets including leasehold land, land and buildings and computer equipment and software. Information about leases for which the Group and the Bank are the lessees is presented below:

(a) Right-of-use assets

Group 2019	Short term leasehold land RM'000	Long term leasehold land RM'000	Land and Buildings RM'000	Computer Equipment & Software RM'000	Total RM'000
At 1 January 2019					
– as previously stated	–	–	–	–	–
– effects of changes in accounting policies (Note 55)	107,893	239,470	995,685	90,488	1,433,536
At 1 January 2019, as restated	107,893	239,470	995,685	90,488	1,433,536
Additions	–	–	218,934	–	218,934
Depreciation charge for the year (Note 37(a))	(3,624)	(670)	(111,223)	(51,708)	(167,225)
Transfer (to)/from investment properties (Note 17)	(1,124)	11,552	–	–	10,428
Remeasurements	–	–	(66,415)	–	(66,415)
Exchange differences	(502)	(1,115)	(481)	–	(2,098)
At 31 December 2019	102,643	249,237	1,036,500	38,780	1,427,160

Bank 2019	Long term leasehold land RM'000	Land and Buildings RM'000	Computer Equipment & Software RM'000	Total RM'000
At 1 January 2019				
– as previously stated	–	–	–	–
– effects of changes in accounting policies (Note 55)	115	1,249,465	90,488	1,340,068
At 1 January 2019, as restated	115	1,249,465	90,488	1,340,068
Additions	–	192,560	–	192,560
Depreciation charge for the year (Note 37(a))	(1)	(88,941)	(51,708)	(140,650)
Remeasurements	–	(69,457)	–	(69,457)
At 31 December 2019	114	1,283,627	38,780	1,322,521

18. LEASES (CONTINUED)

(i) As a Lessee (continued)

The Group and the Bank lease various assets including leasehold land, land and buildings and computer equipment and software. Information about leases for which the Group and the Bank are the lessees is presented below (continued):

(b) Lease liabilities

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

	Group	Bank
	2019 RM'000	2019 RM'000
Within one year	119,162	147,896
Between one and five years	393,015	441,532
More than five years	954,802	1,343,558
	1,466,979	1,932,986
Lease liabilities included in the statement of financial position	1,087,808	1,344,637

(c) Amount recognised in the profit or loss

	Note	Group	Bank
		2019 RM'000	2019 RM'000
Depreciation charge of right-of-use assets			
– Leasehold land		4,294	1
– Land and buildings		111,223	88,941
– Computer equipment & software		51,708	51,708
	18(i)(a)	167,225	140,650
Interest expense		46,144	58,824
Financing expense		810	–
		46,954	58,824
Variable lease payments not included in the measurement of lease liabilities (included in marketing expenses)		2,482	2,482

18. LEASES (CONTINUED)

(i) As a Lessee (continued)

The Group and the Bank lease various assets including leasehold land, land and buildings and computer equipment and software. Information about leases for which the Group and the Bank are the lessees is presented below (continued):

(c) Amount recognised in the profit or loss (continued)

	Group	Bank
	2019 RM'000	2019 RM'000
Expenses relating to leases with a remaining term of twelve months or less from the date of application of MFRS 16 not recognised in the measurement of lease liabilities (included in establishment costs)	116	–

(d) Amount recognised in the statement of cash flows

	Group	Bank
Total cash outflow for leases	(131,159)	(99,395)

(e) Leasing activities

Real estate leases

The Group and the Bank lease various premises from which it conducts business. Rental contracts are typically made for fixed periods of 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 18(i)(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 are either non-cancellable or may only be cancelled by giving 2 or 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% and 10% for most of the lease contracts.

Computer equipment and software

The Bank leases computer equipment and software under finance lease. At the end of the lease term, the Bank has the option to acquire the assets at a nominal price deemed to be a bargain purchase option. There are no restrictive covenants imposed by the lease agreement and no arrangements have been entered into for contingent rental payments. These assets are presented in right-of-use assets upon adoption of MFRS 16 on 1 January 2019.

Gateway server and electronic terminal with variable lease payments based on usage

The Bank had lease agreements with certain vendors to provide gateway server and electronic terminal to facilitate the acceptance of digital wallet which contain variable lease payments that are based on number of usage and the number of terminals being leased during the period.

The Bank has elected not to recognise right-of-use assets and lease liabilities for these leases. Payments made under these leases are expensed as incurred and recognised in the profit or loss as marketing expenses as disclosed in Note 18(i)(c) above.

18. LEASES (CONTINUED)

(i) As a Lessee (continued)

The Group and the Bank lease various assets including leasehold land, land and buildings and computer equipment and software. Information about leases for which the Group and the Bank are the lessees is presented below (continued):

(e) Leasing activities (continued)

Other leases

The Group and 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 Group's and the Bank's premises contain extension options exercisable by the Group and the Bank and not by the lessors. The Group and the Bank assess at lease commencement whether it is reasonably certain to exercise the extension options. The Group and the Bank reassess 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, because the Group and the Bank are reasonably certain that the leases will be extended based on its past practice. During the current financial year, the Group and the Bank exercised the extension options for all the rental contracts that expired during the year.

(ii) As a Lessor

The Group leases out its investment properties under operating leases with the term of the leases ranging from one to five years. None of the leases includes contingent rentals.

Rental income received during the year is as disclosed in Note 36.

Total future minimum lease payments under these non-cancellable operating leases are as follows:

	Group	
	2019 RM'000	**2018 RM'000**
Within one year	**15,097**	10,706
Between one and five years	**21,923**	7,462
	37,020	18,168

The Group and the Bank do not have any leases under finance lease.

19. PROPERTY AND EQUIPMENT

Group 2019	Note	Freehold land RM'000	Short term leasehold land RM'000	Long term leasehold land RM'000	Buildings RM'000	Renovations RM'000	Office equipment, furniture & fittings RM'000	Computer equipment & software RM'000	Motor vehicles RM'000	Work-in-progress RM'000	Total RM'000
Cost											
At 1 January 2019											
– as previously stated		126,624	161,693	253,203	734,082	362,824	592,311	1,422,658	29,087	261	3,682,743
– effects of changes in accounting policies*	55	–	(161,693)	(253,203)	–	(7,665)	–	(474,552)	–	–	(897,113)
At 1 January 2019, as restated		126,624	–	–	734,082	355,159	592,311	948,106	29,087	261	2,785,630
Additions		–	–	–	314	37,700	31,040	124,619	11,446	–	205,119
Disposals		–	–	–	–	(3,197)	(4,290)	(7,141)	(3,457)	–	(18,085)
Net transfer from investment properties	17	–	–	–	515	–	–	–	–	–	515
Reclassification		–	–	–	–	(11,732)	8,401	3,589	–	(258)	–
Write-offs	37(a)	–	–	–	–	(971)	(31,101)	(104,875)	(902)	–	(137,849)
Reversal of over provision		–	–	–	(2,880)	–	–	–	–	–	(2,880)
Exchange differences		–	–	–	(1,230)	(1,458)	(665)	(1,536)	(257)	(3)	(5,149)
At 31 December 2019		126,624	–	–	730,801	375,501	595,696	962,762	35,917	–	2,827,301
Accumulated depreciation											
At 1 January 2019											
– as previously stated		–	53,800	13,700	248,303	270,932	461,030	1,041,181	21,744	–	2,110,690
– effects of changes in accounting policies*	55	–	(53,800)	(13,700)	–	(7,740)	–	(384,064)	–	–	(459,304)
At 1 January 2019, as restated		–	–	–	248,303	263,192	461,030	657,117	21,744	–	1,651,386
Depreciation charge for the year	37(a)	–	–	–	17,271	20,647	32,369	110,964	3,696	–	184,947
Disposals		–	–	–	–	(3,192)	(4,219)	(7,079)	(3,456)	–	(17,946)
Transfer to investment properties	17	–	–	–	(65)	–	–	–	–	–	(65)
Write-offs	37(a)	–	–	–	–	(899)	(30,860)	(102,397)	(841)	–	(134,997)
Exchange differences		–	–	–	(576)	(934)	(503)	(1,219)	(188)	–	(3,420)
At 31 December 2019		–	–	–	264,933	278,814	457,817	657,386	20,955	–	1,679,905
Accumulated impairment loss											
At 1 January 2019											
– as previously stated		1,064	–	33	3,757	–	–	–	–	–	4,854
– effects of changes in accounting policies*	55	–	–	(33)	–	–	–	–	–	–	(33)
At 1 January/31 December 2019, as restated		1,064	–	–	3,757	–	–	–	–	–	4,821
Carrying amounts											
At 31 December 2019		125,560	–	–	462,111	96,687	137,879	305,376	14,962	–	1,142,575

* These assets were reclassified to right-of-use assets (Note 18(i)(a)) arising from the adoption of MFRS 16 on 1 January 2019.

19. PROPERTY AND EQUIPMENT (CONTINUED)

Group 2018	Note	Freehold land RM'000	Short term leasehold land RM'000	Long term leasehold land RM'000	Buildings RM'000	Renovations RM'000	Office equipment, furniture & fittings RM'000	Computer equipment & software RM'000	Motor vehicles RM'000	Work-in-progress RM'000	Total RM'000
Cost											
At 1 January 2018		126,947	159,342	222,507	757,886	329,159	555,989	1,295,694	28,860	–	3,476,384
Additions		–	–	–	42	45,547	33,017	135,973	2,993	261	217,833
Disposals		–	–	–	–	(3,336)	(3,364)	(5,692)	(1,893)	–	(14,285)
Transfer (to)/from investment properties	17	(323)	(676)	26,685	(10,693)	–	–	–	–	–	14,993
Reclassification		–	–	–	–	(9,337)	10,741	(1,404)	–	–	–
Write-offs	37(a)	–	–	–	–	(338)	(4,515)	(6,649)	(1,006)	–	(12,508)
Reversal of over provision		–	–	–	(16,000)	–	–	–	–	–	(16,000)
Exchange differences		–	3,027	4,011	2,847	1,129	443	4,736	133	–	16,326
At 31 December 2018		126,624	161,693	253,203	734,082	362,824	592,311	1,422,658	29,087	261	3,682,743
Accumulated depreciation											
At 1 January 2018		–	49,407	12,867	237,235	255,386	438,971	890,755	22,482	–	1,907,103
Depreciation charge for the year	37(a)	–	3,571	644	16,983	18,159	29,358	158,028	1,934	–	228,677
Disposals		–	–	–	–	(3,334)	(3,349)	(5,685)	(1,893)	–	(14,261)
Transfer to investment properties	17	–	(205)	–	(7,092)	–	–	–	–	–	(7,297)
Write-offs	37(a)	–	–	–	–	(332)	(4,378)	(6,325)	(885)	–	(11,920)
Exchange differences		–	1,027	189	1,177	1,053	428	4,408	106	–	8,388
At 31 December 2018		–	53,800	13,700	248,303	270,932	461,030	1,041,181	21,744	–	2,110,690
Accumulated impairment loss											
At 1 January/31 December 2018		1,064	–	33	3,757	–	–	–	–	–	4,854
Carrying amounts											
At 31 December 2018		125,560	107,893	239,470	482,022	91,892	131,281	381,477	7,343	261	1,567,199

19. PROPERTY AND EQUIPMENT (CONTINUED)

Bank 2019	Note	Freehold land RM'000	Long term leasehold land RM'000	Buildings RM'000	Renovations RM'000	Office equipment, furniture & fittings RM'000	Computer equipment & software RM'000	Motor vehicles RM'000	Total RM'000
Cost									
At 1 January 2019									
– as previously stated		81,092	176	262,042	219,818	440,520	1,211,722	13,616	2,228,986
– effects of changes in accounting policies*	55	–	(176)	–	(7,665)	–	(474,552)	–	(482,393)
At 1 January 2019, as restated		81,092	–	262,042	212,153	440,520	737,170	13,616	1,746,593
Additions		–	–	–	17,179	18,633	91,133	5,857	132,802
Disposals		–	–	–	–	(1,805)	(5,700)	(1,962)	(9,467)
Reclassification		–	–	–	(11,990)	8,401	3,589	–	–
Write-offs	37(a)	–	–	–	(847)	(30,501)	(103,419)	(71)	(134,838)
Exchange differences		–	–	–	(452)	(96)	(319)	(47)	(914)
At 31 December 2019		81,092	–	262,042	216,043	435,152	722,454	17,393	1,734,176
Accumulated depreciation									
At 1 January 2019									
– as previously stated		–	61	120,938	167,135	328,386	889,636	11,556	1,517,712
– effects of changes in accounting policies*	55	–	(61)	–	(7,740)	–	(384,064)	–	(391,865)
At 1 January 2019, as restated		–	–	120,938	159,395	328,386	505,572	11,556	1,125,847
Depreciation charge for the year	37(a)	–	–	5,231	8,971	25,372	91,245	1,323	132,142
Disposals		–	–	–	–	(1,787)	(5,700)	(1,961)	(9,448)
Write-offs	37(a)	–	–	–	(846)	(30,300)	(101,178)	(68)	(132,392)
Exchange differences		–	–	–	(186)	(83)	(238)	(45)	(552)
At 31 December 2019		–	–	126,169	167,334	321,588	489,701	10,805	1,115,597
Carrying amounts									
At 31 December 2019		81,092	–	135,873	48,709	113,564	232,753	6,588	618,579

* These assets were reclassified to right-of-use assets (Note 18(i)(a)) arising from the adoption of MFRS 16 on 1 January 2019.

19. PROPERTY AND EQUIPMENT (CONTINUED)

Bank 2018	Note	Freehold land RM'000	Long term leasehold land RM'000	Buildings RM'000	Renovations RM'000	Office equipment, furniture & fittings RM'000	Computer equipment & software RM'000	Motor vehicles RM'000	Total RM'000
Cost									
At 1 January 2018		81,092	176	262,042	212,904	411,584	1,114,957	14,406	2,097,161
Additions		–	–	–	16,860	23,099	107,188	1,089	148,236
Disposals		–	–	–	–	(1,151)	(3,100)	(1,820)	(6,071)
Reclassification		–	–	–	(9,337)	10,741	(1,404)	–	–
Write-offs	37(a)	–	–	–	(330)	(3,531)	(4,916)	(12)	(8,789)
Exchange differences		–	–	–	(279)	(222)	(1,003)	(47)	(1,551)
At 31 December 2018		81,092	176	262,042	219,818	440,520	1,211,722	13,616	2,228,986
Accumulated depreciation									
At 1 January 2018		–	60	115,707	158,510	308,917	759,264	12,761	1,355,219
Depreciation charge for the year	37(a)	–	1	5,231	9,153	24,218	138,987	673	178,263
Disposals		–	–	–	–	(1,150)	(3,099)	(1,820)	(6,069)
Write-offs	37(a)	–	–	–	(324)	(3,452)	(4,600)	(11)	(8,387)
Exchange differences		–	–	–	(204)	(147)	(916)	(47)	(1,314)
At 31 December 2018		–	61	120,938	167,135	328,386	889,636	11,556	1,517,712
Carrying amounts									
At 31 December 2018		81,092	115	141,104	52,683	112,134	322,086	2,060	711,274

No land and buildings of the Group and of the Bank were pledged as security for banking facilities at the reporting date.

Included in property and equipment of the Group and of the Bank as at 31 December 2018 were computer equipment and software purchased under finance lease with carrying amount of RM90,488,000 which will expire in two years. This amount is now reclassified and presented as right-of-use assets from 1 January 2019 upon the adoption of MFRS 16 Leases.

Details of the nature of the finance lease arrangement are disclosed in Note 18(i)(e).

20. INTANGIBLE ASSETS

Group	Finite Useful Life Core Deposits Intangible RM'000	<--- Indefinite Useful Lives ---> Goodwill RM'000	Share-broking Licence and Stock Exchange Trading Rights RM'000	Total RM'000
At 1 January 2018	38,266	2,367,231	26,561	2,432,058
Amortisation during the year (Note 37(a))	(4,638)	–	–	(4,638)
Exchange differences	–	27,328	7	27,335
At 31 December 2018	33,628	2,394,559	26,568	2,454,755
Amortisation during the year (Note 37(a))	**(4,639)**	**–**	**–**	**(4,639)**
Exchange differences	**–**	**(7,075)**	**(2)**	**(7,077)**
At 31 December 2019	**28,989**	**2,387,484**	**26,566**	**2,443,039**
	Note (a)	<----------- Note (b)	----------->	

Bank	Goodwill RM'000
1 January/31 December 2019	**695,393**
1 January/31 December 2018	695,393

(a) Intangible Assets with Finite Useful Life

Core deposits intangible was recognised arising from the acquisition of Public Bank Vietnam Limited. The core deposits intangible is deemed to have a finite useful life of 10 years and is amortised based on a straight line method.

20. INTANGIBLE ASSETS (CONTINUED)

(b) Goodwill and Intangible Assets with Indefinite Useful Lives

For purposes of impairment assessment, goodwill and intangible assets with indefinite useful lives have been allocated to the Group's cash-generating units ("CGU"), which are either operating segments or at a level not larger than an operating segment, as follows:

As at 31 December 2019	Group RM'000	Bank RM'000	Discount rate %	Nominal growth rate beyond initial cash flow projections %
Cash-generating Unit:				
Goodwill				
Hire purchase financing	395,953	395,953	9.4	5.2
East Malaysia operations (in respect of business acquired from the former Hock Hua Bank)	299,440	299,440	8.4	5.2
Hong Kong operations	1,520,738	–	7.0	4.0
Fund management	19,555	–	8.4	5.2
Investment banking	28,053	–	9.4	5.2
Trustee services	6,242	–	8.4	5.2
Vietnam operations	117,503	–	4.4	6.7
	2,387,484	695,393		
Share-broking Licence and Stock Exchange Trading Rights				
Hong Kong operations	316	–	7.0	4.0
Investment banking	26,250	–	9.4	5.2
	26,566	–		
	2,414,050	695,393		

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20. INTANGIBLE ASSETS (CONTINUED)

(b) Goodwill and Intangible Assets with Indefinite Useful Lives (continued)

As at 31 December 2018	Group RM'000	Bank RM'000	Discount rate %	Nominal growth rate beyond initial cash flow projections %
Cash-generating Unit:				
Goodwill				
Hire purchase financing	395,953	395,953	9.5	4.6
East Malaysia operations (in respect of business acquired from the former Hock Hua Bank)	299,440	299,440	8.5	4.6
Hong Kong operations	1,527,813	–	6.9	3.4
Fund management	19,555	–	8.5	4.6
Investment banking	28,053	–	9.5	4.6
Trustee services	6,242	–	8.5	4.6
Vietnam operations	117,503	–	4.3	6.7
	2,394,559	695,393		
Share-broking Licence and Stock Exchange Trading Rights				
Hong Kong operations	318	–	6.9	3.4
Investment banking	26,250	–	9.5	4.6
	26,568	–		
	2,421,127	695,393		

Goodwill is allocated to the Group's CGUs expected to benefit from the synergies of the acquisitions. For annual impairment assessment purposes, the recoverable amount of the CGUs are based on their value-in-use. The value-in-use calculations apply a discounted cash flow model using cash flow projections based on financial forecasts approved by management. The key assumptions for the computation of value-in-use include the discount rates and growth rates applied. Discount rates used are based on the pre-tax weighted average cost of capital plus an appropriate risk premium, where applicable, at the date of assessment of the respective CGU. Cash flow projections are based on five (5) years financial budgets approved by management. Cash flows beyond the fifth (5th) year are extrapolated to fifty (50) years using a nominal long-term growth rate which does not exceed the average of the last twenty (20) years' inflation-adjusted Gross Domestic Product growth rates of the respective countries where the CGUs operate. The forecast period is based on the Group's long-term perspective with respect to the operation of these units. Impairment is recognised in profit or loss when the carrying amount of a CGU exceeds its recoverable amount.

The intangible assets with indefinite useful lives consist of a share-broking licence and stock exchange trading rights which are deemed to have indefinite useful lives as there are no expiry dates. The recoverable amount of the intangible assets have been assessed using the value-in-use method, by discounting the estimated cash flows from their CGUs. Impairment is recognised in profit or loss when the carrying amount of the CGUs exceeds their recoverable amounts.

Management believes that any reasonably possible change in the key assumptions would not cause the carrying amount of the goodwill and intangible assets to exceed the recoverable amount of the CGU. Based on this review, there is no evidence of impairment on the Group's and the Bank's goodwill and intangible assets.

21. DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
At amortised cost				
Core deposits:				
– Demand deposits	**51,106,160**	50,023,160	**40,067,724**	39,559,440
– Savings deposits	**37,733,184**	37,034,511	**25,260,085**	24,171,008
– Fixed deposits	**205,806,430**	196,788,732	**149,042,566**	146,016,093
	294,645,774	283,846,403	**214,370,375**	209,746,541
Negotiable instruments of deposit	**22,979**	133,528	**–**	108,605
Money market deposits	**58,610,421**	55,129,516	**53,845,616**	48,985,570
	58,633,400	55,263,044	**53,845,616**	49,094,175
Other deposits	**61,301**	50,445	**43,699**	36,843
	353,340,475	339,159,892	**268,259,690**	258,877,559

Certain deposits from customers of the Bank and its wholly-owned Islamic banking subsidiary company, Public Islamic Bank Berhad 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 current accounts, savings accounts and fixed deposits, inclusive of Islamic deposits. This guarantee excludes money market deposits and negotiable instruments of deposit.

Included in deposits from customers of the Group and of the Bank are deposits of RM3,458,043,000 (2018 – RM3,379,992,000) and RM2,180,658,000 (2018 – RM2,137,491,000) respectively held as collateral for loans, advances and financing.

The maturity structure of fixed deposits, negotiable instruments of deposit and money market deposits are as follows:

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Due within six months	**224,301,309**	189,847,360	**168,700,151**	148,353,579
More than six months to one year	**39,961,843**	61,487,317	**34,046,661**	46,421,532
More than one year to three years	**173,570**	713,289	**139,173**	331,729
More than three years to five years	**3,108**	3,810	**2,197**	3,428
	264,439,830	252,051,776	**202,888,182**	195,110,268

21. DEPOSITS FROM CUSTOMERS (CONTINUED)

The deposits are sourced from the following types of customers:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Federal and state governments	**7,510,524**	7,020,760	**5,155,389**	5,509,654
Local government and statutory authorities	**4,636,517**	2,983,466	**3,756,788**	2,533,549
Business enterprises	**93,749,815**	93,682,701	**74,933,430**	75,246,722
Individuals	**176,930,222**	173,496,711	**138,499,660**	133,345,386
Foreign customers	**9,821,754**	9,349,386	**4,382,060**	4,037,037
Others	**60,691,643**	52,626,868	**41,532,363**	38,205,211
	353,340,475	339,159,892	**268,259,690**	258,877,559

22. DEPOSITS FROM BANKS

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
At amortised cost				
Licensed banks	**4,714,525**	4,648,523	**3,464,138**	3,790,646
Licensed investment banks	**458,211**	144,311	**206,023**	27,265
Bank Negara Malaysia	**349,466**	428,786	**332,098**	408,387
Other financial institutions	**2,971,871**	4,261,534	**7,793,143**	8,260,765
	8,494,073	9,483,154	**11,795,402**	12,487,063

23. BILLS AND ACCEPTANCES PAYABLE

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

24. RECOURSE OBLIGATIONS ON LOANS SOLD TO CAGAMAS

This represents the proceeds received from housing loans sold directly to Cagamas Berhad with recourse to the Bank. Under these agreements, the Bank undertakes to administer the loans on behalf of Cagamas Berhad and to buy-back any loans which are regarded as defective based on prudential criteria set by Cagamas Berhad. These financial liabilities are stated at amortised cost.

25. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS

		Group		Bank	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
At amortised cost					
Borrowings	(a)	**2,898,768**	2,921,409	**2,324,394**	2,345,875
At amortised cost, modified for change in value as a result of fair value hedges					
Senior Medium Term Notes/Sukuk Murabahah	(b)	**3,319,114**	4,319,370	**2,799,252**	3,799,595
Subordinated Notes/Sukuk Murabahah	(c)	**5,999,986**	3,999,867	**4,999,986**	2,999,980
Non-Innovative Tier I stapled securities	(d)	**–**	2,096,686	**–**	2,096,686
Additional Tier I capital securities	(e)	**99,582**	99,462	**99,582**	99,462
		9,418,682	10,515,385	**7,898,820**	8,995,723
		12,317,450	13,436,794	**10,223,214**	11,341,598

Movements in debt securities issued and other borrowed funds are as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
At 1 January	**13,436,794**	12,328,073	**11,341,598**	10,759,998
Addition/Issuance				
– Borrowings	**1,619**	–	**–**	–
– Additional Tier I capital securities	**–**	99,400	**–**	99,400
– Senior Medium Term Notes/Sukuk Murabahah	**–**	2,318,840	**–**	1,799,100
– Subordinated Notes/Sukuk Murabahah	**2,500,000**	1,000,000	**2,000,000**	1,000,000
Repayment/Redemption				
– Borrowings	**–**	(3,714)	**–**	–
– Senior Medium Term Notes/Sukuk Murabahah	**(1,000,000)**	(400,000)	**(1,000,000)**	(400,000)
– Subordinated Notes/Sukuk Murabahah	**(500,000)**	(1,950,000)	**–**	(1,950,000)
– Non-Innovative Tier I stapled securities	**(2,088,000)**	–	**(2,088,000)**	–
Transaction costs	**(1,256)**	–	**(1,256)**	–
Amortisation of cost/Accretion of discount	**4,931**	5,679	**4,731**	5,388
Fair value changes	**(9,634)**	(19,882)	**(9,634)**	(19,882)
Exchange differences	**(27,004)**	58,398	**(24,225)**	47,594
	12,317,450	13,436,794	**10,223,214**	11,341,598

25. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

(a) Borrowings

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Unsecured:				
Hong Kong Dollar term loans	**574,374**	575,534	**–**	–
United States Dollar term loan	**815,697**	825,453	**815,697**	825,453
United States Dollar syndicated term loan	**1,497,287**	1,513,010	**1,497,287**	1,513,010
	2,887,358	2,913,997	**2,312,984**	2,338,463
Cumulative amortisation of transaction costs	**11,410**	7,412	**11,410**	7,412
	2,898,768	2,921,409	**2,324,394**	2,345,875

The unsecured Hong Kong Dollar term loans are maturing in 2 years and bear interest at HIBOR plus 1.40% (2018 – HIBOR plus 1.40% maturing in 3 years).

The unsecured United States Dollar term loan is maturing in 3 years and bear interest at LIBOR plus 0.80% (2018 – LIBOR plus 1.03% maturing in 1 year).

The unsecured United States Dollar syndicated term loan is maturing in 2 years and bear interest at LIBOR plus 0.93% (2018 – LIBOR plus 0.93% maturing in 3 years).

(b) Senior Medium Term Notes ("MTNs")/Sukuk Murabahah

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Issued under the RM20.0 billion Senior MTNs Programme:				
RM1,000 million due in 2019	**–**	999,500	**–**	999,500
RM1,000 million due in 2021	**999,500**	999,500	**999,500**	999,500
RM910 million due in 2023	**909,545**	909,545	**909,545**	909,545
RM890 million due in 2025	**889,555**	889,555	**889,555**	889,555
Issued under the RM5.0 billion Sukuk Murabahah Programme:				
RM520 million due in 2021	**519,740**	519,740	**–**	–
	3,318,340	4,317,840	**2,798,600**	3,798,100
Cumulative amortisation of transaction costs	**774**	903	**652**	868
Unrealised fair value loss resulting from fair value hedge	**–**	627	**–**	627
	3,319,114	4,319,370	**2,799,252**	3,799,595

25. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

(b) Senior Medium Term Notes ("MTNs")/Sukuk Murabahah (continued)

Senior MTNs issued by the Bank

The Senior MTNs issued by the Bank is under a Senior MTNs Programme of up to RM20.0 billion in nominal value. The tenure of the Senior MTNs Programme will be up to thirty (30) years from the date of first issuance. Each issuance of the Senior MTNs shall have a tenure of more than one (1) year provided that the Senior MTNs shall mature on or prior to the expiry of the Senior MTNs Programme. Each issuance will bear interest at a rate to be determined prior to the issuance, payable semi-annually in arrears.

During the year, the Bank redeemed a total of RM1,000 million in nominal value of Senior MTNs on the maturity dates.

The interest rates for the Senior MTNs above range between 4.22% and 4.60% (2018: ranging between 4.20% and 4.60%) per annum.

Senior Sukuk Murabahah

The Senior Sukuk Murabahah issued by the Bank's wholly owned subsidiary company, Public Islamic Bank Berhad ("PIBB") is under a Sukuk Murabahah Programme which is for the purpose of facilitating 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 will be up to thirty (30) years from the date of first issuance. 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 interest at a rate to be determined prior to the issuance, payable semi-annually in arrears.

The Senior Sukuk Murabahah bear profit at 4.30% per annum.

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

(c) Subordinated Notes/Sukuk Murabahah

		Note	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
(i)	Issued under the RM10.0 billion Basel III – Compliant Tier II Subordinated Medium Term Notes Programme:					
	Fourth tranche: RM2,000 million 4.85% Subordinated Notes 2027/2022	(a)	**1,999,970**	1,999,970	**1,999,970**	1,999,970
	Fifth tranche: RM1,000 million 4.70% Subordinated Notes 2028/2023	(b)	**1,000,000**	1,000,000	**1,000,000**	1,000,000
	Sixth tranche: RM1,500 million 3.90% Subordinated Notes 2029/2024	(c)	**1,500,000**	–	**1,500,000**	–
	Seventh tranche: RM500 million 3.72% Subordinated Notes 2029/2024	(d)	**500,000**	–	**500,000**	–
	Cumulative amortisation of transaction costs		**16**	10	**16**	10
			4,999,986	2,999,980	**4,999,986**	2,999,980

25. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

(c) Subordinated Notes/Sukuk Murabahah (continued)

		Note	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
(ii)	Issued under the RM5.0 billion Sukuk Murabahah Programme:					
	First tranche: RM500 million 4.75% Subordinated Sukuk Murabahah 2024/2019	(a)	**–**	498,715	**–**	–
	Second tranche: RM500 million 4.65% Subordinated Sukuk Murabahah 2027/2022	(b)	**500,000**	500,000	**–**	–
	Third tranche: RM500 million 3.75% Subordinated Sukuk Murabahah 2029/2024	(c)	**500,000**	–	**–**	–
	Cumulative amortisation of transaction costs		**–**	1,172	**–**	–
			1,000,000	999,887	**–**	–
			5,999,986	3,999,867	**4,999,986**	2,999,980

(i) Issued under the RM10.0 billion Basel III – Compliant Tier II Subordinated Medium Term Notes Programme

The Bank obtained approval from Bank Negara Malaysia ("BNM") and the Securities Commission vide their letters dated 14 June 2013 and 10 July 2013 respectively, to establish a Basel III – Compliant Tier II Subordinated Medium Term Notes Programme ("the Basel III – Compliant MTNs Programme") of up to RM10.0 billion in nominal value. The tenure of the Basel III – Compliant MTNs Programme will be up to thirty (30) years, with the tenure for each issuance not less than five (5) years from the issue date, and callable not earlier than five (5) years prior to the relevant maturity date of each issuance. Each issuance will bear interest at a rate to be determined prior to the issuance, payable semi-annually in arrears.

The Notes will, subject to the prior consent of BNM, be redeemable in whole but not 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 Notes will no longer fully qualify as Tier II Capital for the purposes of BNM's capital adequacy requirements or on the first call date or at any subsequent interest payment date thereafter at their nominal amount.

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

The Bank has issued the following tranches of Subordinated Notes:

(a) On 25 April 2017, the Bank issued the fourth tranche of RM2,000 million in aggregate nominal amount of Subordinated Notes due in 2027 callable in 2022. The Notes bear interest at the rate of 4.85% per annum.

(b) On 29 October 2018, the Bank issued the fifth tranche of RM1,000 million in aggregate nominal amount of Subordinated Notes due in 2028 callable in 2023. The Notes bear interest at the rate of 4.70% per annum.

(c) On 29 July 2019, the Bank issued the sixth tranche of RM1,500 million in aggregate nominal amount of Subordinated Notes due in 2029 callable in 2024. The Notes bear interest at the rate of 3.90% per annum.

(d) On 18 December 2019, the Bank issued the seventh tranche of RM500 million in aggregate nominal amount of Subordinated Notes due in 2029 callable in 2024. The Notes bear interest at the rate of 3.72% per annum.

25. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

(c) Subordinated Notes/Sukuk Murabahah (continued)

(ii) Issued under the RM5.0 billion Sukuk Murabahah Programme

The Bank's wholly-owned Islamic banking subsidiary company, Public Islamic Bank Berhad ("PIBB") 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. 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 PIBB 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.

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

PIBB has issued the following tranches of Subordinated Sukuk Murabahah:

(a) On 9 June 2014, PIBB issued the first tranche of RM500 million in nominal value of Subordinated Sukuk Murabahah due in 2024 callable in 2019. The Subordinated Sukuk Murabahah bear profit at the rate of 4.75% per annum. The Subordinated Sukuk Murabahah were fully redeemed on 10 June 2019 together with accrued profit.

(b) On 3 August 2017, PIBB 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.

(c) On 31 October 2019, PIBB 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 Notes/Sukuk Murabahah constitute unsecured liabilities/obligations of the Bank and PIBB respectively, 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 and PIBB, other than the Additional Tier I capital securities and Non-Innovative Tier I Stapled Securities, which are subordinated to the Subordinated Notes/Sukuk Murabahah, in accordance with the terms and conditions of the Subordinated Notes/Sukuk Murabahah.

25. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

(d) Non-Innovative Tier I Stapled Securities

		Group and Bank	
	Note	2019 RM'000	2018 RM'000
Issued under the RM5.0 billion Non-Innovative Tier I Stapled Securities Programme:			
First tranche:			
RM1,200 million 7.50% Stapled Securities callable in 2019	(i)	–	1,192,443
Second tranche:			
RM888 million 7.20% Stapled Securities callable in 2019	(ii)	–	888,000
		–	2,080,443
Cumulative amortisation of transaction costs		–	7,236
Unrealised fair value loss arising from fair value hedge		–	9,007
		–	2,096,686

On 16 March 2009, the Bank and PBFIN Berhad ("PBFIN"), a wholly-owned subsidiary company of the Bank, obtained approval from BNM for a Non-Innovative Tier I Stapled Securities ("Stapled Securities") Programme ("the NIT-I Programme") for the issuance of up to RM5.0 billion in nominal value of Stapled Securities, comprising the following securities:

(a) Non-Cumulative Perpetual Capital Securities ("NCPCS") issued by the Bank; and

(b) Subordinated Notes ("Sub-Notes") issued by PBFIN.

The NCPCS are stapled to an equivalent amount in nominal value of the Sub-Notes.

The Bank and PBFIN have issued the following tranches of Stapled Securities:

(i) On 5 June 2009, the Bank and PBFIN issued the first tranche of RM1,200 million in nominal value of Stapled Securities. The first optional redemption date of the NCPCS will be on 5 June 2019, whilst the Sub-Notes are due on 5 June 2059. The Sub-Notes bear interest at a rate of 7.50% per annum. Should an assignment event occur, the NCPCS will also accrue interest at a rate of 7.50% per annum. The Stapled Securities were fully redeemed on 7 June 2019 together with accrued interest.

(ii) On 13 November 2009, the Bank and PBFIN issued the second tranche of RM888 million in nominal value of Stapled Securities. The first optional redemption date of the NCPCS will be on 13 November 2019, whilst the Sub-Notes are due on 13 November 2059. The Sub-Notes bear interest at a rate of 7.20% per annum. Should an assignment event occur, the NCPCS will also accrue interest at a rate of 7.20% per annum. The Stapled Securities were fully redeemed on 13 November 2019 together with accrued interest.

25. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

(e) Additional Tier I Capital Securities ("ATICS")

	Group and Bank	
	2019 RM'000	**2018 RM'000**
Issued under the RM10.0 billion Basel III Compliant Additional Tier I Capital Securities Programme:		
First tranche: RM100 million 5.08% ATICS callable in 2023	**99,400**	99,400
Cumulative amortisation of transaction costs	**182**	62
	99,582	99,462

On 7 March 2018, the Bank had obtained approval from BNM for a Basel III Compliant Additional Tier I Capital Securities Programme ("the ATICS Programme") for the issuance of up to RM10.0 billion in nominal value of ATICS. The tenure of the ATICS Programme is perpetual. Each issuance will bear interest at a rate to be determined prior to the issuance, payable quarterly or semi-annually in arrears. The ATICS to be issued are intended to qualify as Additional Tier I capital of the Bank and shall comply with the BNM's Capital Adequacy Framework (Capital Components).

Subject to the approval from BNM and the redemption conditions being satisfied, the Bank may redeem a tranche of ATICS in whole or in part. The optional redemption may be exercised by the Bank on a date falling no earlier than the fifth (5th) anniversary of the issue date of the relevant ATICS and any distribution payment date thereafter.

The ATICS are direct and unsecured obligations of the Bank. The ATICS rank pari passu and without preference among themselves, with the most junior class of preference shares (if any), but in priority to the rights and claims of holders of ordinary shares of the Bank. The ATICS 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 except to those liabilities which by their terms rank equal with or junior to the ATICS.

On 26 June 2018, the Bank issued the first tranche of RM100 million in aggregate nominal amount of ATICS. The ATICS is perpetual, callable on 26 June 2023 and bear interest at 5.08% per annum payable semi-annually.

26. OTHER LIABILITIES

	Note	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
Interest/Income payable		**2,085,618**	1,885,756	**1,599,710**	1,351,860
Other payables and accruals		**2,471,928**	2,370,128	**1,932,282**	1,773,682
Collateral received for derivative transactions		**47,566**	101,475	**47,566**	101,475
Amount due to trust funds	(i)	**91,313**	86,095	**–**	–
Unprocessed sales and/or redemptions	(ii)	**144,024**	113,587	**–**	–
Accrued restoration costs	(iii)	**70,752**	7,665	**71,405**	7,665
Finance lease liabilities	(iv)	**–**	95,666	**–**	95,666
Outstanding contracts on clients' accounts	(v)	**206,265**	224,208	**–**	–
Allowance for impairment on loan/financing commitments and financial guarantees	(vi)	**52,944**	62,483	**43,730**	42,422
Dividend payable to shareholders		**25,987**	28,407	**2,814**	2,017
Amount due to subsidiary companies	(vii)	**–**	–	**37,262**	42,029
		5,196,397	4,975,470	**3,734,769**	3,416,816

(i) This balance refers to amount due to trust funds managed by the fund management subsidiary company in respect of cancellation and creation of trust units.

(ii) The unprocessed sales and/or redemptions are in respect of the fund management activities of a subsidiary company.

(iii) 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 as required under MFRS 16 Leases.

(iv) Finance lease liabilities of the Group and of the Bank are payable as follows:

	Future Minimum Lease Payments RM'000	Future Finance Charges RM'000	Present Value of Lease Liabilities RM'000
At 31 December 2018			
Less than one year	56,664	2,744	53,920
More than one year to three years	42,506	760	41,746
	99,170	3,504	95,666

Finance lease liabilities were reclassified to lease liabilities on 1 January 2019 upon the adoption of MFRS 16 Leases (Note 18(i)(b)).

(v) These balances relate to contracts entered by the stock-broking business of the subsidiary companies on behalf of clients where settlements have yet to be made.

26. OTHER LIABILITIES (CONTINUED)

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

Group	12-Month ECL (Stage 1) RM'000	Lifetime ECL Not Credit-Impaired (Stage 2) RM'000	Lifetime ECL Credit-Impaired (Stage 3) RM'000	Total RM'000
2019				
At 1 January 2019	**53,063**	**8,273**	**1,147**	**62,483**
Changes due to loan/financing commitments and financial guarantees recognised as at 1 January 2019	**1,570**	**(1,255)**	**(315)**	**–**
– Transfer to Stage 1: 12-Month ECL	**2,233**	**(2,143)**	**(90)**	**–**
– Transfer to Stage 2: Lifetime ECL not credit-impaired	**(652)**	**979**	**(327)**	**–**
– Transfer to Stage 3: Lifetime ECL credit-impaired	**(11)**	**(91)**	**102**	**–**
New loan/financing commitments and financial guarantees originated	**4,353**	**2,212**	**110**	**6,675**
Net remeasurement due to changes in credit risk	**(15,434)**	**809**	**764**	**(13,861)**
Loan/financing commitments and financial guarantees derecognised	**(3,851)**	**(2,346)**	**(60)**	**(6,257)**
Modifications to contractual cash flows of loan/financing commitments and financial guarantees	**(4)**	**(14)**	**(214)**	**(232)**
Changes in models/risk parameters	**3,162**	**797**	**192**	**4,151**
Exchange differences	**(14)**	**(1)**	**–**	**(15)**
At 31 December 2019	**42,845**	**8,475**	**1,624**	**52,944**
2018				
At 1 January 2018	52,998	6,567	1,249	60,814
Changes due to loan/financing commitments and financial guarantees recognised as at 1 January 2018	1,206	(850)	(356)	–
– Transfer to Stage 1: 12-Month ECL	2,456	(2,214)	(242)	–
– Transfer to Stage 2: Lifetime ECL not credit-impaired	(1,234)	1,445	(211)	–
– Transfer to Stage 3: Lifetime ECL credit-impaired	(16)	(81)	97	–
New loan/financing commitments and financial guarantees originated	8,041	4,076	38	12,155
Net remeasurement due to changes in credit risk	(4,811)	777	287	(3,747)
Loan/financing commitments and financial guarantees derecognised	(4,646)	(2,297)	(79)	(7,022)
Modifications to contractual cash flows of loan/financing commitments and financial guarantees	(18)	–	8	(10)
Exchange differences	293	–	–	293
At 31 December 2018	53,063	8,273	1,147	62,483

26. OTHER LIABILITIES (CONTINUED)

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

Bank	12-Month ECL (Stage 1) RM'000	Lifetime ECL Not Credit-Impaired (Stage 2) RM'000	Lifetime ECL Credit-Impaired (Stage 3) RM'000	Total RM'000
2019				
At 1 January 2019	**34,345**	**7,065**	**1,012**	**42,422**
Changes due to loan commitments and financial guarantees recognised as at 1 January 2019	**1,142**	**(866)**	**(276)**	**–**
– Transfer to Stage 1: 12-Month ECL	**1,760**	**(1,698)**	**(62)**	**–**
– Transfer to Stage 2: Lifetime ECL not credit-impaired	**(608)**	**892**	**(284)**	**–**
– Transfer to Stage 3: Lifetime ECL credit-impaired	**(10)**	**(60)**	**70**	**–**
New loan commitments and financial guarantees originated	**3,413**	**1,968**	**74**	**5,455**
Net remeasurement due to changes in credit risk	**(3,073)**	**968**	**602**	**(1,503)**
Loan commitments and financial guarantees derecognised	**(3,314)**	**(2,270)**	**(55)**	**(5,639)**
Modifications to contractual cash flows of loan commitments and financial guarantees	**(4)**	**(14)**	**(215)**	**(233)**
Changes in models/risk parameters	**2,395**	**683**	**150**	**3,228**
At 31 December 2019	**34,904**	**7,534**	**1,292**	**43,730**
2018				
At 1 January 2018	35,909	5,346	976	42,231
Changes due to loan commitments and financial guarantees recognised as at 1 January 2018	724	(487)	(237)	–
– Transfer to Stage 1: 12-Month ECL	1,888	(1,714)	(174)	–
– Transfer to Stage 2: Lifetime ECL not credit-impaired	(1,149)	1,296	(147)	–
– Transfer to Stage 3: Lifetime ECL credit-impaired	(15)	(69)	84	–
New loan commitments and financial guarantees originated	4,759	3,499	38	8,296
Net remeasurement due to changes in credit risk	(3,601)	728	302	(2,571)
Loan commitments and financial guarantees derecognised	(3,428)	(2,021)	(75)	(5,524)
Modifications to contractual cash flows of loan commitments and financial guarantees	(18)	–	8	(10)
At 31 December 2018	34,345	7,065	1,012	42,422

(vii) These balances are unsecured, non-interest bearing and have no fixed terms of repayment.

27. PROVISION FOR TAX EXPENSE AND ZAKAT

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Tax expense	**539,789**	341,379	**412,868**	249,207
Zakat	**318**	318	**–**	–
	540,107	341,697	**412,868**	249,207

28. SHARE CAPITAL

	Group and Bank	
	2019 '000	2018 '000
Number of ordinary shares:		
At 1 January/31 December	**3,882,138**	3,882,138

	Group and Bank	
	2019 RM'000	2018 RM'000
Issued and fully paid ordinary shares:		
At 1 January/31 December	**9,417,653**	9,417,653

29. TREASURY SHARES

The amount relates to the acquisition cost of treasury shares.

The Bank's treasury shares had been fully disposed in the previous year.

30. REGULATORY RESERVES

The regulatory reserves are maintained by the Bank and the Bank's banking subsidiary companies in Malaysia, Hong Kong SAR and Cambodia as an additional credit risk absorbent in excess of the requirements of accounting standards. The reserves in respect of Malaysia are maintained in line with the requirements of BNM by the Bank and its domestic banking subsidiary companies. The reserves in respect of Hong Kong SAR and Cambodia are maintained in line with the requirements of the Hong Kong Monetary Authority and the National Bank of Cambodia respectively.

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31. OTHER RESERVES

Group	Statutory Reserves RM'000	Capital Reserves RM'000	Foreign Currency Translation Reserves RM'000	Hedging Reserves RM'000	Revaluation Reserves: Financial Investments at FVOCI RM'000	Revaluation Reserves: Property RM'000	Defined Benefit Reserves RM'000	General Reserves RM'000	Profit Equalisation Reserves RM'000	Total RM'000
At 1 January 2019	36,682	60,442	104,154	44,081	254,649	–	554,487	376,700	172	1,431,367
Net currency translation differences in respect of:										
– foreign operations	–	–	(96,279)	–	–	–	–	–	–	(96,279)
– net investment hedge (Note 6)	–	–	32,426	–	–	–	–	–	–	32,426
	–	–	(63,853)	–	–	–	–	–	–	(63,853)
Net change in revaluation of financial investments at fair value through other comprehensive income ("FVOCI")										
– Net unrealised gain	–	–	–	–	599,673	–	–	–	–	599,673
– Net gain on disposal reclassified to profit or loss (Note 35)	–	–	–	–	(118,853)	–	–	–	–	(118,853)
	–	–	–	–	480,820	–	–	–	–	480,820
Net change in revaluation of property and equipment	–	–	–	–	–	1,533	–	–	–	1,533
Net change in cash flow hedges:										
– Net unrealised loss	–	–	–	(86,885)	–	–	–	–	–	(86,885)
Loss on remeasurements of defined benefit plans	–	–	–	–	–	–	(228,874)	–	–	(228,874)
Deferred tax (Note 13)	–	–	–	20,852	(94,776)	–	54,817	–	–	(19,107)
Share of gain of equity accounted associated company	–	–	–	–	1,290	–	–	–	–	1,290
Other comprehensive (loss)/income	–	–	(63,853)	(66,033)	387,334	1,533	(174,057)	–	–	84,924
Transferred from retained profits	8,196	–	–	–	–	–	–	81,870	–	90,066
At 31 December 2019	44,878	60,442	40,301	(21,952)	641,983	1,533	380,430	458,570	172	1,606,357

31. OTHER RESERVES (CONTINUED)

Group	Statutory Reserves RM'000	Capital Reserves RM'000	Foreign Currency Translation Reserves RM'000	Hedging Reserves RM'000	Revaluation Reserves - Financial Investments at FVOCI RM'000	Defined Benefit Reserves RM'000	General Reserves RM'000	Profit Equalisation Reserves RM'000	Total RM'000
At 1 January 2018	30,718	60,442	110,574	9,355	284,193	506,413	293,980	172	1,295,847
Net currency translation differences in respect of:									
– foreign operations	–	–	98,770	–	–	–	–	–	98,770
– net investment hedge (Note 6)	–	–	(105,190)	–	–	–	–	–	(105,190)
	–	–	(6,420)	–	–	–	–	–	(6,420)
Net change in revaluation of financial investments at FVOCI									
– Net unrealised loss	–	–	–	–	(9,656)	–	–	–	(9,656)
– Net gain on disposal reclassified to profit or loss (Note 35)	–	–	–	–	(33,296)	–	–	–	(33,296)
	–	–	–	–	(42,952)	–	–	–	(42,952)
Net change in cash flow hedges:									
– Net unrealised gain	–	–	–	45,692	–	–	–	–	45,692
Gain on remeasurements of defined benefit plans	–	–	–	–	–	63,213	–	–	63,213
Deferred tax (Note 13)	–	–	–	(10,966)	13,311	(15,139)	–	–	(12,794)
Share of gain of equity accounted associated company	–	–	–	–	97	–	–	–	97
Other comprehensive (loss)/income	–	–	(6,420)	34,726	(29,544)	48,074	–	–	46,836
Transferred from retained profits	5,964	–	–	–	–	–	82,720	–	88,684
At 31 December 2018	36,682	60,442	104,154	44,081	254,649	554,487	376,700	172	1,431,367

31. OTHER RESERVES (CONTINUED)

Bank	Statutory Reserves RM'000	Foreign Currency Translation Reserves RM'000	Hedging Reserves RM'000	Revaluation Reserves - Financial Investments at FVOCI RM'000	Defined Benefit Reserves RM'000	Total RM'000
At 1 January 2019	**2,906**	**9,294**	**59,276**	**232,382**	**545,309**	**849,167**
Net currency translation differences in respect of foreign operations	**–**	**(18,090)**	**–**	**–**	**–**	**(18,090)**
Net change in revaluation of financial investments at FVOCI						
– Net unrealised gain	**–**	**–**	**–**	**403,543**	**–**	**403,543**
– Net gain on disposal reclassified to profit or loss (Note 35)	**–**	**–**	**–**	**(109,822)**	**–**	**(109,822)**
	–	**–**	**–**	**293,721**	**–**	**293,721**
Net change in cash flow hedges:						
– Net unrealised loss	**–**	**–**	**(15,221)**	**–**	**–**	**(15,221)**
Loss on remeasurements of defined benefit plans	**–**	**–**	**–**	**–**	**(225,263)**	**(225,263)**
Deferred tax (Note 13)	**–**	**–**	**3,653**	**(68,802)**	**54,063**	**(11,086)**
Other comprehensive (loss)/income	**–**	**(18,090)**	**(11,568)**	**224,919**	**(171,200)**	**24,061**
At 31 December 2019	**2,906**	**(8,796)**	**47,708**	**457,301**	**374,109**	**873,228**

31. OTHER RESERVES (CONTINUED)

Bank	Statutory Reserves RM'000	Foreign Currency Translation Reserves RM'000	Hedging Reserves RM'000	Revaluation Reserves - Financial Investments at FVOCI RM'000	Defined Benefit Reserves RM'000	Total RM'000
At 1 January 2018	2,614	6,204	24,687	250,622	498,537	782,664
Net currency translation differences in respect of foreign operations	–	3,090	–	–	–	3,090
Net change in revaluation of financial investments at FVOCI						
– Net unrealised loss	–	–	–	(213)	–	(213)
– Net gain on disposal reclassified to profit or loss (Note 35)	–	–	–	(32,682)	–	(32,682)
	–	–	–	(32,895)	–	(32,895)
Net change in cash flow hedges:						
– Net unrealised gain	–	–	45,512	–	–	45,512
Gain on remeasurements of defined benefit plans	–	–	–	–	61,542	61,542
Deferred tax (Note 13)	–	–	(10,923)	14,655	(14,770)	(11,038)
Other comprehensive income/(loss)	–	3,090	34,589	(18,240)	46,772	66,211
Transferred from retained profits	292	–	–	–	–	292
At 31 December 2018	2,906	9,294	59,276	232,382	545,309	849,167

The statutory reserves maintained by an overseas subsidiary company and overseas branches are in compliance with the requirements of the Central Banks of the respective countries in which the Group and the Bank operate and are not distributable as cash dividends.

The capital reserves of the Group arose mainly from the capitalisation of retained profits that resulted from bonus issues by subsidiary companies and the restructuring exercise involving certain subsidiary companies undertaken by the Group in previous years.

The foreign currency translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of overseas subsidiary companies, overseas branches and the subsidiary companies incorporated in the Federal Territory of Labuan, after offsetting the impact of the effective portion of net investment hedges.

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

The revaluation reserves – financial investments at fair value through other comprehensive income ("FVOCI") are in respect of unrealised fair value gains and losses on financial investments at FVOCI, after offsetting the impact of related fair value hedges.

The revaluation reserves – property relate to the revaluation gains and losses of the transfer of own-occupied properties to investment properties subsequent to the change of use.

31. OTHER RESERVES (CONTINUED)

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

The general reserves represent non-distributable profit reserves maintained by an overseas subsidiary company in compliance with the regulatory requirements of the country in which the Group operates.

The Profit Equalisation Reserves ("PER") of the Group are maintained in compliance with the requirements of the revised PER Guidelines issued by Bank Negara Malaysia.

32. INTEREST INCOME

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Loans and advances	**13,884,080**	13,753,101	**12,423,343**	12,434,795
Balances with banks	**325,523**	256,133	**205,656**	137,846
Financial investments at fair value through other comprehensive income	**1,102,768**	1,214,610	**904,844**	1,027,039
Financial investments at amortised cost	**953,288**	865,937	**849,296**	781,747
Others	**91,079**	94,790	**91,073**	94,781
	16,356,738	16,184,571	**14,474,212**	14,476,208
Financial assets at fair value through profit or loss	**72,634**	76,635	**71,190**	53,401
	16,429,372	16,261,206	**14,545,402**	14,529,609

33. INTEREST EXPENSE

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Deposits from banks	**316,732**	389,007	**349,951**	401,848
Deposits from customers	**7,767,391**	7,503,703	**7,406,489**	7,220,141
Loans sold to Cagamas	**235,400**	241,244	**235,400**	241,244
Debt securities issued and other borrowed funds	**486,442**	553,192	**467,040**	535,660
Others	**51,121**	11,093	**60,402**	11,093
	8,857,086	8,698,239	**8,519,282**	8,409,986

34. NET FEE AND COMMISSION INCOME

		Group		Bank	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
(a)	Fee and commission income:				
	Commissions	**625,304**	601,187	**676,471**	666,253
	Service charges and fees	**311,228**	352,691	**226,407**	247,730
	Guarantee fees	**34,571**	33,500	**31,587**	30,693
	Commitment fees	**75,588**	89,194	**68,497**	82,234
	Unit trust management fees	**1,068,433**	1,053,692	**–**	–
	Fee on sale of trust units	**257,521**	340,409	**–**	–
	Brokerage and commissions from stock-broking activities	**91,205**	101,947	**–**	–
	Other fee and commission income	**69,866**	54,159	**52,234**	36,893
		2,533,716	2,626,779	**1,055,196**	1,063,803
(b)	Fee and commission expense:				
	Unit trust agency fees	**(412,645)**	(469,281)	**–**	–
	Debit/Credit card related fees	**(348,811)**	(344,937)	**(345,577)**	(342,165)
	Loan-related fees	**(14,337)**	(13,291)	**(11,878)**	(10,692)
	Other fee and commission expense	**(17,460)**	(21,178)	**(11,937)**	(13,360)
		(793,253)	(848,687)	**(369,392)**	(366,217)
	Net fee and commission income	**1,740,463**	1,778,092	**685,804**	697,586

35. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Net gain arising on financial assets at fair value through profit or loss:				
– net gain on disposal	**19,086**	1,131	**18,818**	1,127
– gross dividend income	**2,097**	2,097	**1,977**	1,977
– unrealised revaluation gain	**24,399**	8,217	**23,078**	7,753
	45,582	11,445	**43,873**	10,857
Net (loss)/gain arising on trading derivatives:				
– unrealised revaluation (loss)/gain	**(77)**	111	**(77)**	111
Net gain arising on financial investments at fair value through other comprehensive income:				
– net gain on disposal	**118,853**	33,296	**109,822**	32,682
– gross dividend income	**4,962**	1,224	**4,181**	186
	123,815	34,520	**114,003**	32,868
(Loss)/Gain representing ineffective portions of hedging derivatives:				
– fair value hedge (Note 6)	**(253)**	(158)	**91**	(21)
– cash flow hedge (Note 6)	**(1,341)**	(43)	**(1,341)**	(43)
	(1,594)	(201)	**(1,250)**	(64)
	167,726	45,875	**156,549**	43,772

36. OTHER OPERATING INCOME

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Distribution income from collective investments	**–**	–	**206,173**	200,451
Dividend income from subsidiary companies:				
– quoted outside Malaysia	**–**	–	**84,695**	92,877
– unquoted in Malaysia	**–**	–	**799,937**	688,497
	–	–	**1,090,805**	981,825
Other income:				
Foreign exchange profit	**336,084**	243,745	**339,252**	114,139
Rental income from:				
– investment properties (Note 17)	**15,981**	15,813	**–**	–
– other properties	**10,720**	10,149	**13,102**	12,546
Net gain on disposal of property and equipment	**986**	485	**774**	408
Net (loss)/gain on disposal of foreclosed properties	**(959)**	1,127	**(959)**	1,127
Gain on revaluation of investment properties (Note 17)	**50,387**	49,035	**–**	–
Others	**79,516**	70,257	**66,956**	54,916
	492,715	390,611	**419,125**	183,136
	492,715	390,611	**1,509,930**	1,164,961

37. OTHER OPERATING EXPENSES

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Personnel costs				
– Salaries, allowances and bonuses	**2,264,670**	2,089,379	**1,712,941**	1,576,108
– Pension costs	**299,517**	271,264	**258,483**	233,435
– Others	**177,436**	165,881	**142,053**	133,785
	2,741,623	2,526,524	**2,113,477**	1,943,328
Establishment costs				
– Depreciation	**352,172**	228,677	**272,792**	178,263
– Rental	**17,457**	129,208	**4,070**	101,865
– Insurance	**23,534**	22,466	**19,493**	19,082
– Water and electricity	**52,146**	50,419	**35,829**	34,551
– General repairs and maintenance	**127,667**	97,427	**108,483**	85,051
– Information technology expenses	**59,707**	51,010	**27,847**	23,845
– Others	**78,217**	72,844	**48,364**	45,442
	710,900	652,051	**516,878**	488,099
Marketing expenses				
– Advertisement and publicity	**58,770**	56,521	**20,757**	17,678
– Others	**83,767**	92,089	**52,427**	44,171
	142,537	148,610	**73,184**	61,849
Administration and general expenses				
– Communication expenses	**49,843**	46,051	**37,425**	34,761
– Legal and professional fees	**37,326**	40,938	**25,386**	28,105
– Others	**136,963**	159,312	**71,732**	91,718
	224,132	246,301	**134,543**	154,584
Cost of resource sharing charged to Public Islamic Bank Berhad*	**–**	–	**(416,753)**	(375,994)
Total other operating expenses	**3,819,192**	3,573,486	**2,421,329**	2,271,866

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

	Bank	
	2019 RM'000	2018 RM'000
Credit related	**(216,926)**	(203,480)
Non-credit branch support	**(127,181)**	(107,534)
Other administration function	**(72,646)**	(64,980)
	(416,753)	(375,994)

37. OTHER OPERATING EXPENSES (CONTINUED)

(a) Included in other operating expenses are the following:

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Auditors' remuneration:				
Parent auditor				
– Audit	**2,757**	4,078	**2,075**	3,116
– Regulatory related services*	**533**	615	**421**	457
– Other services	**186**	4	**–**	–
Firm affiliated with parent auditor				
– Audit	**2,359**	2,255	**–**	–
– Regulatory related services*	**342**	291	**–**	–
– Other services	**87**	64	**–**	–
Other auditors				
– Audit	**387**	395	**273**	272
– Regulatory related services*	**15**	16	**15**	16
– Other services	**15**	17	**15**	17
Depreciation of right-of-use assets (Note 18(i)(a))	**167,225**	–	**140,650**	–
Depreciation of property and equipment (Note 19)	**184,947**	228,677	**132,142**	178,263
Amortisation of core deposits intangible (Note 20)	**4,639**	4,638	**–**	–
Direct operating expenses of investment properties that:				
– generated rental income	**7,358**	6,500	**–**	–
– did not generate rental income	**439**	421	**–**	–
Directors' remuneration (Note 38)	**79,413**	96,193	**59,551**	77,836
Pension costs				
– defined contribution plan	**249,359**	231,116	**209,123**	194,287
– defined benefit plan (Note 11)	**50,158**	40,148	**49,360**	39,148
Property and equipment written off (Note 19)	**2,852**	588	**2,446**	402
Rental of premises	**17,457**	129,208	**4,070**	101,865

* Regulatory related services include half year limited review, validation review based on agreed-upon procedures and review of statement on risk management and internal control and etc.

(b) Employees

The number of persons employed by the Group and the Bank (excluding Directors) as at the end of the financial year was 19,260 (2018 - 18,721) and 14,807 (2018 - 14,485) respectively.

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38. DIRECTORS' REMUNERATION

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Directors of the Bank:				
Executive Director/Chief Executive Officer:				
Fees	**837**	834	**316**	316
Salary and other remuneration, including meeting allowances	**15,801**	13,826	**15,381**	13,391
Bonuses	**18,968**	19,968	**18,968**	19,968
Benefits-in-kind	**33**	30	**33**	30
	35,639	34,658	**34,698**	33,705
Non-Executive Directors:				
Fees	**4,515**	3,396	**2,620**	1,767
Other remuneration	**22,562**	42,472	**22,266**	42,394
Benefits-in-kind	**55**	34	**55**	34
	27,132	45,902	**24,941**	44,195
Directors of subsidiary companies:				
Executive Directors:				
Fees	**605**	612	**–**	–
Salary and other remuneration, including meeting allowances	**7,035**	6,433	**–**	–
Bonuses	**4,823**	4,671	**–**	–
Benefits-in-kind	**868**	763	**–**	–
	13,331	12,479	**–**	–
Non-Executive Directors:				
Fees	**2,259**	2,419	**–**	–
Other remuneration	**2,008**	1,562	**–**	–
	4,267	3,981	**–**	–
Grand total	**80,369**	97,020	**59,639**	77,900
Total (excluding benefits-in-kind) (Note 37)	**79,413**	96,193	**59,551**	77,836

38. DIRECTORS' REMUNERATION (CONTINUED)

The total remuneration (including benefits-in-kind) of the Directors of the Bank are as follows:

	<----------- Remuneration Received from the Bank ----------->						Remuneration Received from Subsidiary <------ Companies ------>		
2019	Salary RM'000	Fees RM'000	Bonus RM'000	Other Emoluments RM'000	Benefits-in-kind RM'000	Bank Total RM'000	Fees RM'000	Other Emoluments RM'000	Group Total RM'000
Executive Director:									
Tan Sri Dato' Sri Tay Ah Lek	8,856	316	18,968	6,525	33	34,698	521	420	35,639
Non-Executive Directors:									
Tan Sri Dato' Sri Dr. Teh Hong Piow	–	428	–	19,969	55	20,452	960	199	21,611
Mr Lai Wan	–	428	–	429	–	857	229	–	1,086
Mr Tang Wing Chew	–	316	–	401	–	717	229	–	946
Ms Lai Wai Keen	–	316	–	333	–	649	–	–	649
Ms Cheah Kim Ling	–	316	–	400	–	716	–	–	716
Mr Lee Chin Guan	–	316	–	175	–	491	214	–	705
Dato' Mohd Hanif bin Sher Mohamed	–	316	–	385	–	701	263	97	1,061
Ms Tham Chai Fhong	–	184	–	174	–	358	–	–	358
	–	2,620	–	22,266	55	24,941	1,895	296	27,132
Total Directors' remuneration	8,856	2,936	18,968	28,791	88	59,639	2,416	716	62,771
2018									
Executive Director:									
Tan Sri Dato' Sri Tay Ah Lek	7,200	316	19,968	6,191	30	33,705	518	435	34,658
Non-Executive Directors:									
Tan Sri Dato' Sri Dr. Teh Hong Piow	–	428	–	40,875	34	41,337	974	78	42,389
Mr Lai Wan	–	365	–	420	–	785	223	–	1,008
Mr Tang Wing Chew	–	316	–	374	–	690	223	–	913
Ms Lai Wai Keen	–	316	–	323	–	639	–	–	639
Ms Cheah Kim Ling	–	316	–	388	–	704	–	–	704
Mr Lee Chin Guan	–	26	–	14	–	40	209	–	249
	–	1,767	–	42,394	34	44,195	1,629	78	45,902
Total Directors' remuneration	7,200	2,083	19,968	48,585	64	77,900	2,147	513	80,560

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39. ALLOWANCE FOR IMPAIRMENT ON LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Expected credit losses on:				
– Loans, advances and financing	**424,729**	419,949	**182,281**	220,110
– Loan/financing commitments and financial guarantees	**(9,524)**	1,376	**1,308**	191
Impaired loans and financing written off	**40**	115	**40**	113
Impaired loans and financing recovered	**(260,779)**	(252,177)	**(133,274)**	(114,104)
	154,466	169,263	**50,355**	106,310

40. (WRITEBACK OF ALLOWANCE)/ALLOWANCE FOR IMPAIRMENT ON OTHER ASSETS

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Expected credit losses on:				
– Financial investments at fair value through other comprehensive income				
– Debt instruments	**(157)**	2,194	**(508)**	390
– Financial investments at amortised cost				
– Debt instruments	**352**	386	**166**	612
– Deposits and placements with banks and other financial institutions	**1,688**	(44)	**–**	–
Allowance (written back)/made on:				
– Foreclosed properties	**(4,013)**	2,224	**(4,011)**	2,272
– Receivables from stock-broking activities	**(53)**	6	**–**	–
– Other receivables	**8**	–	**–**	–
	(2,175)	4,766	**(4,353)**	3,274

41. TAX EXPENSE AND ZAKAT

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Malaysian income tax	**1,455,131**	1,397,652	**1,193,903**	1,199,885
Overseas income tax	**139,178**	138,639	**11,341**	14,007
	1,594,309	1,536,291	**1,205,244**	1,213,892
(Over)/Under provision in prior years				
– Malaysian income tax	**(12,757)**	(51,309)	**(11,598)**	(50,647)
– Overseas income tax	**(3,978)**	(67)	**(3,509)**	361
	1,577,574	1,484,915	**1,190,137**	1,163,606
Deferred tax expense/(income) (Note 13)				
– Relating to changes in tax rate	**4,983**	–	**–**	–
– Relating to origination and reversal of temporary differences arising from:				
– allowance for losses on loans/financing	**(1,550)**	(11,749)	**(10,202)**	(11,547)
– excess/(shortfall) of capital allowance over depreciation	**2,782**	7,375	**(3,390)**	(5,799)
– defined benefit plan	**(12,017)**	(9,587)	**(11,851)**	(9,368)
– other temporary differences	**(30,874)**	(41,847)	**(11,812)**	(50,231)
	(41,659)	(55,808)	**(37,255)**	(76,945)
– under provision	**13,503**	6,886	**13,367**	6,766
	(28,156)	(48,922)	**(23,888)**	(70,179)
Tax expense	**1,554,401**	1,435,993	**1,166,249**	1,093,427
Zakat	**300**	260	**–**	–
	1,554,701	1,436,253	**1,166,249**	1,093,427

The Malaysian income tax is calculated at the statutory tax rate of 24% (2018: 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%.

Tax in foreign jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

	Group		Bank	
Movement in tax losses	**2019 RM'000**	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Unrecognised tax losses arising from utilisation of tax losses	**–**	(3)	**–**	–

41. TAX EXPENSE AND ZAKAT (CONTINUED)

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

	2019		2018	
Group	**%**	**RM'000**	**%**	**RM'000**
Profit before tax expense		**7,134,144**		7,101,165
Income tax using Malaysian tax rate	**24.0**	**1,712,194**	24.0	1,704,280
Effects of different tax rates	**(0.6)**	**(40,935)**	(0.6)	(42,350)
Income not subject to tax	**(2.0)**	**(145,440)**	(2.9)	(204,206)
Effects of utilisation of unrecognised benefit of tax losses	**–**	**–**	–	3
Expenses not deductible for tax purposes	**0.4**	**26,831**	0.3	22,756
Effects of changes in tax rate	**–**	**4,983**	–	–
	21.8	**1,557,633**	20.8	1,480,483
Over provision in prior years	**–**	**(3,232)**	(0.6)	(44,490)
Tax expense for the year	**21.8**	**1,554,401**	20.2	1,435,993

	2019		2018	
Bank	**%**	**RM'000**	**%**	**RM'000**
Profit before tax expense		**5,911,072**		5,644,492
Income tax using Malaysian tax rate	**24.0**	**1,418,657**	24.0	1,354,678
Income not subject to tax	**(4.6)**	**(268,131)**	(4.2)	(237,978)
Expenses not deductible for tax purposes	**0.3**	**17,463**	0.4	20,247
	19.7	**1,167,989**	20.2	1,136,947
Over provision in prior years	**–**	**(1,740)**	(0.8)	(43,520)
Tax expense for the year	**19.7**	**1,166,249**	19.4	1,093,427

42. EARNINGS PER SHARE

(a) Basic Earnings Per Share

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

	Group		Bank	
	2019	**2018**	**2019**	**2018**
Net profit attributable to equity holders of the Bank (RM'000)	**5,511,558**	5,590,611	**4,744,823**	4,551,065
'000				
Number of ordinary shares at beginning of the year	**3,882,138**	3,861,494	**3,882,138**	3,861,494
Effect of treasury shares sold	**–**	11,015	**–**	11,015
Weighted average number of ordinary shares at end of the year	**3,882,138**	3,872,509	**3,882,138**	3,872,509
Basic earnings per share (sen)	**142.0**	144.4	**122.2**	117.5

(b) Diluted Earnings Per Share

The Group and the Bank have no dilution in their earnings per ordinary share as there are no dilutive potential ordinary shares.

43. DIVIDENDS

	Group and Bank	
	2019 RM'000	**2018 RM'000**
Dividends recognised as distribution to ordinary equity holders of the Bank:		
First interim dividend of 33.0 sen (2018 – 32.0 sen) in respect of the financial year ended 31 December 2019	**1,281,106**	1,242,284
Second interim dividend of 37.0 sen (2017 – 34.0 sen) in respect of the financial year ended 31 December 2018	**1,436,391**	1,312,908
	2,717,497	2,555,192

Subsequent to the financial year end, on 26 February 2020, the Directors declared a second interim dividend of 40.0 sen, with the total amounting to approximately RM1,552,855,339 computed based on 3,882,138,347 ordinary shares in respect of the financial year ended 31 December 2019. The financial statements for the current financial year do not reflect these dividends. Upon declaration, the dividend payment will be accounted for in equity as an appropriation of retained earnings during the financial year ending 31 December 2020. The Directors do not propose any final dividend in respect of the financial year ended 31 December 2019.

43. DIVIDENDS (CONTINUED)

Accordingly, based on the above, the dividend declared per share for each financial year are as follows:

	Group and Bank Dividend per share	
	2019 Sen	**2018 Sen**
Dividends per ordinary share:		
Paid:		
First interim dividend	**33.0**	32.0
Declared subsequent to the financial year end:		
Second interim dividend	**40.0**	37.0
	73.0	69.0

44. 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 Group and of the Bank are:

(i) Collective Investments

Collective investments are those investments as disclosed in Note 14.

(ii) Subsidiary Companies

Details of the subsidiary companies are shown in Note 15.

(iii) Associated Companies

Associated companies are those entities in which the Group has significant influence but not control, as disclosed in Note 16.

(iv) 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 Group and of the Bank either directly or indirectly. The key management personnel of the Group and of the Bank include Executive Director and Non-Executive Directors of the Bank, chief executive officers of major subsidiary companies of the Bank and certain key members of senior management of the Bank and its major subsidiary companies.

(v) Public Bank Group Officers' Retirement Benefits Fund

Details of the retirement benefits fund are shown in Note 11.

(vi) 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.

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

44. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Group	Key Management Personnel*		Companies in which Certain Directors have Substantial Interest		Public Bank Group Officers' Retirement Benefits Fund	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Income earned:						
Interest on loans, advances and financing	**532**	515	**–**	–	**54,896**	49,312
Commission income	**–**	–	**51,862**	50,774	**–**	–
Rental income	**147**	122	**3,163**	2,915	**–**	–
Brokerage income	**9**	4	**–**	4	**–**	–
Fee income	**–**	–	**50**	86	**235**	223
	688	641	**55,075**	53,779	**55,131**	49,535
Expenditure incurred:						
Interest on deposits	**373,425**	325,113	**6,590**	6,186	**–**	–
Interest on debt securities issued	**78**	90	**2,290**	3,306	**–**	–
Rental of premises^	**–**	–	**420**	420	**39,357**	36,665
Insurance premiums	**–**	–	**36,619**	33,863	**–**	–
Others	**–**	–	**8**	34	**–**	–
	373,503	325,203	**45,927**	43,809	**39,357**	36,665

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

^ This amount represents actual rental of premises incurred by the Group which has been replaced by interest expense from amortisation of the lease liabilities and depreciation of the right-of-use assets on adoption of MFRS 16 Leases.

The table above includes the following transactions of the Group with the Directors of the Bank (including close members of their families):

(i) interest on deposits of RM371,816,000 (2018 – RM323,461,000);

(ii) rental income of RM147,000 (2018 – RM122,000); and

(iii) interest on loans, advances and financing of RM78,000 (2018 – Nil).

Transactions between the Bank and its subsidiary companies and collective investments are eliminated on consolidation at Group level.

44. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Bank	Collective Investments		Subsidiary Companies		Key Management Personnel*		Companies in which Certain Directors have Substantial Interest		Public Bank Group Officers' Retirement Benefits Fund	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Income earned:										
Interest on interbank lending and money market instruments held	**–**	–	**102,694**	87,058	**–**	–	**–**	–	**–**	–
Interest rate swaps	**–**	–	**13,699**	13,041	**–**	–	**–**	–	**–**	–
Interest on loans and advances	**–**	–	**26,120**	25,605	**190**	194	**–**	–	**54,896**	49,312
Dividend/Distribution income (Note 36)	**206,173**	200,451	**884,632**	781,374	**–**	–	**–**	–	**–**	–
Cost of resource sharing charged (Note 37)	**–**	–	**416,753**	375,994	**–**	–	**–**	–	**–**	–
Commission income	**–**	–	**84,991**	96,224	**–**	–	**47,909**	48,218	**–**	–
Rental income	**–**	–	**2,412**	2,419	**147**	122	**–**	–	**–**	–
Others	**–**	–	**6,996**	3,750	**–**	–	**–**	–	**–**	–
	206,173	200,451	**1,538,297**	1,385,465	**337**	316	**47,909**	48,218	**54,896**	49,312
Expenditure incurred:										
Interest on deposits	**71,058**	65,351	**132,931**	110,565	**372,660**	324,439	**5,629**	5,465	**–**	–
Interest on debt securities issued	**–**	–	**–**	–	**78**	90	**1,822**	2,841	**–**	–
Rental of premises^	**–**	–	**28,642**	29,409	**–**	–	**420**	420	**37,064**	34,968
Insurance premiums	**–**	–	**–**	–	**–**	–	**26,581**	25,354	**–**	–
Fee and commission expense	**–**	–	**2,949**	3,935	**–**	–	**–**	–	**–**	–
Professional fees	**–**	–	**196**	1,696	**–**	–	**–**	–	**–**	–
Building maintenance	**–**	–	**3,308**	3,026	**–**	–	**–**	–	**–**	–
	71,058	65,351	**168,026**	148,631	**372,738**	324,529	**34,452**	34,080	**37,064**	34,968

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

^ This amount represents actual rental of premises incurred by the Bank which has been replaced by interest expense from amortisation of the lease liabilities and depreciation of the right-of-use assets on adoption of MFRS 16 Leases.

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

(i) interest on deposits of RM371,678,000 (2018 – RM323,362,000);

(ii) rental income of RM147,000 (2018 – RM122,000); and

(iii) interest on loans and advances of RM75,000 (2018 – Nil).

44. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Group 31 December 2019	Associated Companies RM'000	Key Management Personnel* RM'000	Companies in which Certain Directors have Substantial Interest RM'000	Public Bank Group Officers' Retirement Benefits Fund RM'000
Amount due from related parties				
Loans, advances and financing	–	19,570	–	1,457,200
Rental deposits	–	–	–	10,027
	–	19,570	–	1,467,227
Amount due to related parties				
Demand deposits	18,992	21,122	10,600	–
Term deposits	144,190	9,112,250	190,144	13
Debt securities issued	–	–	36,501	–
Others	142	559	–	–
	163,324	9,133,931	237,245	13
Commitments and contingencies				
Commitments	–	5,007	–	547,800

44. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Group 31 December 2018	Associated Companies RM'000	Key Management Personnel* RM'000	Companies in which Certain Directors have Substantial Interest RM'000	Public Bank Group Officers' Retirement Benefits Fund RM'000
Amount due from related parties				
Loans, advances and financing	–	16,138	–	1,331,717
Rental deposits	–	–	–	9,074
	–	16,138	–	1,340,791
Amount due to related parties				
Demand deposits	62,734	20,785	12,937	–
Term deposits	21,180	7,892,241	100,947	30
Debt securities issued	–	1,250	55,528	–
Others	31	1,397	–	244
	83,945	7,915,673	169,412	274
Commitments and contingencies				
Commitments	–	6,222	–	673,283

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

The tables above include the following outstanding balances of the Group with the Directors of the Bank (including close members of their families):

(i) demand deposits and term deposits of RM9,077,377,000 (2018 – RM7,855,064,000); and

(ii) loans, advances and financing of RM2,112,000 (2018 – RM52,000).

Balances between the Bank and its subsidiary companies and collective investments are eliminated on consolidation at Group level.

44. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Bank 31 December 2019	Collective Investments RM'000	Subsidiary Companies RM'000	Key Management Personnel* RM'000	Companies in which Certain Directors have Substantial Interest RM'000	Public Bank Group Officers' Retirement Benefits Fund RM'000
Amount due from related parties					
Interbank lending	–	2,775,082	–	–	–
Derivative financial assets	–	90,130	–	–	–
Loans and advances	–	707,199	8,377	–	1,457,200
Money market instruments held	–	1,310,142	–	–	–
Dividend/Distribution receivable (Note 10)	31,618	750,125	–	–	–
Rental deposits	–	35,906	–	–	9,452
Interest receivable	–	10,745	–	–	–
Others	–	1,112	–	–	–
	31,618	5,680,441	8,377	–	1,466,652
Amount due to related parties					
Demand deposits	101	126,078	19,479	10,600	–
Term deposits	1,822,056	1,548,524	9,095,600	177,630	13
Debt securities issued	–	–	–	26,058	–
Interbank borrowing	–	3,840,207	–	–	–
Interest payable	25,949	10,735	–	–	–
Others	–	577	225	–	–
	1,848,106	5,526,121	9,115,304	214,288	13
Commitments and contingencies					
Contingent liabilities	–	6,079	–	–	–
Commitments	–	811,239	4,253	–	547,800
	–	817,318	4,253	–	547,800

44. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Bank **31 December 2018**	**Collective Investments RM'000**	**Subsidiary Companies RM'000**	**Key Management Personnel* RM'000**	**Companies in which Certain Directors have Substantial Interest RM'000**	**Public Bank Group Officers' Retirement Benefits Fund RM'000**
Amount due from related parties					
Interbank lending	–	1,340,914	–	–	–
Derivative financial assets	–	23,601	–	–	–
Loans and advances	–	678,579	8,001	–	1,331,717
Money market instruments held	–	1,842,223	–	–	–
Dividend/Distribution receivable (Note 10)	31,772	580,496	–	–	–
Rental deposits	–	35,795	–	–	8,683
Interest receivable	–	2,223	–	–	–
Others	–	1,555	–	–	–
	31,772	4,505,386	8,001	–	1,340,400
Amount due to related parties					
Demand deposits	101	91,572	19,212	12,937	–
Term deposits	1,722,913	1,646,917	7,866,868	90,258	30
Debt securities issued	–	–	1,250	45,464	–
Interbank borrowing	–	2,973,260	–	–	–
Derivative financial liabilities	–	3,237	–	–	–
Interest payable	28,152	13,300	–	–	–
Others	–	577	1,113	–	244
	1,751,166	4,728,863	7,888,443	148,659	274
Commitments and contingencies					
Contingent liabilities	–	3,850	–	–	–
Commitments	–	867,084	5,472	–	673,283
	–	870,934	5,472	–	673,283

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

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

(i) demand deposits and term deposits of RM9,073,337,000 (2018 – RM7,851,941,000); and

(ii) loans and advances of RM2,067,000 (2018 – RM52,000).

44. RELATED PARTY TRANSACTIONS (CONTINUED)

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

None of the loans, advances and financing granted to key management personnel (2018 – None) are impaired.

(d) Key Management Personnel Compensation

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

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Short-term employee benefits:				
Fees	**5,352**	4,231	**2,936**	2,083
Salary and other remuneration, including meeting allowances	**107,487**	118,490	**91,256**	103,615
Benefits-in-kind	**1,528**	1,393	**317**	285
Post-employment benefits:				
Defined contribution plan	**11,999**	10,919	**10,293**	9,303
Annual service cost	**754**	4,419	**639**	4,313
	127,120	139,452	**105,441**	119,599

Included in the total key management personnel compensation are:

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Directors' remuneration including benefits-in-kind – Directors of the Bank*	**62,771**	80,560	**59,639**	77,900

* Excluding annual service cost provided for a director of the Bank for year 2018 of RM3,700,000.

45. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Outstanding credit exposures with connected parties	**2,188,164**	2,528,816	**3,221,173**	3,074,594
of which:				
Total credit exposures which are impaired or in default	**1,039**	500	**908**	496
Total credit exposures	**369,200,252**	354,546,799	**287,411,919**	277,686,189
Percentage of outstanding credit exposures to connected parties				
– as a proportion of total credit exposures	**0.59%**	0.71%	**1.12%**	1.11%
– as a proportion of total capital	**4.55%**	5.60%	**8.94%**	8.96%
– which is impaired or in default	**0.05%**	0.02%	**0.03%**	0.02%

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.

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 loan 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.

46. FINANCIAL RISK MANAGEMENT

Overview

The Group's business activities involve the use of financial instruments, including derivatives. These activities expose the Group to a variety of financial risks, mainly credit risk, market risk, and liquidity and funding risk.

The Group's financial risk management is underpinned by the Group'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 the 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 Group's primary business is in commercial banking, the Group's exposure to credit risk is primarily from its lending and financing to retail consumers, small and medium enterprises ("SMEs") and corporate customers. Trading activities and investing the surplus funds of the Group, such as trading or holding of debt securities, deposit placements, settlement of transactions, also expose the Group to credit risk and counterparty credit risk ("CCR").

Risk Governance

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews the Group'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 Group's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the Group's lending standards, discretionary power for loans approval, credit risk rating, acceptable collateral and valuation, and the review, rehabilitation and restructuring of problematic and delinquent loans. 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 group-wide 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.

The management of credit risk starts with experienced key personnel appointed to the Credit Committee. The Credit Committee approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. Loan 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 loans with lower risk exposure. The Board of Directors of the respective entities has the authority to reject or modify the terms and conditions of loans which have been approved by the Credit Committee. The credit approving authorities are assigned discretionary powers based on their seniority and track record.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(a) Lending 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 loan application.

(b) Lending 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 Group'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 Group does not have any direct or indirect exposure to asset-backed securities, CDO or CLO and does not participate in any securitisation deals.

(d) Counterparty Credit Risk on Derivative Financial Instruments

CCR on derivative financial instruments is the risk that the Group's counterparty in a foreign exchange, interest rate, commodity, equity, option or credit derivative contract defaults prior to maturity date of the contract and that the Group, at the relevant time, has a claim on the counterparty. Derivative financial instruments are primarily entered into for hedging purposes.

Unlike on-balance sheet financial instruments, the Group'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 Group will only suffer losses 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 Interest Rate Swaps and Options are transacted under master agreements, International Swaps and Derivatives Association ("ISDA") and Credit Support Annex ("CSA") agreements. ISDA 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.

Where possible, the Group settles its OTC derivatives via the Payment-versus-Payment ("PVP") settlement method to further reduce settlement risk. For derivative financial instruments where the PVP settlement method is not possible, the Group establishes settlement limits through the Group's credit approval process.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

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 was set up with objectives of providing independent evaluation and views on retail business loans and corporate loans of selected loan size and/or type. Periodical review/assessment of business sectors and industries in which the Bank's borrowers 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.

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 Group's and 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 Group or 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 Group and of the Bank. To manage these large exposures and to avoid any undue credit concentration risk, the Group has emplaced internal exposure limits expressed as a percentage of the Group'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.

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– 31 DECEMBER 2019

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

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

By Industry Analysis (continued)

Group 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 Loans RM'000	Total RM'000
On-Balance Sheet Exposures									
Cash and balances with banks	5,096,678	8,979,021	–	–	–	–	–	–	14,075,699
Reverse repurchase agreements	8,208	–	–	–	–	–	–	–	8,208
Financial assets at fair value through profit or loss									
– Government securities and treasury bills	3,480,322	–	–	–	–	–	–	–	3,480,322
– Money market instruments	–	249,541	–	–	–	–	–	–	249,541
– Non-money market instruments*	–	34,974	–	–	–	–	–	–	34,974
Derivative financial assets	–	152,330	–	–	–	–	–	–	152,330
Financial investments at fair value through other comprehensive income									
– Government securities and treasury bills	33,950,350	–	–	–	–	–	–	–	33,950,350
– Money market instruments	–	426,813	–	–	–	–	–	–	426,813
– Non-money market instruments#	427,312	3,797,998	324,591	660,344	212,991	–	–	–	5,423,236
Financial investments at amortised cost (Gross)									
– Government securities and treasury bills	10,465,892	–	–	–	–	–	–	–	10,465,892
– Money market instruments	–	1,163,001	–	–	–	–	–	–	1,163,001
– Non-money market instruments	1,287,832	9,908,527	1,383,470	1,798,699	1,635,293	–	–	–	16,013,821
Gross loans, advances and financing									
– Retail loans/financing									
– housing loans/financing	–	–	–	415	21,472	121,584,566	–	19,694	121,626,147
– hire purchase	1,029	28,020	2,505,935	4,961,135	1,914,892	–	41,936,153	–	51,347,164
– credit cards	3	16	4,099	12,479	2,681	–	–	2,141,951	2,161,229
– other loans/financing	18,221	268,567	6,581,895	31,292,173	21,119,925	6,911,933	229,377	41,795,551	108,217,642
– Corporate loans/financing	1,000,848	13,222,715	3,044,940	7,577,115	22,027,083	46,291	–	197,267	47,116,259
Statutory deposits with Central Banks	10,044,185	–	–	–	–	–	–	–	10,044,185
	65,780,880	38,231,523	13,844,930	46,302,360	46,934,337	128,542,790	42,165,530	44,154,463	425,956,813
Commitments and Contingencies									
Contingent liabilities	2,016	138,823	434,156	698,826	881,334	–	–	1,108,293	3,263,448
Commitments	557,059	1,703,589	3,779,416	11,784,677	10,457,652	16,197,137	17,532	14,954,165	59,451,227
	559,075	1,842,412	4,213,572	12,483,503	11,338,986	16,197,137	17,532	16,062,458	62,714,675
Total Credit Exposures	66,339,955	40,073,935	18,058,502	58,785,863	58,273,323	144,739,927	42,183,062	60,216,921	488,671,488

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

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

By Industry Analysis (continued)

Group 31 December 2018	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 Loans RM'000	Total RM'000
On-Balance Sheet Exposures									
Cash and balances with banks	5,235,329	9,504,889	–	–	–	–	–	–	14,740,218
Reverse repurchase agreements	200,881	–	–	–	–	–	–	–	200,881
Financial assets at fair value through profit or loss									
– Government securities and treasury bills	1,924,256	–	–	–	–	–	–	–	1,924,256
– Non-money market instruments*	–	–	–	–	31,929	–	–	–	31,929
Derivative financial assets	–	185,891	–	–	–	–	–	–	185,891
Financial investments at fair value through other comprehensive income									
– Government securities and treasury bills	33,976,980	–	–	–	–	–	–	–	33,976,980
– Money market instruments	–	3,051,128	–	–	–	–	–	–	3,051,128
– Non-money market instruments#	481,039	3,261,208	289,394	680,435	255,099	–	–	–	4,967,175
Financial investments at amortised cost (Gross)									
– Government securities and treasury bills	10,367,404	–	–	–	–	–	–	–	10,367,404
– Money market instruments	–	1,198,530	–	–	–	–	–	–	1,198,530
– Non-money market instruments	1,273,740	9,390,621	1,567,698	1,619,513	1,605,054	–	–	–	15,456,626
Gross loans, advances and financing									
– Retail loans/financing									
– housing loans/financing	–	–	–	470	–	112,260,079	–	42,325	112,302,874
– hire purchase	180	17,068	2,594,591	4,776,732	2,055,876	–	40,806,193	–	50,250,640
– credit cards	–	6	2,018	7,920	1,479	–	–	2,053,417	2,064,840
– other loans/financing	16,722	119,038	6,827,887	31,011,208	20,648,740	6,224,576	238,729	41,266,020	106,352,920
– Corporate loans/financing	1,301,455	10,126,470	4,704,283	6,354,335	23,599,101	50,610	–	194,051	46,330,305
Statutory deposits with Central Banks	10,279,227	–	–	–	–	–	–	–	10,279,227
	65,057,213	36,854,849	15,985,871	44,450,613	48,197,278	118,535,265	41,044,922	43,555,813	413,681,824
Commitments and Contingencies									
Contingent liabilities	2,456	119,522	569,836	826,396	1,014,359	–	–	666,447	3,199,016
Commitments	518,609	1,633,583	3,748,542	11,715,846	11,107,701	14,136,868	65,580	14,222,292	57,149,021
	521,065	1,753,105	4,318,378	12,542,242	12,122,060	14,136,868	65,580	14,888,739	60,348,037
Total Credit Exposures	65,578,278	38,607,954	20,304,249	56,992,855	60,319,338	132,672,133	41,110,502	58,444,552	474,029,861

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

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

By Industry Analysis (continued)

Bank 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 Loans RM'000	Total RM'000
On-Balance Sheet Exposures									
Cash and balances with banks	1,050,347	7,434,938	–	–	–	–	–	–	8,485,285
Reverse repurchase agreements	8,208	–	–	–	–	–	–	–	8,208
Financial assets at fair value through profit or loss									
– Government securities and treasury bills	3,448,443	–	–	–	–	–	–	–	3,448,443
– Non-money market instruments*	–	–	–	–	–	–	–	–	–
Derivative financial assets	–	232,254	–	–	–	–	–	–	232,254
Financial investments at fair value through other comprehensive income									
– Government securities and treasury bills	23,296,864	–	–	–	–	–	–	–	23,296,864
– Money market instruments	–	426,813	–	–	–	–	–	–	426,813
– Non-money market instruments#	316,843	1,352,171	41,812	137,691	78,790	–	–	–	1,927,307
Financial investments at amortised cost (Gross)									
– Government securities and treasury bills	5,088,289	–	–	–	–	–	–	–	5,088,289
– Money market instruments	–	1,310,142	–	–	–	–	–	–	1,310,142
– Non-money market instruments	1,126,051	8,822,095	1,353,388	1,586,668	1,337,568	–	–	–	14,225,770
Gross loan and advances									
– Retail loans									
– housing loans	–	–	–	–	–	95,310,475	–	–	95,310,475
– hire purchase	556	27,010	2,116,576	4,752,370	1,829,487	–	31,857,748	–	40,583,747
– credit cards	3	16	4,099	12,479	2,681	–	–	2,093,792	2,113,070
– other loans	13,769	201,947	4,719,266	24,190,544	15,210,178	5,933,109	208,225	31,741,361	82,218,399
– Corporate loans	–	11,257,585	2,573,748	4,652,661	18,751,505	46,291	–	197,267	37,479,057
Statutory deposits with Central Banks	6,953,274	–	–	–	–	–	–	–	6,953,274
	41,302,647	31,064,971	10,808,889	35,332,413	37,210,209	101,289,875	32,065,973	34,032,420	323,107,397
Commitments and Contingencies									
Contingent liabilities	2,016	140,443	290,053	323,938	757,661	–	–	951,286	2,465,397
Commitments	535,412	2,345,051	1,759,385	9,512,082	8,490,866	13,078,759	1,374	13,416,255	49,139,184
	537,428	2,485,494	2,049,438	9,836,020	9,248,527	13,078,759	1,374	14,367,541	51,604,581
Total Credit Exposures	41,840,075	33,550,465	12,858,327	45,168,433	46,458,736	114,368,634	32,067,347	48,399,961	374,711,978

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

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

By Industry Analysis (continued)

Bank 31 December 2018	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 Loans RM'000	Total RM'000
On-Balance Sheet Exposures									
Cash and balances with banks	2,530,038	6,886,815	–	–	–	–	–	–	9,416,853
Financial assets at fair value through profit or loss									
– Government securities and treasury bills	1,893,946	–	–	–	–	–	–	–	1,893,946
– Non-money market instruments*	–	–	–	–	–	–	–	–	–
Derivative financial assets	–	193,101	–	–	–	–	–	–	193,101
Financial investments at fair value through other comprehensive income									
– Government securities and treasury bills	24,184,030	–	–	–	–	–	–	–	24,184,030
– Money market instruments	–	2,910,720	–	–	–	–	–	–	2,910,720
– Non-money market instruments#	339,705	1,145,034	40,901	36,077	75,738	–	–	–	1,637,455
Financial investments at amortised cost (Gross)									
– Government securities and treasury bills	5,239,000	–	–	–	–	–	–	–	5,239,000
– Money market instruments	–	1,842,223	–	–	–	–	–	–	1,842,223
– Non-money market instruments	1,127,154	8,010,645	1,535,555	1,483,719	1,337,568	–	–	–	13,494,641
Gross loan and advances									
– Retail loans									
– housing loans	–	–	–	–	–	89,027,872	–	–	89,027,872
– hire purchase	–	16,259	2,113,774	4,628,876	1,948,279	–	29,489,428	–	38,196,616
– credit cards	–	6	2,018	7,920	1,479	–	–	2,014,472	2,025,895
– other loans	10,033	67,261	5,028,049	24,237,492	15,239,690	5,444,271	218,162	31,744,025	81,988,983
– Corporate loans	–	8,652,197	4,278,599	4,478,953	20,263,490	50,610	–	194,051	37,917,900
Statutory deposits with Central Banks	7,258,452	–	–	–	–	–	–	–	7,258,452
	42,582,358	29,724,261	12,998,896	34,873,037	38,866,244	94,522,753	29,707,590	33,952,548	317,227,687
Commitments and Contingencies									
Contingent liabilities	2,456	115,736	375,944	382,854	926,862	–	–	637,765	2,441,617
Commitments	518,609	2,331,520	1,683,810	9,701,412	9,463,330	11,324,962	1,076	12,873,451	47,898,170
	521,065	2,447,256	2,059,754	10,084,266	10,390,192	11,324,962	1,076	13,511,216	50,339,787
Total Credit Exposures	43,103,423	32,171,517	15,058,650	44,957,303	49,256,436	105,847,715	29,708,666	47,463,764	367,567,474

* Excluding equity securities of the Group and of the Bank of RM445,428,000 (2018 – RM423,949,000) and RM419,940,000 (2018 – RM399,690,000) respectively which do not carry any credit risk.

\# Excluding equity securities of the Group and of the Bank of RM353,094,000 (2018 – RM347,200,000) and RM345,113,000 (2018 – RM338,498,000) respectively which do not carry any credit risk.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

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

By Geographical Analysis

The analysis of credit concentration risk of financial assets of the Group and of the Bank categorised by geographical distribution (i.e. based on the geographical location where the credit risk resides) is as follows:

Group 31 December 2019	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	7,043,362	3,311,934	2,142,464	1,577,939	14,075,699
Reverse repurchase agreements	–	–	–	8,208	8,208
Financial assets at fair value through profit or loss					
– Government securities and treasury bills	3,480,322	–	–	–	3,480,322
– Money market instruments	249,541	–	–	–	249,541
– Non-money market instruments*	34,974	–	–	–	34,974
Derivative financial assets	69,920	32,807	–	49,603	152,330
Financial investments at fair value through other comprehensive income					
– Government securities and treasury bills	33,789,793	–	–	160,557	33,950,350
– Money market instruments	426,813	–	–	–	426,813
– Non-money market instruments#	5,280,717	–	–	142,519	5,423,236
Financial investments at amortised cost (Gross)					
– Government securities and treasury bills	8,114,470	1,251,184	941,505	158,733	10,465,892
– Money market instruments	–	689,016	–	473,985	1,163,001
– Non-money market instruments	15,334,110	109,063	–	570,648	16,013,821
Gross loans, advances and financing					
– Retail loans/financing					
– housing loans/financing	115,857,753	4,753,201	273,843	741,350	121,626,147
– hire purchase	48,885,147	2,294,875	782	166,360	51,347,164
– credit cards	2,142,073	4,873	12,911	1,372	2,161,229
– other loans/financing	97,602,996	3,666,330	4,433,268	2,515,048	108,217,642
– Corporate loans/financing	42,322,591	4,445,409	–	348,259	47,116,259
Statutory deposits with Central Banks	8,763,996	59,455	1,132,483	88,251	10,044,185
	389,398,578	20,618,147	8,937,256	7,002,832	425,956,813
Commitments and Contingencies					
Contingent liabilities	2,547,900	184,779	20,000	510,769	3,263,448
Commitments	55,897,829	1,699,854	1,264,933	588,611	59,451,227
	58,445,729	1,884,633	1,284,933	1,099,380	62,714,675
Total Credit Exposures	447,844,307	22,502,780	10,222,189	8,102,212	488,671,488

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

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

By Geographical Analysis (continued)

The analysis of credit concentration risk of financial assets of the Group and of the Bank categorised by geographical distribution (i.e. based on the geographical location where the credit risk resides) is as follows (continued):

Group 31 December 2018	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	9,141,156	2,951,967	1,423,505	1,223,590	14,740,218
Reverse repurchase agreements	200,881	–	–	–	200,881
Financial assets at fair value through profit or loss					
– Government securities and treasury bills	1,924,256	–	–	–	1,924,256
– Non-money market instruments*	31,929	–	–	–	31,929
Derivative financial assets	140,861	4,948	–	40,082	185,891
Financial investments at fair value through other comprehensive income					
– Government securities and treasury bills	33,918,855	–	–	58,125	33,976,980
– Money market instruments	3,051,128	–	–	–	3,051,128
– Non-money market instruments#	4,802,895	–	–	164,280	4,967,175
Financial investments at amortised cost (Gross)					
– Government securities and treasury bills	7,637,825	1,124,568	1,323,520	281,491	10,367,404
– Money market instruments	–	739,588	–	458,942	1,198,530
– Non-money market instruments	14,597,155	164,431	–	695,040	15,456,626
Gross loans, advances and financing					
– Retail loans/financing					
– housing loans/financing	106,692,145	4,871,368	145,078	594,283	112,302,874
– hire purchase	47,846,703	2,230,569	591	172,777	50,250,640
– credit cards	2,046,739	5,605	11,564	932	2,064,840
– other loans/financing	96,175,247	3,753,757	4,198,540	2,225,376	106,352,920
– Corporate loans/financing	40,686,730	5,022,814	–	620,761	46,330,305
Statutory deposits with Central Banks	9,153,911	–	1,032,714	92,602	10,279,227
	378,048,416	20,869,615	8,135,512	6,628,281	413,681,824
Commitments and Contingencies					
Contingent liabilities	2,512,565	111,329	142,933	432,189	3,199,016
Commitments	53,818,214	1,642,247	1,130,555	558,005	57,149,021
	56,330,779	1,753,576	1,273,488	990,194	60,348,037
Total Credit Exposures	434,379,195	22,623,191	9,409,000	7,618,475	474,029,861

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

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

By Geographical Analysis (continued)

The analysis of credit concentration risk of financial assets of the Group and of the Bank categorised by geographical distribution (i.e. based on the geographical location where the credit risk resides) is as follows (continued):

Bank 31 December 2019	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	6,033,612	231,544	162,530	2,057,599	8,485,285
Reverse repurchase agreements	–	–	–	8,208	8,208
Financial assets at fair value through profit or loss					
– Government securities and treasury bills	3,448,443	–	–	–	3,448,443
– Non-money market instruments*	–	–	–	–	–
Derivative financial assets	160,050	24,689	–	47,515	232,254
Financial investments at fair value through other comprehensive income					
– Government securities and treasury bills	23,296,864	–	–	–	23,296,864
– Money market instruments	426,813	–	–	–	426,813
– Non-money market instruments#	1,927,307	–	–	–	1,927,307
Financial investments at amortised cost (Gross)					
– Government securities and treasury bills	5,047,218	–	–	41,071	5,088,289
– Money market instruments	1,310,142	–	–	–	1,310,142
– Non-money market instruments	14,225,770	–	–	–	14,225,770
Gross loans and advances					
– Retail loans					
– housing loans	95,263,417	–	–	47,058	95,310,475
– hire purchase	40,575,131	–	–	8,616	40,583,747
– credit cards	2,111,698	–	–	1,372	2,113,070
– other loans	81,477,679	–	–	740,720	82,218,399
– Corporate loans	37,143,740	94,717	–	240,600	37,479,057
Statutory deposits with Central Banks	6,924,591	–	–	28,683	6,953,274
	319,372,475	350,950	162,530	3,221,442	323,107,397
Commitments and Contingencies					
Contingent liabilities	2,451,943	–	–	13,454	2,465,397
Commitments	48,379,600	678,549	–	81,035	49,139,184
	50,831,543	678,549	–	94,489	51,604,581
Total Credit Exposures	370,204,018	1,029,499	162,530	3,315,931	374,711,978

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

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

By Geographical Analysis (continued)

The analysis of credit concentration risk of financial assets of the Group and of the Bank categorised by geographical distribution (i.e. based on the geographical location where the credit risk resides) is as follows (continued):

Bank 31 December 2018	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	7,754,452	165,440	–	1,496,961	9,416,853
Financial assets at fair value through profit or loss					
– Government securities and treasury bills	1,893,946	–	–	–	1,893,946
– Non-money market instruments*	–	–	–	–	–
Derivative financial assets	160,639	3,606	–	28,856	193,101
Financial investments at fair value through other comprehensive income					
– Government securities and treasury bills	24,184,030	–	–	–	24,184,030
– Money market instruments	2,910,720	–	–	–	2,910,720
– Non-money market instruments#	1,637,455	–	–	–	1,637,455
Financial investments at amortised cost (Gross)					
– Government securities and treasury bills	5,204,023	–	–	34,977	5,239,000
– Money market instruments	1,842,223	–	–	–	1,842,223
– Non-money market instruments	13,494,641	–	–	–	13,494,641
Gross loans and advances					
– Retail loans					
– housing loans	88,977,285	–	–	50,587	89,027,872
– hire purchase	38,184,523	–	–	12,093	38,196,616
– credit cards	2,024,963	–	–	932	2,025,895
– other loans	81,200,313	–	–	788,670	81,988,983
– Corporate loans	37,336,599	66,058	–	515,243	37,917,900
Statutory deposits with Central Banks	7,230,019	–	–	28,433	7,258,452
	314,035,831	235,104	–	2,956,752	317,227,687
Commitments and Contingencies					
Contingent liabilities	2,430,125	–	–	11,492	2,441,617
Commitments	47,052,164	714,832	–	131,174	47,898,170
	49,482,289	714,832	–	142,666	50,339,787
Total Credit Exposures	363,518,120	949,936	–	3,099,418	367,567,474

* Excluding equity securities of the Group and of the Bank of RM445,428,000 (2018 – RM423,949,000) and RM419,940,000 (2018 – RM399,690,000) respectively which do not carry any credit risk.

Excluding equity securities of the Group and of the Bank of RM353,094,000 (2018 – RM347,200,000) and RM345,113,000 (2018 – RM338,498,000) respectively which do not carry any credit risk.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(ii) Credit Quality

The table below represents an analysis of the credit quality of financial assets by stages 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 borrowers 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 from the debt instruments, the issuer's rating will be applied.

	2019				2018			
Group	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Debt Instruments								
Good	**69,420,838**	**–**	**–**	**69,420,838**	69,293,633	–	–	69,293,633
Satisfactory	**1,631,721**	**–**	**–**	**1,631,721**	1,503,140	–	–	1,503,140
Sub-standard	**–**	**142,519**	**–**	**142,519**	–	164,280	–	164,280
Credit-impaired	**–**	**–**	**19**	**19**	–	–	19	19
Gross carrying amount	**71,052,559**	**142,519**	**19**	**71,195,097**	70,796,773	164,280	19	70,961,072
Gross Loans, Advances and Financing								
Good	**293,284,202**	**–**	**–**	**293,284,202**	281,749,935	–	–	281,749,935
Satisfactory	**15,607,121**	**–**	**–**	**15,607,121**	15,284,184	–	–	15,284,184
Sub-standard	**–**	**19,972,199**	**–**	**19,972,199**	–	18,646,727	–	18,646,727
Credit-impaired	**–**	**–**	**1,604,919**	**1,604,919**	–	–	1,620,733	1,620,733
Gross carrying amount	**308,891,323**	**19,972,199**	**1,604,919**	**330,468,441**	297,034,119	18,646,727	1,620,733	317,301,579
Loan/Financing Commitments and Financial Guarantees								
Good	**24,799,878**	**–**	**–**	**24,799,878**	19,601,926	–	–	19,601,926
Satisfactory	**74,268**	**–**	**–**	**74,268**	71,830	–	–	71,830
Sub-standard	**–**	**480,027**	**–**	**480,027**	–	453,688	–	453,688
Credit-impaired	**–**	**–**	**33,857**	**33,857**	–	–	23,960	23,960
Gross exposure	**24,874,146**	**480,027**	**33,857**	**25,388,030**	19,673,756	453,688	23,960	20,151,404

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(ii) Credit Quality (continued)

Bank	2019 Stage 1 RM'000	2019 Stage 2 RM'000	2019 Stage 3 RM'000	2019 Total RM'000	2018 Stage 1 RM'000	2018 Stage 2 RM'000	2018 Stage 3 RM'000	2018 Total RM'000
Debt Instruments								
Good	**49,713,632**	**–**	**–**	**49,713,632**	51,200,910	–	–	51,200,910
Satisfactory	**9,977**	**–**	**–**	**9,977**	1,086	–	–	1,086
Sub-standard	**–**	**–**	**–**	**–**	–	–	–	–
Credit-impaired	**–**	**–**	**19**	**19**	–	–	19	19
Gross carrying amount	**49,723,609**	**–**	**19**	**49,723,628**	51,201,996	–	19	51,202,015
Gross Loans and Advances								
Good	**229,309,438**	**–**	**–**	**229,309,438**	221,119,041	–	–	221,119,041
Satisfactory	**10,584,930**	**–**	**–**	**10,584,930**	11,506,164	–	–	11,506,164
Sub-standard	**–**	**16,666,247**	**–**	**16,666,247**	–	15,388,279	–	15,388,279
Credit-impaired	**–**	**–**	**1,144,133**	**1,144,133**	–	–	1,143,782	1,143,782
Gross carrying amount	**239,894,368**	**16,666,247**	**1,144,133**	**257,704,748**	232,625,205	15,388,279	1,143,782	249,157,266
Loan Commitments and Financial Guarantees								
Good	**19,623,631**	**–**	**–**	**19,623,631**	16,181,835	–	–	16,181,835
Satisfactory	**58,486**	**–**	**–**	**58,486**	55,104	–	–	55,104
Sub-standard	**–**	**416,725**	**–**	**416,725**	–	390,895	–	390,895
Credit-impaired	**–**	**–**	**27,639**	**27,639**	–	–	19,999	19,999
Gross exposure	**19,682,117**	**416,725**	**27,639**	**20,126,481**	16,236,939	390,895	19,999	16,647,833

Past Due But Not Credit-impaired

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

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

	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
1 to 30 Days	**14,964,494**	15,905,838	**11,437,960**	12,077,377
31 to 59 Days	**6,818,278**	7,669,213	**5,214,903**	5,902,290
60 to 89 Days	**2,976,995**	3,098,781	**2,194,948**	2,268,533
	24,759,767	26,673,832	**18,847,811**	20,248,200

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Risk Management Approach (continued)

(iii) Collateral

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

– for residential mortgages – charges over residential properties
– for commercial property loans/financing – charges over the properties being financed
– for motor vehicle financing – ownership claims over the vehicles financed
– for share margin financing – pledges over securities from listed exchange
– for other loans/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 loans, advances and financing for the Group and the Bank as at 31 December 2019 are at 92.2% (2018 – 90.0%) and 92.4% (2018 – 90.8%) respectively. 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 loans, advances and financing, and held as at the end of the financial year are as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Residential properties	**90,572**	70,475	**79,585**	63,229
Non-residential properties	**87,045**	55,147	**81,468**	54,758
	177,617	125,622	**161,053**	117,987

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

(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 2019 ------>						<------ 31 December 2018 ------>					
	Money Market Instruments			Non-money Market Instruments – Debt Securities			Money Market Instruments			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	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000
Group												
AAA to AA-	**-**	**249,541**	**249,541**	**-**	**-**	**-**	–	–	–	–	–	–
P-1 to P-2	**-**	**-**	**-**	**-**	**34,974**	**34,974**	–	–	–	–	31,929	31,929
	-	**249,541**	**249,541**	**-**	**34,974**	**34,974**	–	–	–	–	31,929	31,929

46. 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 Fair Value through Other Comprehensive Income

	31 December 2019						31 December 2018					
	Money Market Instruments			Non-money Market Instruments – Debt Securities			Money Market Instruments			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	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000
Group												
Sovereign guaranteed	-	-	-	-	987,079	987,079	–	–	–	–	851,926	851,926
AAA to AA-	-	347,531	347,531	-	3,627,260	3,627,260	–	3,051,128	3,051,128	–	3,400,577	3,400,577
A+ to A-	-	79,282	79,282	211,794	220,416	432,210	–	–	–	328,820	–	328,820
BBB+ to BBB-	-	-	-	138,471	-	138,471	–	–	–	126,686	–	126,686
Lower than BBB-	-	-	-	142,519	-	142,519	–	–	–	164,280	–	164,280
Unrated	-	-	-	82,844	-	82,844	–	–	–	81,930	–	81,930
	-	426,813	426,813	575,628	4,834,755	5,410,383	–	3,051,128	3,051,128	701,716	4,252,503	4,954,219
Bank												
Sovereign guaranteed	-	-	-	-	474,221	474,221	–	–	–	–	492,420	492,420
AAA to AA-	-	347,531	347,531	-	1,453,086	1,453,086	–	2,910,720	2,910,720	–	1,145,035	1,145,035
A+ to A-	-	79,282	79,282	-	-	-	–	–	–	–	–	–
	-	426,813	426,813	-	1,927,307	1,927,307	–	2,910,720	2,910,720	–	1,637,455	1,637,455

46. 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

	<---- 31 December 2019 ---->						<---- 31 December 2018 ---->					
	Money Market Instruments			Non-money Market Instruments – Debt Securities			Money Market Instruments			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	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000
Group												
Sovereign guaranteed	-	-	-	-	7,652,950	7,652,950	–	–	–	–	7,971,747	7,971,747
AAA to AA-	105,130	-	105,130	496,113	7,618,571	8,114,684	52,820	–	52,820	541,550	6,624,293	7,165,843
A+ to A-	813,280	-	813,280	154,940	10,005	164,945	802,812	–	802,812	99,745	–	99,745
P-1 to P-2	244,591	-	244,591	81,223	-	81,223	342,898	–	342,898	218,176	–	218,176
Unrated	-	-	-	-	-	-	–	–	–	–	1,096	1,096
Defaulted	-	-	-	-	19	19	–	–	–	–	19	19
	1,163,001	-	1,163,001	732,276	15,281,545	16,013,821	1,198,530	–	1,198,530	859,471	14,597,155	15,456,626
Bank												
Sovereign guaranteed	-	-	-	-	6,734,032	6,734,032	–	–	–	–	7,073,678	7,073,678
AAA to AA-	-	1,310,142	1,310,142	-	7,481,714	7,481,714	–	1,842,223	1,842,223	–	6,419,858	6,419,858
A+ to A-	-	-	-	-	10,005	10,005	–	–	–	–	–	–
Unrated	-	-	-	-	-	-	–	–	–	–	1,086	1,086
Defaulted	-	-	-	-	19	19	–	–	–	–	19	19
	-	1,310,142	1,310,142	-	14,225,770	14,225,770	–	1,842,223	1,842,223	–	13,494,641	13,494,641

The ratings shown for money market instruments (e.g. negotiable instruments of deposit and bankers' acceptances) 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 (2018 – none).

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk

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

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

(i) Traded Market Risk

Primarily the interest rate/rate of return risk and credit spread risk, exists in the Group'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

Interest rate/rate of return risk, foreign exchange risk and equity prices risk arising mainly from the retail and commercial banking assets and liabilities, as well as financial investments designated as at fair value through other comprehensive income and at amortised cost.

The Group's core market risks are as follows:

(a) Interest Rate/Rate of Return Risk in the Banking Book ("IRR/RoRBB")

Risk to the Group's earnings and economic value of equity ("EVE") arising from adverse movements in the interest rate/rate of return over time arising from activities such as deposits taking, lending or financing and investment.

(b) Foreign Exchange Risk

Risk of adverse impact arising from movements in exchange rates on foreign currency positions originating from treasury money market activities and from the Group's investments and retained earnings in its subsidiary companies and overseas branches, whose functional currencies are not in Ringgit Malaysia. The main foreign currencies in which the Group's businesses are transacted in are United States Dollars and Hong Kong Dollars.

(c) Equity Risk

Risk of adverse impact arising from movements in equity prices on equity positions held by the Group for dividend purposes.

Risk Governance

The ALCO supports the RMC in market risk management oversight. The ALCO reviews the Group'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.

(i) Traded Market Risk

Risk Management Approach

The Group's traded market risk frameworks comprise market risk policies and practices, market risk limits and valuation methodologies. The Group'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.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(i) Traded Market Risk (continued)

Risk Management Approach (continued)

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 Group maintains its policy of prohibiting exposures in trading financial derivative positions unless with the prior specific approval of the Board of Directors.

During the financial year, the Group's and the Bank's traded market risk exposures on fixed income instruments as measured by PV01, averaged at RM260,000 (2018 – RM89,000) and RM245,000 (2018 – RM74,000) respectively. The composition of the Group's and the Bank's trading portfolio is set out in Note 5 (except for equity securities) to the financial statements.

(ii) Non-Traded Market Risk

(a) Interest Rate/Rate of Return Risk in the Banking Book

The sources of IRR/RoRBB are as follows:

(i) Repricing Risk – Risk caused by timing differences in the interest rate/rate of return changes and cash flows that occur in the repricing and maturity of the Group'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 Group's earnings and EVE.

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

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

Risk Management Approach

The Group emphasises the importance of IRR/RoRBB as most of the balance sheet items of the Group generate interest/profit income and interest/profit expense that are correlated to interest rate/rate of return. Hence, the primary objective in managing the IRR/RoRBB is to manage the volatility in the Group's net interest/profit income ("NII/NPI") and EVE due to the changing levels of interest rate/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 interest rate/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 interest rate/rate of return risk is set out in Note 6 to the financial statements.

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

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

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

Risk Management Approach (continued)

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

(i) Repricing Gap Reports

Distribution of interest rate/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 loan/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 and quarterly basis for the Group.

(ii) Sensitivity Analysis

Impact to NII/NPI – This is the projected Group's NII/NPI sensitivity to a 100 basis point parallel rate movement across all maturities applied on the Group's interest rate/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 interest rate/rate of return is lower than 1%, the downward rate shock applied is restricted to the prevailing interest rate/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 interest rates/rates of return on the economic value of the Group's Balance Sheet. It requires all future cash flows associated with the Group's assets, liabilities and off-balance sheet positions to be discounted at relevant market rates to determine the overall net present value of the Group.

These are measured on a monthly basis for the Bank and quarterly basis for the Group.

(iii) Simulation Scenarios

As and when the need arises, analysis is performed on the sensitivity of projected NII/NPI and EVE under varying interest rate/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 Group. 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 interest rate/rate of return risk.

(iv) Stress Testing

The vulnerability of the Group'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 interest rate/rate of return movements on the Group's statements of financial position which can provide an early warning of the potential losses and to facilitate proactive management of the interest rate/rate of return risk.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

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

(i) Interest/Profit Rate Gap Analysis

The following tables indicate the effective interest rate/rate of return at the reporting date and the Group's and the Bank's sensitivity to the interest rate/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 loans, advances and financing.

	<-- Non-trading book								-->			
Group 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-interest /profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate/rate of return %
ASSETS												
Cash and balances with banks	6,819,002	1,975,386	767,302	-	-	-	-	-	4,514,009	-	14,075,699	2.71
Reverse repurchase agreements	8,208	-	-	-	-	-	-	-	-	-	8,208	6.67
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-	4,210,265	4,210,265	2.97
Financial investments at fair value through other comprehensive income	153,430	30,404	2,661,438	8,012,452	6,072,600	6,277,253	6,706,112	9,873,858	365,946	-	40,153,493	3.14
Financial investments at amortised cost	651,338	736,149	5,196,662	2,539,312	8,765,055	3,275,728	4,362,659	2,111,265	-	-	27,638,168	3.78
Loans, advances and financing												
– not credit-impaired	257,289,128	7,489,487	13,770,124	14,707,307	10,067,481	7,800,624	6,027,872	11,711,499	-	-	328,863,522	5.02
– credit-impaired*	-	-	-	-	-	-	-	-	(387,028)	-	(387,028)	-
Other asset balances	-	-	-	-	-	-	-	-	18,169,379	98,969	18,268,348	-
TOTAL ASSETS	264,921,106	10,231,426	22,395,526	25,259,071	24,905,136	17,353,605	17,096,643	23,696,622	22,662,306	4,309,234	432,830,675	

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

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

(i) Interest/Profit Rate Gap Analysis (continued)

	<------ Non-trading book ------>											
Group 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-interest /profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate/rate of return %
LIABILITIES AND EQUITY												
Deposits from customers	144,366,618	66,204,994	104,217,874	151,650	3,416	1,806	1,303	-	38,392,814	-	353,340,475	2.95
Deposits from banks	4,718,644	2,899,881	367,880	135,428	31,758	7,178	169	443	332,692	-	8,494,073	2.35
Obligations on securities sold under repurchase agreements	639,154	-	331,500	-	-	-	-	-	-	-	970,654	3.10
Bills and acceptances payable	22,814	-	3,000	-	-	-	-	-	208,972	-	234,786	3.09
Recourse obligations on loans sold to Cagamas	-	-	1,000,002	-	4,500,002	-	-	-	-	-	5,500,004	4.28
Debt securities issued and other borrowed funds	574,374	2,324,394	-	1,519,746	2,499,986	2,009,285	2,500,000	889,665	-	-	12,317,450	4.11
Other liability balances	6,380	-	-	-	-	-	-	-	7,008,750	211,899	7,227,029	3.92
Total Liabilities	150,327,984	71,429,269	105,920,256	1,806,824	7,035,162	2,018,269	2,501,472	890,108	45,943,228	211,899	388,084,471	
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	43,594,330	-	43,594,330	-
Non-controlling interests	-	-	-	-	-	-	-	-	1,151,874	-	1,151,874	-
TOTAL LIABILITIES AND EQUITY	150,327,984	71,429,269	105,920,256	1,806,824	7,035,162	2,018,269	2,501,472	890,108	90,689,432	211,899	432,830,675	
On-balance sheet interest/profit sensitivity gap	114,593,122	(61,197,843)	(83,524,730)	23,452,247	17,869,974	15,335,336	14,595,171	22,806,514	(68,027,126)	4,097,335	-	
Off-balance sheet interest/profit sensitivity gap (interest/profit rate swaps)	2,535,644	4,053,877	(500,000)	(1,516,220)	(3,976,670)	(25,000)	-	(571,631)	-	-	-	
TOTAL INTEREST/ PROFIT SENSITIVITY GAP	117,128,766	(57,143,966)	(84,024,730)	21,936,027	13,893,304	15,310,336	14,595,171	22,234,883	(68,027,126)	4,097,335	-	

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

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

(i) Interest/Profit Rate Gap Analysis (continued)

	<------------------------------------ Non-trading book ------------------------------------>											
Group 2018	**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-interest /profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective interest rate/rate of return %**
ASSETS												
Cash and balances with banks	9,445,937	830,995	715,090	–	–	–	–	–	3,748,196	–	14,740,218	3.15
Reverse repurchase agreements	200,881	–	–	–	–	–	–	–	–	–	200,881	3.33
Financial assets at fair value through profit or loss	–	–	–	–	–	–	–	–	–	2,380,134	2,380,134	3.35
Financial investments at fair value through other comprehensive income	1,151,381	2,404,591	4,447,450	11,302,937	7,882,679	8,188,087	3,676,842	2,928,360	360,156	–	42,342,483	3.64
Financial investments at amortised cost	741,426	1,890,598	2,258,877	3,368,278	2,386,733	8,621,586	2,992,527	4,757,323	1,096	–	27,018,444	3.76
Loans, advances and financing												
– not credit-impaired	246,050,481	7,553,311	13,869,914	13,837,612	10,314,296	7,572,132	5,513,156	10,969,944	–	–	315,680,846	5.26
– credit-impaired*	–	–	–	–	–	–	–	–	(421,680)	–	(421,680)	–
Other asset balances	–	–	–	–	–	–	–	–	17,694,123	57,833	17,751,956	–
TOTAL ASSETS	257,590,106	12,679,495	21,291,331	28,508,827	20,583,708	24,381,805	12,182,525	18,655,627	21,381,891	2,437,967	419,693,282	

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

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

(i) Interest/Profit Rate Gap Analysis (continued)

	<------ Non-trading book ------>											
Group 2018	**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-interest /profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective interest rate/rate of return %**
LIABILITIES AND EQUITY												
Deposits from customers	136,231,451	49,577,831	113,727,530	689,608	3,889	2,052	1,758	–	38,925,773	–	339,159,892	3.19
Deposits from banks	5,346,097	2,847,789	713,174	123,535	142,554	32,770	6,914	–	270,321	–	9,483,154	3.06
Obligations on securities sold under repurchase agreements	4,045,594	11	–	–	–	–	–	–	–	–	4,045,605	3.35
Bills and acceptances payable	–	2,500	–	–	–	–	–	–	212,092	–	214,592	2.92
Recourse obligations on loans sold to Cagamas	–	–	–	1,000,002	–	4,500,001	–	–	–	–	5,500,003	4.28
Debt securities issued and other borrowed funds	575,534	2,345,875	3,597,170	–	1,519,560	2,499,980	2,009,063	889,612	–	–	13,436,794	4.60
Other liability balances	12,579	–	–	–	–	–	–	–	5,614,541	129,659	5,756,779	5.41
Total Liabilities	146,211,255	54,774,006	118,037,874	1,813,145	1,666,003	7,034,803	2,017,735	889,612	45,022,727	129,659	377,596,819	
Equity attributable to equity holders of the Bank	–	–	–	–	–	–	–	–	40,973,056	–	40,973,056	–
Non-controlling interests	–	–	–	–	–	–	–	–	1,123,407	–	1,123,407	–
TOTAL LIABILITIES AND EQUITY	146,211,255	54,774,006	118,037,874	1,813,145	1,666,003	7,034,803	2,017,735	889,612	87,119,190	129,659	419,693,282	
On-balance sheet interest/profit sensitivity gap	111,378,851	(42,094,511)	(96,746,543)	26,695,682	18,917,705	17,347,002	10,164,790	17,766,015	(65,737,299)	2,308,308	–	
Off-balance sheet interest/profit sensitivity gap (interest/profit rate swaps)	2,676,864	2,373,064	1,036,720	(930,000)	(1,521,320)	(3,184,320)	(25,000)	(426,008)	–	–	–	
TOTAL INTEREST/ PROFIT SENSITIVITY GAP	114,055,715	(39,721,447)	(95,709,823)	25,765,682	17,396,385	14,162,682	10,139,790	17,340,007	(65,737,299)	2,308,308	–	

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

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

(i) Interest/Profit Rate Gap Analysis (continued)

	<-------- Non-trading book --------								-------->			
Bank 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-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
ASSETS												
Cash and balances with banks	3,292,129	1,480,102	562,530	-	-	-	-	-	3,150,524	-	8,485,285	2.95
Reverse repurchase agreements	8,208	-	-	-	-	-	-	-	-	-	8,208	6.67
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-	3,868,383	3,868,383	2.95
Financial investments at fair value through other comprehensive income	99,830	-	866,050	7,084,008	3,576,459	3,632,719	4,398,634	5,993,284	345,113	-	25,996,097	3.06
Financial investments at amortised cost	13,037	12,616	2,228,904	2,822,234	7,991,723	1,873,822	3,976,381	1,701,739	-	-	20,620,456	4.14
Loans and advances												
– not credit-impaired	206,565,143	5,498,637	8,521,411	10,502,226	7,468,118	5,808,438	4,504,198	7,692,444	-	-	256,560,615	4.94
– credit-impaired*	-	-	-	-	-	-	-	-	(290,541)	-	(290,541)	-
Other asset balances	-	-	-	-	-	-	-	-	24,207,774	89,175	24,296,949	-
TOTAL ASSETS	**209,978,347**	**6,991,355**	**12,178,895**	**20,408,468**	**19,036,300**	**11,314,979**	**12,879,213**	**15,387,467**	**27,412,870**	**3,957,558**	**339,545,452**	

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

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

(i) Interest/Profit Rate Gap Analysis (continued)

Bank 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-interest sensitive RM'000 ---->	Trading book RM'000	Total RM'000	Effective interest rate %
LIABILITIES AND EQUITY												
Deposits from customers	102,025,884	47,224,778	85,866,428	136,395	2,291	1,430	768	-	33,001,716	-	268,259,690	3.05
Deposits from banks	4,870,241	4,330,824	1,356,466	123,671	28,145	6,178	169	443	1,079,265	-	11,795,402	2.38
Obligations on securities sold under repurchase agreements	639,154	-	-	-	-	-	-	-	-	-	639,154	3.08
Bills and acceptances payable	22,814	-	3,000	-	-	-	-	-	208,595	-	234,409	3.09
Recourse obligations on loans sold to Cagamas	-	-	1,000,002	-	4,500,002	-	-	-	-	-	5,500,004	4.28
Debt securities issued and other borrowed funds	-	2,324,394	-	999,884	1,999,986	2,009,285	2,000,000	889,665	-	-	10,223,214	4.09
Other liability balances	6,380	-	-	-	-	-	-	-	5,599,378	209,451	5,815,209	3.92
Total Liabilities	107,564,473	53,879,996	88,225,896	1,259,950	6,530,424	2,016,893	2,000,937	890,108	39,888,954	209,451	302,467,082	
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	37,078,370	-	37,078,370	-
TOTAL LIABILITIES AND EQUITY	107,564,473	53,879,996	88,225,896	1,259,950	6,530,424	2,016,893	2,000,937	890,108	76,967,324	209,451	339,545,452	
On-balance sheet interest sensitivity gap	102,413,874	(46,888,641)	(76,047,001)	19,148,518	12,505,876	9,298,086	10,878,276	14,497,359	(49,554,454)	3,748,107	-	
Off-balance sheet interest sensitivity gap (interest rate swaps)	1,437,400	2,148,620	(500,000)	(1,434,350)	(3,476,670)	(25,000)	-	1,850,000	-	-	-	
TOTAL INTEREST SENSITIVITY GAP	103,851,274	(44,740,021)	(76,547,001)	17,714,168	9,029,206	9,273,086	10,878,276	16,347,359	(49,554,454)	3,748,107	-	

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

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

(i) Interest/Profit Rate Gap Analysis (continued)

	<------ Non-trading book ------>											
Bank 2018	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-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
ASSETS												
Cash and balances with banks	6,944,368	218,420	–	–	–	–	–	–	2,254,065	–	9,416,853	3.28
Financial assets at fair value through profit or loss	–	–	–	–	–	–	–	–	–	2,293,636	2,293,636	3.34
Financial investments at fair value through other comprehensive income	501,274	2,200,771	3,440,253	6,525,755	6,868,491	4,960,003	2,265,459	1,970,199	338,498	–	29,070,703	3.55
Financial investments at amortised cost	13,404	341,549	879,596	2,209,709	2,786,659	7,991,156	1,672,678	4,676,527	1,086	–	20,572,364	4.13
Loans and advances												
– not credit-impaired	200,289,303	6,047,227	8,601,072	9,621,721	7,623,781	5,417,535	3,832,110	6,580,735	–	–	248,013,484	5.21
– credit-impaired*	–	–	–	–	–	–	–	–	(323,087)	–	(323,087)	–
Other asset balances	–	–	–	–	–	–	–	–	22,687,478	55,109	22,742,587	–
TOTAL ASSETS	207,748,349	8,807,967	12,920,921	18,357,185	17,278,931	18,368,694	7,770,247	13,227,461	24,958,040	2,348,745	331,786,540	

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

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

(i) Interest/Profit Rate Gap Analysis (continued)

Bank 2018	<------- 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-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
LIABILITIES AND EQUITY												
Deposits from customers	99,083,411	36,317,726	89,279,478	328,611	3,119	2,047	1,380	–	33,861,787	–	258,877,559	3.34
Deposits from banks	5,641,693	4,234,292	1,722,309	123,535	130,437	29,048	5,914	–	599,835	–	12,487,063	2.79
Obligations on securities sold under repurchase agreements	4,045,594	11	–	–	–	–	–	–	–	–	4,045,605	3.35
Bills and acceptances payable	–	2,500	–	–	–	–	–	–	211,888	–	214,388	2.92
Recourse obligations on loans sold to Cagamas	–	–	–	1,000,002	–	4,500,001	–	–	–	–	5,500,003	4.28
Debt securities issued and other borrowed funds	–	2,345,875	3,097,283	–	999,785	1,999,980	2,009,063	889,612	–	–	11,341,598	4.66
Other liability balances	12,579	–	–	–	–	–	–	–	3,902,124	125,817	4,040,520	5.41
Total Liabilities	108,783,277	42,900,404	94,099,070	1,452,148	1,133,341	6,531,076	2,016,357	889,612	38,575,634	125,817	296,506,736	
Equity attributable to equity holders of the Bank	–	–	–	–	–	–	–	–	35,279,804	–	35,279,804	–
TOTAL LIABILITIES AND EQUITY	108,783,277	42,900,404	94,099,070	1,452,148	1,133,341	6,531,076	2,016,357	889,612	73,855,438	125,817	331,786,540	
On-balance sheet interest sensitivity gap	98,965,072	(34,092,437)	(81,178,149)	16,905,037	16,145,590	11,837,618	5,753,890	12,337,849	(48,897,398)	2,222,928	–	
Off-balance sheet interest sensitivity gap (interest rate swaps)	897,600	(10,480)	2,060,800	(800,000)	(1,438,600)	(2,684,320)	(25,000)	2,000,000	–	–	–	
TOTAL INTEREST SENSITIVITY GAP	99,862,672	(34,102,917)	(79,117,349)	16,105,037	14,706,990	9,153,298	5,728,890	14,337,849	(48,897,398)	2,222,928	–	

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

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

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

(ii) Interest Rate/Rate of Return Risk Sensitivity Analysis

The following tables present the projected Group's and Bank's sensitivity to a 100 basis point parallel rate movement across all maturities applied on the Group's and Bank's interest rate/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 interest rate/rate of return is lower than 1%, the downward rate shock applied is restricted to the prevailing interest rate/rate of return.

	2019		2018	
	-100 bps	+100 bps	-100 bps	+100 bps
	<--------------------- Increase/(Decrease)			--------------------->
	RM'000	RM'000	RM'000	RM'000
Group				
Impact on NII/NPI				
Ringgit Malaysia	**(566,405)**	**542,702**	(615,398)	587,510
United States Dollars	**(36,462)**	**20,741**	(43,231)	32,635
Hong Kong Dollars	**(39,686)**	**32,038**	(48,529)	40,381
Other Currencies	**(20,635)**	**17,740**	(16,621)	14,996
	(663,188)	**613,221**	(723,779)	675,522
Impact on EVE				
Ringgit Malaysia	**2,289,391**	**(1,347,289)**	1,890,691	(1,021,354)
United States Dollars	**63,390**	**6,532**	22,998	43,384
Hong Kong Dollars	**(50,893)**	**88,442**	(62,051)	100,998
Other Currencies	**12,974**	**(3,872)**	2,792	4,549
	2,314,862	**(1,256,187)**	1,854,430	(872,423)

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

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

(ii) Interest Rate/Rate of Return Risk Sensitivity Analysis (continued)

	2019		2018	
	-100 bps	+100 bps	-100 bps	+100 bps
	<---------------------- Increase/(Decrease) ---------------------->			
	RM'000	RM'000	RM'000	RM'000
Bank				
Impact on NII				
Ringgit Malaysia	**(493,263)**	**474,519**	(502,355)	479,242
United States Dollars	**(13,719)**	**13,483**	(15,931)	15,817
Hong Kong Dollars	**1,910**	**(1,916)**	2,684	(2,686)
Other Currencies	**(6,057)**	**5,910**	(6,260)	6,094
	(511,129)	**491,996**	(521,862)	498,467
Impact on EVE				
Ringgit Malaysia	**1,692,682**	**(897,100)**	1,516,055	(780,656)
United States Dollars	**(90,724)**	**97,056**	(107,131)	105,530
Hong Kong Dollars	**(68,609)**	**66,208**	(75,221)	71,958
Other Currencies	**4,803**	**(542)**	2,675	1,276
	1,538,152	**(734,378)**	1,336,378	(601,892)

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

The repricing profile of loans/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, loans/financing prepayments are generally estimated based on past statistics and trends. The impact on the NII/NPI and EVE are measured on a monthly basis for the Bank and quarterly basis for the Group, both of which are reported to the ALCO and the RMC.

(b) Foreign Exchange Risk

Risk Management Approach

The Group manages such risk through funding in the same functional currencies or hedging via forward contracts, where possible. In addition, Net Open Position ("NOP") limit is set for overall NOP as well as NOP limits for individual currencies. The decision to hedge the Group's net investment in its overseas operations is based on the potential foreign exchange risk against the cost of hedging and is periodically assessed by the ALCO.

(i) The following tables summarised the assets, liabilities and NOP by currencies as at the reporting date, which are mainly in Ringgit Malaysia, Hong Kong Dollars and United States Dollars. Other currencies mainly include exposure to Vietnamese Dong, Euro, Australian Dollars, Chinese Renminbi, New Zealand Dollars, Sri Lankan Rupees, Laotian Kip, Great Britain Pounds, Cambodian Riel, Japanese Yen and Singapore Dollars.

NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(b) Foreign Exchange Risk (continued)

Group 2019	Malaysian Ringgit RM'000	Hong Kong Dollars RM'000	United States Dollars RM'000	Others RM'000	Total RM'000
ASSETS					
Cash and balances with banks	6,668,708	745,824	4,834,979	1,826,188	14,075,699
Reverse repurchase agreements	–	–	–	8,208	8,208
Financial assets at fair value through profit or loss	4,210,265	–	–	–	4,210,265
Derivative financial assets	135,412	8,118	7,105	1,695	152,330
Financial investments at fair value through other comprehensive income	39,277,333	3,577	567,492	305,091	40,153,493
Financial investments at amortised cost	23,391,949	1,771,404	1,712,624	762,191	27,638,168
Loans, advances and financing	303,829,671	13,696,188	6,818,230	4,132,405	328,476,494
Other assets	1,029,980	473,718	282,870	360,832	2,147,400
Statutory deposits with Central Banks	8,763,996	336	1,184,948	94,905	10,044,185
Deferred tax assets	55,335	13,782	9,523	4,844	83,484
Investment in associated companies	75,064	–	16	–	75,080
Investment properties	547,400	205,695	–	–	753,095
Right-of-use assets	977,363	407,204	38,455	4,138	1,427,160
Property and equipment	920,126	94,612	80,684	47,153	1,142,575
Intangible assets	775,493	1,521,053	–	146,493	2,443,039
TOTAL ASSETS	390,658,095	18,941,511	15,536,926	7,694,143	432,830,675
LIABILITIES					
Deposits from customers	318,025,138	13,513,302	15,661,429	6,140,606	353,340,475
Deposits from banks	3,020,884	1,077,982	3,364,180	1,031,027	8,494,073
Obligations on securities sold under repurchase agreements	638,131	–	–	332,523	970,654
Bills and acceptances payable	234,044	–	428	314	234,786
Recourse obligations on loans sold to Cagamas	5,500,004	–	–	–	5,500,004
Derivative financial liabilities	309,488	2,444	33,788	4	345,724
Debt securities issued and other borrowed funds	9,418,682	574,374	2,324,394	–	12,317,450
Lease liabilities	975,276	65,266	42,650	4,616	1,087,808
Other liabilities	3,546,678	595,638	342,864	711,217	5,196,397
Provision for tax expense and zakat	432,253	32,042	68,531	7,281	540,107
Deferred tax liabilities	35,344	21,649	–	–	56,993
TOTAL LIABILITIES	342,135,922	15,882,697	21,838,264	8,227,588	388,084,471
Non-controlling interests	–	1,119,197	32,677	–	1,151,874
On-Balance Sheet Open Position	48,522,173	1,939,617	(6,334,015)	(533,445)	43,594,330
Off-Balance Sheet Open Position	(6,653,697)	(1,594,864)	4,761,452	3,487,109	–
NET OPEN POSITION	41,868,476	344,753	(1,572,563)	2,953,664	43,594,330

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(b) Foreign Exchange Risk (continued)

Group 2018	Malaysian Ringgit RM'000	Hong Kong Dollars RM'000	United States Dollars RM'000	Others RM'000	Total RM'000
ASSETS					
Cash and balances with banks	8,749,628	570,599	3,636,605	1,783,386	14,740,218
Reverse repurchase agreements	200,881	–	–	–	200,881
Financial assets at fair value through profit or loss	2,380,134	–	–	–	2,380,134
Derivative financial assets	124,481	1,342	58,686	1,382	185,891
Financial investments at fair value through other comprehensive income	41,442,865	3,594	671,369	224,655	42,342,483
Financial investments at amortised cost	22,231,193	1,965,285	2,055,392	766,574	27,018,444
Loans, advances and financing	290,562,828	14,272,430	7,265,275	3,158,633	315,259,166
Other assets	1,330,696	400,850	243,535	418,806	2,393,887
Statutory deposits with Central Banks	9,153,911	–	1,070,180	55,136	10,279,227
Deferred tax assets	48,020	16,916	11,519	4,919	81,374
Investment in associated companies	70,399	–	17	–	70,416
Investment properties	536,600	182,607	–	–	719,207
Property and equipment	1,031,580	421,930	81,402	32,287	1,567,199
Intangible assets	775,493	1,528,131	–	151,131	2,454,755
TOTAL ASSETS	378,638,709	19,363,684	15,093,980	6,596,909	419,693,282
LIABILITIES					
Deposits from customers	302,958,982	14,373,995	15,788,135	6,038,780	339,159,892
Deposits from banks	3,635,277	313,815	4,176,543	1,357,519	9,483,154
Obligations on securities sold under repurchase agreements	4,038,770	–	–	6,835	4,045,605
Bills and acceptances payable	214,090	–	140	362	214,592
Recourse obligations on loans sold to Cagamas	5,500,003	–	–	–	5,500,003
Derivative financial liabilities	286,758	3,842	7,064	–	297,664
Debt securities issued and other borrowed funds	10,515,385	575,534	2,345,875	–	13,436,794
Other liabilities	3,338,097	530,258	362,424	744,691	4,975,470
Provision for tax expense and zakat	261,705	8,080	60,431	11,481	341,697
Deferred tax liabilities	122,748	19,200	–	–	141,948
TOTAL LIABILITIES	330,871,815	15,824,724	22,740,612	8,159,668	377,596,819
Non-controlling interests	–	1,092,167	31,240	–	1,123,407
On-Balance Sheet Open Position	47,766,894	2,446,793	(7,677,872)	(1,562,759)	40,973,056
Off-Balance Sheet Open Position	(7,940,609)	(2,077,924)	6,317,256	3,701,277	–
NET OPEN POSITION	39,826,285	368,869	(1,360,616)	2,138,518	40,973,056

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(b) Foreign Exchange Risk (continued)

Bank 2019	Malaysian Ringgit RM'000	Hong Kong Dollars RM'000	United States Dollars RM'000	Others RM'000	Total RM'000
ASSETS					
Cash and balances with banks	4,856,696	141,928	2,940,923	545,738	8,485,285
Reverse repurchase agreements	–	–	–	8,208	8,208
Financial assets at fair value through profit or loss	3,868,383	–	–	–	3,868,383
Derivative financial assets	225,542	–	6,712	–	232,254
Financial investments at fair value through other comprehensive income	25,963,649	–	31,989	459	25,996,097
Financial investments at amortised cost	20,579,544	–	6,834	34,078	20,620,456
Loans and advances	254,369,388	94,653	1,085,573	720,460	256,270,074
Other assets	1,270,749	382,112	218,049	329,982	2,200,892
Statutory deposits with Central Banks	6,924,591	–	26,991	1,692	6,953,274
Deferred tax assets	11,019	–	182	106	11,307
Collective investments	5,723,435	–	–	–	5,723,435
Investment in subsidiary companies	3,064,125	1,672,194	538,226	1,219,749	6,494,294
Investment in associated companies	45,000	–	–	–	45,000
Right-of-use assets	1,317,256	–	5,265	–	1,322,521
Property and equipment	604,612	–	554	13,413	618,579
Intangible assets	695,393	–	–	–	695,393
TOTAL ASSETS	329,519,382	2,290,887	4,861,298	2,873,885	339,545,452
LIABILITIES					
Deposits from customers	261,664,763	7,927	4,242,507	2,344,493	268,259,690
Deposits from banks	4,038,692	809,641	6,242,178	704,891	11,795,402
Obligations on securities sold under repurchase agreements	638,131	–	–	1,023	639,154
Bills and acceptances payable	233,667	–	428	314	234,409
Recourse obligations on loans sold to Cagamas	5,500,004	–	–	–	5,500,004
Derivative financial liabilities	309,488	–	13,447	–	322,935
Debt securities issued and other borrowed funds	7,898,820	–	2,324,394	–	10,223,214
Lease liabilities	1,339,708	–	4,929	–	1,344,637
Other liabilities	3,021,706	742	101,265	611,056	3,734,769
Provision for tax expense	405,093	–	5,958	1,817	412,868
TOTAL LIABILITIES	285,050,072	818,310	12,935,106	3,663,594	302,467,082
On-Balance Sheet Open Position	44,469,310	1,472,577	(8,073,808)	(789,709)	37,078,370
Off-Balance Sheet Open Position	(6,653,697)	(1,630,957)	5,523,070	2,761,584	–
NET OPEN POSITION	37,815,613	(158,380)	(2,550,738)	1,971,875	37,078,370

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(b) Foreign Exchange Risk (continued)

Bank 2018	Malaysian Ringgit RM'000	Hong Kong Dollars RM'000	United States Dollars RM'000	Others RM'000	Total RM'000
ASSETS					
Cash and balances with banks	7,047,062	133,107	1,789,967	446,717	9,416,853
Financial assets at fair value through profit or loss	2,293,636	–	–	–	2,293,636
Derivative financial assets	147,373	–	45,728	–	193,101
Financial investments at fair value through other comprehensive income	29,033,059	–	37,598	46	29,070,703
Financial investments at amortised cost	20,537,387	–	7,897	27,080	20,572,364
Loans and advances	245,176,766	66,013	1,843,546	604,072	247,690,397
Other assets	1,376,907	402,668	207,217	379,972	2,366,764
Statutory deposits with Central Banks	7,230,019	–	25,910	2,523	7,258,452
Collective investments	5,517,109	–	–	–	5,517,109
Investment in subsidiary companies	3,064,125	1,672,194	538,226	680,949	5,955,494
Investment in associated companies	45,000	–	–	–	45,000
Property and equipment	699,976	–	703	10,595	711,274
Intangible assets	695,393	–	–	–	695,393
TOTAL ASSETS	322,863,812	2,273,982	4,496,792	2,151,954	331,786,540
LIABILITIES					
Deposits from customers	252,028,404	6,060	4,410,394	2,432,701	258,877,559
Deposits from banks	4,726,196	149,927	6,501,335	1,109,605	12,487,063
Obligations on securities sold under repurchase agreements	4,038,770	–	–	6,835	4,045,605
Bills and acceptances payable	213,886	–	140	362	214,388
Recourse obligations on loans sold to Cagamas	5,500,003	–	–	–	5,500,003
Derivative financial liabilities	289,995	–	–	–	289,995
Debt securities issued and other borrowed funds	8,995,723	–	2,345,875	–	11,341,598
Other liabilities	2,659,153	22	124,947	632,694	3,416,816
Provision for tax expense	239,793	–	7,586	1,828	249,207
Deferred tax liabilities	84,502	–	–	–	84,502
TOTAL LIABILITIES	278,776,425	156,009	13,390,277	4,184,025	296,506,736
On-Balance Sheet Open Position	44,087,387	2,117,973	(8,893,485)	(2,032,071)	35,279,804
Off-Balance Sheet Open Position	(7,941,003)	(2,155,015)	6,796,097	3,299,921	–
NET OPEN POSITION	36,146,384	(37,042)	(2,097,388)	1,267,850	35,279,804

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(b) Foreign Exchange Risk (continued)

(ii) Structural foreign exchange risk represents the Group's currency exposure in its net investments in overseas operations and capital funds/retained earnings of overseas branches. Where possible, the Group manages such risk through funding investments in the same functional currencies or hedging via forward contracts. In addition, as part of its risk management strategy, the Group has designated certain funding in United States Dollars to hedge part of its Hong Kong Dollars structural currency exposure due to the pegging of Hong Kong Dollars to United States Dollars. The structural currency exposures of the Group as at the reporting date are as follows:

Group	Hedged RM'000	Unhedged RM'000	Total RM'000
2019			
United States Dollars	**2,113,432**	**647,066**	**2,760,498**
Hong Kong Dollars	**2,951,414**	**(444,126)**	**2,507,288**
Other currencies	**1,300,547**	**1,373,091**	**2,673,638**
	6,365,393	**1,576,031**	**7,941,424**
2018			
United States Dollars	2,727,130	483,178	3,210,308
Hong Kong Dollars	2,982,056	(634,115)	2,347,941
Other currencies	722,294	1,127,741	1,850,035
	6,431,480	976,804	7,408,284

(iii) Sensitivity Analysis

Considering that other risk variables remain constant, the foreign currency revaluation sensitivity for the Group on its non-trading unhedged positions as at each reporting date is summarised below:

		Revaluation Sensitivity	
Group	Change in Currency Rates %	2019 RM'000	2018 RM'000
United States Dollars	+/- 1	**+/- 6,471**	+/- 4,832
Hong Kong Dollars	+/- 1	**-/+ 4,441**	-/+ 6,341
Other currencies	+/- 1	**+/- 13,731**	+/- 11,277

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(c) Equity Risk

Risk Management Approach

The Group manages such risk via pre-approved portfolio size and cut-loss limits. Decisions concerning such positions are made by the Share Investment Committee.

Considering that other risk variables remain constant, the table below summarised the impact on the carrying amount of equity positions as at each reporting date should there be a change in equity market prices:

	Change in Equity Market Prices %	Sensitivity of Equity RM'000
Group		
2019	**+/- 20**	**+/- 311**
2018	+/- 20	+/- 441
Bank		
2019	**+/- 20**	**–**
2018	+/- 20	–

Liquidity and Funding Risk

Liquidity risk is the risk that the Group 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 Group 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 Group'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.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and Funding Risk (continued)

Risk Management Approach

The Group'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 which is effective from 1 June 2015 and Basel III Net Stable Funding Ratio which will be effective from 1 July 2020. Monitoring tools and liquidity/funding risk limits are established to manage liquidity and funding exposures within the Group, 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 borrowed by/financed to the customers.

The Group's liquidity and funding positions consist of a well-diversified funding mix with significant retail deposit base and funding from wholesale markets. The Group's retail deposit base comprises demand and time deposits which have traditionally in aggregate provided stable sources of funding. The Group'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 Group accesses the wholesale markets through the issuance of debt securities, certificate of deposits and the taking of money market deposits to meet short-term obligations and to maintain its presence in the local money markets.

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 various entities under the Group to detect any vulnerability in respective entities' cash flows under various stress scenarios. The outcome of stress test exercise will be utilised to strengthen the liquidity management within the Group.

(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 Group's and 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 Group and the Bank have 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 Group and the Bank.

The Group and the Bank are subject to liquidity requirements to support calls under outstanding contingent liabilities and commitments as set out in Note 51 to the financial statements. The total outstanding contractual amounts of these items do not represent future cash requirements since the Group and the Bank expect 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.

46. 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)

Group 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	10,293,135	1,039,876	1,975,386	710,522	56,780	–	–	–	14,075,699
Reverse repurchase agreements	8,208	–	–	–	–	–	–	–	8,208
Financial investments	26,279	1,050,528	1,049,571	3,589,043	6,303,249	26,374,782	20,769,955	12,838,519	72,001,926
Derivative financial assets	10,340	23,260	46,219	16,908	2,205	46,394	6,306	698	152,330
Loans, advances and financing	11,762,749	5,107,017	8,304,126	9,553,569	17,234,039	55,637,558	43,915,559	176,961,877	328,476,494
Other asset balances	840,161	2,554	862	332	–	–	–	17,272,109	18,116,018
TOTAL ASSETS	22,940,872	7,223,235	11,376,164	13,870,374	23,596,273	82,058,734	64,691,820	207,073,203	432,830,675
LIABILITIES									
Deposits from customers	122,098,282	60,616,447	66,242,106	64,243,064	39,964,384	173,083	3,109	–	353,340,475
Deposits from banks	2,960,937	2,108,140	2,930,387	334,354	66,273	88,673	5,154	155	8,494,073
Obligations on securities sold under repurchase agreements	460,091	179,063	–	50,227	281,273	–	–	–	970,654
Recourse obligations on loans sold to Cagamas	–	–	–	–	1,000,002	4,500,002	–	–	5,500,004
Derivative financial liabilities	36,960	24,274	92,903	51,477	7,342	48,008	64,419	20,341	345,724
Debt securities issued and other borrowed funds	–	–	–	–	–	6,918,501	4,509,284	889,665	12,317,450
Lease liabilities	–	24,187	20,021	43,708	71,639	205,381	183,616	539,256	1,087,808
Other liability balances	2,800,296	601,724	686,137	757,635	342,429	1,454	33	838,575	6,028,283
TOTAL LIABILITIES	128,356,566	63,553,835	69,971,554	65,480,465	41,733,342	11,935,102	4,765,615	2,287,992	388,084,471
EQUITY									
Equity attributable to equity holders of the Bank	–	–	–	–	–	–	–	43,594,330	43,594,330
Non-controlling interests	–	–	–	–	–	–	–	1,151,874	1,151,874
TOTAL EQUITY	–	–	–	–	–	–	–	44,746,204	44,746,204
NET MATURITY MISMATCH	(105,415,694)	(56,330,600)	(58,595,390)	(51,610,091)	(18,137,069)	70,123,632	59,926,205	160,039,007	–

46. 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)

Group 2018	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	10,528,409	2,665,724	830,995	628,166	86,924	–	–	–	14,740,218
Reverse repurchase agreements	–	200,881	–	–	–	–	–	–	200,881
Financial investments	1,189,547	2,271,530	4,409,471	1,674,290	5,114,100	24,940,628	23,670,611	8,470,884	71,741,061
Derivative financial assets	15,910	12,694	23,443	9,632	17,354	16,334	79,866	10,658	185,891
Loans, advances and financing	11,926,837	5,696,765	8,488,836	10,047,076	17,514,168	52,892,835	42,092,556	166,600,093	315,259,166
Other asset balances	769,803	3,701	232	–	–	–	–	16,792,329	17,566,065
TOTAL ASSETS	24,430,506	10,851,295	13,752,977	12,359,164	22,732,546	77,849,797	65,843,033	191,873,964	419,693,282
LIABILITIES									
Deposits from customers	120,396,703	54,725,636	49,609,269	52,223,870	61,487,315	713,289	3,810	–	339,159,892
Deposits from banks	2,439,546	3,176,873	2,847,789	638,445	74,729	266,088	39,684	–	9,483,154
Obligations on securities sold under repurchase agreements	502,448	3,543,146	11	–	–	–	–	–	4,045,605
Recourse obligations on loans sold to Cagamas	–	–	–	–	–	1,000,002	4,500,001	–	5,500,003
Derivative financial liabilities	19,222	29,229	47,459	76,321	2,651	31,880	84,500	6,402	297,664
Debt securities issued and other borrowed funds	–	–	–	2,703,443	1,720,506	1,519,560	6,603,673	889,612	13,436,794
Other liability balances	2,551,122	473,818	554,638	645,814	426,850	3,150	81	1,018,234	5,673,707
TOTAL LIABILITIES	125,909,041	61,948,702	53,059,166	56,287,893	63,712,051	3,533,969	11,231,749	1,914,248	377,596,819
EQUITY									
Equity attributable to equity holders of the Bank	–	–	–	–	–	–	–	40,973,056	40,973,056
Non-controlling interests	–	–	–	–	–	–	–	1,123,407	1,123,407
TOTAL EQUITY	–	–	–	–	–	–	–	42,096,463	42,096,463
NET MATURITY MISMATCH	(101,478,535)	(51,097,407)	(39,306,189)	(43,928,729)	(40,979,505)	74,315,828	54,611,284	147,863,253	–

46. 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)

Bank 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	5,707,648	735,004	1,480,103	562,530	–	–	–	–	8,485,285
Reverse repurchase agreements	8,208	–	–	–	–	–	–	–	8,208
Financial investments	–	100,392	295,635	1,107,718	4,866,044	22,763,458	13,759,445	7,592,244	50,484,936
Derivative financial assets	7,825	19,703	44,302	15,103	2,205	50,265	6,306	86,545	232,254
Loans and advances	8,928,545	3,286,314	6,115,416	6,943,440	13,433,759	44,233,407	34,441,395	138,887,798	256,270,074
Other asset balances	1,032,621	4,273	3,395	1,244	–	–	–	23,023,162	24,064,695
TOTAL ASSETS	15,684,847	4,145,686	7,938,851	8,630,035	18,302,008	67,047,130	48,207,146	169,589,749	339,545,452
LIABILITIES									
Deposits from customers	87,228,146	47,775,155	47,249,077	51,817,226	34,049,202	138,686	2,198	–	268,259,690
Deposits from banks	3,319,670	2,639,937	4,367,980	1,176,150	207,611	79,761	4,138	155	11,795,402
Obligations on securities sold under repurchase agreements	460,091	179,063	–	–	–	–	–	–	639,154
Recourse obligations on loans sold to Cagamas	–	–	–	–	1,000,002	4,500,002	–	–	5,500,004
Derivative financial liabilities	36,768	24,271	92,426	49,701	7,342	48,008	64,419	–	322,935
Debt securities issued and other borrowed funds	–	–	–	–	–	5,324,264	4,009,285	889,665	10,223,214
Lease liabilities	–	22,797	17,289	40,199	66,848	219,132	221,235	757,137	1,344,637
Other liability balances	1,632,469	489,819	530,076	617,649	299,707	1,542	31	810,753	4,382,046
TOTAL LIABILITIES	92,677,144	51,131,042	52,256,848	53,700,925	35,630,712	10,311,395	4,301,306	2,457,710	302,467,082
EQUITY									
Equity attributable to equity holders of the Bank	–	–	–	–	–	–	–	37,078,370	37,078,370
TOTAL EQUITY	–	–	–	–	–	–	–	37,078,370	37,078,370
NET MATURITY MISMATCH	(76,992,297)	(46,985,356)	(44,317,997)	(45,070,890)	(17,328,704)	56,735,735	43,905,840	130,053,669	–

46. 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)

Bank 2018	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	7,190,899	2,007,534	218,420	–	–	–	–	–	9,416,853
Financial investments	1,000,247	1,050,773	2,656,603	666,300	3,735,613	18,390,614	17,051,640	7,384,913	51,936,703
Derivative financial assets	15,636	11,404	22,283	9,632	17,497	14,407	79,866	22,376	193,101
Loans and advances	9,362,160	3,228,528	6,496,554	7,541,848	13,720,316	42,091,740	34,226,586	131,022,665	247,690,397
Other asset balances	836,940	4,333	301	–	–	–	–	21,707,912	22,549,486
TOTAL ASSETS	18,405,882	6,302,572	9,394,161	8,217,780	17,473,426	60,496,761	51,358,092	160,137,866	331,786,540
LIABILITIES									
Deposits from customers	87,160,555	45,760,553	36,341,816	42,857,946	46,421,532	331,729	3,428	–	258,877,559
Deposits from banks	2,762,168	3,489,481	4,277,089	1,604,773	179,238	156,145	18,169	–	12,487,063
Obligations on securities sold under repurchase agreements	502,448	3,543,146	11	–	–	–	–	–	4,045,605
Recourse obligations on loans sold to Cagamas	–	–	–	–	–	1,000,002	4,500,001	–	5,500,003
Derivative financial liabilities	19,192	26,648	46,228	76,321	1,989	31,880	87,003	734	289,995
Debt securities issued and other borrowed funds	–	–	–	2,203,555	1,720,506	999,785	5,528,140	889,612	11,341,598
Other liability balances	1,505,546	376,454	422,743	528,128	300,451	3,311	95	828,185	3,964,913
TOTAL LIABILITIES	91,949,909	53,196,282	41,087,887	47,270,723	48,623,716	2,522,852	10,136,836	1,718,531	296,506,736
EQUITY									
Equity attributable to equity holders of the Bank	–	–	–	–	–	–	–	35,279,804	35,279,804
TOTAL EQUITY	–	–	–	–	–	–	–	35,279,804	35,279,804
NET MATURITY MISMATCH	(73,544,027)	(46,893,710)	(31,693,726)	(39,052,943)	(31,150,290)	57,973,909	41,221,256	123,139,531	–

46. 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 statements of financial position as the amounts incorporated all contractual cash flows, on an undiscounted basis, relating to both principal and interest/profit payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows.

The interest/profit payments of subordinated notes/sukuk murabahah, Non-innovative Tier I stapled securities and additional Tier I capital securities are computed up to the first optional redemption date.

Group 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	122,431,079	61,109,367	67,021,250	65,502,808	41,317,718	184,078	3,580	–	357,569,880
Deposits from banks	2,966,249	2,113,789	2,947,473	338,817	67,682	92,501	5,570	174	8,532,255
Obligations on securities sold under repurchase agreements	461,305	179,515	–	51,759	290,349	–	–	–	982,928
Debt securities issued and other borrowed funds	–	42,612	52,967	158,092	252,524	7,714,337	4,853,680	910,414	13,984,626
Lease liabilities	–	24,333	20,306	44,094	73,023	207,097	185,871	954,703	1,509,427
Other liability balances	2,552,133	34,457	138,446	110,100	1,129,930	4,896,626	69,838	847,203	9,778,733
Total Liabilities	128,410,766	63,504,073	70,180,442	66,205,670	43,131,226	13,094,639	5,118,539	2,712,494	392,357,849
Direct credit substitutes	78,804	24,501	71,286	166,438	420,736	185,263	2,342	300	949,669
Transaction-related contingent items	306,436	86,889	113,457	165,422	366,736	552,472	142,102	11,957	1,745,471
Short term self-liquidating trade-related contingencies	47,976	107,388	334,467	72,654	5,823	–	–	–	568,308
Other commitments, such as formal standby facilities and credit lines	10,337,773	915,411	1,980,084	2,788,156	8,331,871	22,916,432	324,016	4,128,197	51,721,939
Unutilised credit card lines	7,584,924	–	–	–	78,712	–	–	–	7,663,636
Forward asset purchases	65,652	–	–	–	–	–	–	–	65,652
Total Commitments and Contingencies	18,421,565	1,134,189	2,499,294	3,192,670	9,203,878	23,654,166	468,460	4,140,454	62,714,675

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

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

Group 2018	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	120,662,281	55,111,606	50,227,685	53,333,084	63,610,334	756,280	4,410	–	343,705,680
Deposits from banks	2,446,647	3,190,432	2,873,700	649,991	76,890	282,629	44,071	–	9,564,360
Obligations on securities sold under repurchase agreements	503,090	3,552,551	11	–	–	–	–	–	4,055,652
Debt securities issued and other borrowed funds	–	12,922	58,178	2,950,926	1,952,763	2,237,583	6,948,618	951,466	15,112,456
Other liability balances	2,312,179	41,868	94,034	131,314	124,293	1,463,186	4,736,421	1,021,295	9,924,590
Total Liabilities	125,924,197	61,909,379	53,253,608	57,065,315	65,764,280	4,739,678	11,733,520	1,972,761	382,362,738
Direct credit substitutes	42,418	29,537	81,084	167,691	452,385	197,280	3,711	219	974,325
Transaction-related contingent items	351,362	61,717	92,359	153,003	329,348	513,577	137,909	11,336	1,650,611
Short term self-liquidating trade-related contingencies	63,738	196,584	238,716	53,327	21,715	–	–	–	574,080
Other commitments, such as formal standby facilities and credit lines	9,636,386	989,555	1,970,172	2,816,935	7,745,148	20,951,315	564,005	5,053,469	49,726,985
Unutilised credit card lines	7,098,371	–	–	–	–	–	–	–	7,098,371
Forward asset purchases	323,665	–	–	–	–	–	–	–	323,665
Total Commitments and Contingencies	17,515,940	1,277,393	2,382,331	3,190,956	8,548,596	21,662,172	705,625	5,065,024	60,348,037

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

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

Bank 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	87,330,199	48,184,782	47,971,494	53,122,151	35,083,311	142,040	2,351	–	271,836,328
Deposits from banks	3,322,835	2,651,981	4,399,042	1,196,238	211,805	80,613	4,183	155	11,866,852
Obligations on securities sold under repurchase agreements	461,305	179,515	–	–	–	–	–	–	640,820
Debt securities issued and other borrowed funds	–	29,490	37,883	144,182	213,058	5,992,336	4,316,128	910,414	11,643,491
Lease liabilities	–	22,797	17,289	40,200	67,610	219,277	222,255	1,343,558	1,932,986
Other liability balances	1,567,084	35,145	137,192	107,182	1,128,410	4,889,680	64,036	810,753	8,739,482
Total Liabilities	92,681,423	51,103,710	52,562,900	54,609,953	36,704,194	11,323,946	4,608,953	3,064,880	306,659,959
Direct credit substitutes	76,131	19,549	68,138	157,728	407,650	180,348	2,273	300	912,117
Transaction-related contingent items	297,557	67,872	83,745	121,696	244,794	483,596	131,137	5,180	1,435,577
Short term self-liquidating trade-related contingencies	39,422	39,889	34,190	3,376	826	–	–	–	117,703
Other commitments, such as formal standby facilities and credit lines	9,493,301	516,337	1,532,447	2,194,158	6,025,117	18,548,953	268,573	3,169,440	41,748,326
Unutilised credit card lines	7,346,453	–	–	–	–	–	–	–	7,346,453
Forward asset purchases	44,405	–	–	–	–	–	–	–	44,405
Total Commitments and Contingencies	17,297,269	643,647	1,718,520	2,476,958	6,678,387	19,212,897	401,983	3,174,920	51,604,581

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

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

Bank 2018	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	87,290,106	46,146,722	37,079,588	43,870,898	47,705,070	335,141	3,599	–	262,431,124
Deposits from banks	2,764,820	3,511,233	4,326,455	1,626,378	182,226	158,448	18,353	–	12,587,913
Obligations on securities sold under repurchase agreements	503,090	3,552,551	11	–	–	–	–	–	4,055,652
Debt securities issued and other borrowed funds	–	–	43,525	2,434,671	1,922,140	1,589,608	5,842,704	951,466	12,784,114
Other liability balances	1,435,856	38,950	91,878	130,919	120,622	1,456,973	4,736,420	837,935	8,849,553
Total Liabilities	91,993,872	53,249,456	41,541,457	48,062,866	49,930,058	3,540,170	10,601,076	1,789,401	300,708,356
Direct credit substitutes	41,759	27,547	74,240	163,461	434,072	192,473	3,711	150	937,413
Transaction-related contingent items	334,245	40,270	70,888	114,860	223,479	469,313	125,471	3,952	1,382,478
Short term self-liquidating trade-related contingencies	27,104	54,612	23,777	12,620	3,613	–	–	–	121,726
Other commitments, such as formal standby facilities and credit lines	9,158,431	469,755	1,581,613	2,329,983	5,872,227	16,918,737	543,246	3,900,579	40,774,571
Unutilised credit card lines	6,799,934	–	–	–	–	–	–	–	6,799,934
Forward asset purchases	323,665	–	–	–	–	–	–	–	323,665
Total Commitments and Contingencies	16,685,138	592,184	1,750,518	2,620,924	6,533,391	17,580,523	672,428	3,904,681	50,339,787

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 Group'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 Group.

The Board, through RMC, maintains overall responsibility for risk oversight within the Group. 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.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Operational Risk (continued)

Risk Governance (continued)

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 Group. As events and business conditions evolve, the Group 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.

(a) Strategy and Processes

The Group has put in place a disciplined product evaluation process. The Group's product evaluation process is governed by the Group's Policy and Procedures on Risk Management Practices for New Products. Each new product or service introduced as well as variations to existing products or 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 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 Group continues to direct group-wide efforts to maintain its legal and regulatory compliance culture in all jurisdictions that the Group operates. The Group 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 Group'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 Group's operational risk exposures are managed within its risk appetite.

The Group has put in place the disaster recovery and business continuity plans which are regularly tested and updated that enable the Group 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 Group mitigates risk of high impact loss events by insurance coverage.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Operational Risk (continued)

Risk Management Approach (continued)

(a) Strategy and Processes (continued)

The Group 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 Group continues to undertake initiatives to maintain 100% system availability and robust system performance in the Group's computer systems, peripherals and network infrastructure to ensure uninterrupted transmission.

The Group manages its outsourcing activities through the Group's Policy and Procedures on Outsourcing Activities 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 activities are managed effectively.

(b) Tools and Methods for Risk Mitigation

To monitor and mitigate operational risk, the Group 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 Group'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 Group'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 activities, compliance review results as well as litigation against the Group. The operational risk management reports are tabled to the ORMWG, the ORMC and the RMC for deliberations.

47. 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, interest/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 Group and the Bank generally use 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 Group and the Bank classify financial instruments and non-financial assets 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 and non-financial assets.

The Group'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. For investment properties, the valuation is determined with reference to quotations of market value provided by independent professional valuers.

47. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Financial instruments and non-financial assets carried at fair value

The following tables show the Group's and the Bank's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy:

Group 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				
– Government securities and treasury bills	–	3,480,322	–	3,480,322
– Money market instruments	–	249,541	–	249,541
– Non-money market instruments	–	34,974	445,428	480,402
	–	3,764,837	445,428	4,210,265
Financial investments at fair value through other comprehensive income				
– Government securities and treasury bills	–	33,950,350	–	33,950,350
– Money market instruments	–	426,813	–	426,813
– Non-money market instruments	1,556	5,423,236	351,538	5,776,330
	1,556	39,800,399	351,538	40,153,493
Derivative financial assets	–	152,330	–	152,330
Total financial assets measured at fair value	1,556	43,717,566	796,966	44,516,088
Non-financial assets				
Investment properties	–	–	753,095	753,095
Financial liabilities				
Derivative financial liabilities	–	345,724	–	345,724
Total financial liabilities measured at fair value	–	345,724	–	345,724

47. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Financial instruments and non-financial assets carried at fair value (continued)

The following tables show the Group's and the Bank's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy (continued):

Group 2018	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				
– Government securities and treasury bills	–	1,924,256	–	1,924,256
– Non-money market instruments	–	31,929	423,949	455,878
	–	1,956,185	423,949	2,380,134
Financial investments at fair value through other comprehensive income				
– Government securities and treasury bills	–	33,976,980	–	33,976,980
– Money market instruments	–	3,051,128	–	3,051,128
– Non-money market instruments	2,204	4,967,175	344,996	5,314,375
	2,204	41,995,283	344,996	42,342,483
Derivative financial assets	–	185,891	–	185,891
Total financial assets measured at fair value	2,204	44,137,359	768,945	44,908,508
Non-financial assets				
Investment properties	–	–	719,207	719,207
Financial liabilities				
Derivative financial liabilities	–	297,664	–	297,664
Total financial liabilities measured at fair value	–	297,664	–	297,664

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47. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Financial instruments and non-financial assets carried at fair value (continued)

The following tables show the Group's and the Bank's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy (continued):

Bank 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				
– Government securities and treasury bills	–	3,448,443	–	3,448,443
– Non-money market instruments	–	–	419,940	419,940
	–	3,448,443	419,940	3,868,383
Financial investments at fair value through other comprehensive income				
– Government securities and treasury bills	–	23,296,864	–	23,296,864
– Money market instruments	–	426,813	–	426,813
– Non-money market instruments	–	1,927,307	345,113	2,272,420
	–	25,650,984	345,113	25,996,097
Derivative financial assets	–	232,254	–	232,254
Total financial assets measured at fair value	–	29,331,681	765,053	30,096,734
Financial liabilities				
Derivative financial liabilities	–	322,935	–	322,935
Total financial liabilities measured at fair value	–	322,935	–	322,935

47. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Financial instruments and non-financial assets carried at fair value (continued)

The following tables show the Group's and the Bank's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy (continued):

Bank 2018	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				
– Government securities and treasury bills	–	1,893,946	–	1,893,946
– Non-money market instruments	–	–	399,690	399,690
	–	1,893,946	399,690	2,293,636
Financial investments at fair value through other comprehensive income				
– Government securities and treasury bills	–	24,184,030	–	24,184,030
– Money market instruments	–	2,910,720	–	2,910,720
– Non-money market instruments	–	1,637,455	338,498	1,975,953
	–	28,732,205	338,498	29,070,703
Derivative financial assets	–	193,101	–	193,101
Total financial assets measured at fair value	–	30,819,252	738,188	31,557,440
Financial liabilities				
Derivative financial liabilities	–	289,995	–	289,995
Total financial liabilities measured at fair value	–	289,995	–	289,995

The Group and the Bank recognise 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 (2018 – None).

47. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Financial instruments and non-financial assets carried at fair value (continued)

Reconciliation of movements in Level 3 financial instruments:

	Unquoted Equity Securities	
Group	**Financial Assets at Fair Value Through Profit or Loss RM'000**	**Financial Investments at Fair Value Through Other Comprehensive Income RM'000**
At 1 January 2019	**423,949**	**344,996**
Recognised in profit or loss		
– unrealised revaluation gain	**21,479**	**–**
Recognised in other comprehensive income		
– unrealised revaluation gain	**–**	**6,993**
– realised gain on disposal	**–**	**5**
Disposal	**–**	**(383)**
Exchange differences	**–**	**(73)**
At 31 December 2019	**445,428**	**351,538**
At 1 January 2018	415,900	316,584
Recognised in profit or loss		
– unrealised revaluation gain	8,049	–
Recognised in other comprehensive income		
– unrealised revaluation gain	–	28,165
Disposal	–	(114)
Exchange differences	–	361
At 31 December 2018	423,949	344,996

47. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Financial instruments and non-financial assets carried at fair value (continued)

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

	Unquoted Equity Securities	
Bank	**Financial Assets at Fair Value Through Profit or Loss RM'000**	**Financial Investments at Fair Value Through Other Comprehensive Income RM'000**
At 1 January 2019	**399,690**	**338,498**
Recognised in profit or loss		
– unrealised revaluation gain	**20,250**	**–**
Recognised in other comprehensive income		
– unrealised revaluation gain	**–**	**7,048**
– realised gain on disposal	**–**	**5**
Disposal	**–**	**(383)**
Exchange differences	**–**	**(55)**
At 31 December 2019	**419,940**	**345,113**
At 1 January 2018	392,102	310,154
Recognised in profit or loss		
– unrealised revaluation gain	7,588	–
Recognised in other comprehensive income		
– unrealised revaluation gain	–	28,166
Disposal	–	(114)
Exchange differences	–	292
At 31 December 2018	399,690	338,498

All investment properties of the Group carried at fair values were classified under Level 3. A reconciliation of movements in Level 3 is disclosed in Note 17.

The fair values of investment properties located in Malaysia are determined using comparison method by reference to the recent sales prices of comparable properties, adjustments are made where dissimilarities exist. The fair values of investment properties located in Hong Kong are determined using comparison method by reference to recent sales prices of comparable properties on a price per square meter basis. The price per square meter of the properties adopted, which were significant inputs, ranged from RM17,000 to RM305,000 (2018: RM16,000 to RM278,000) with weighted average of RM110,000 (2018: RM104,000). A significant change in the price per square meter will result in a significant change in the fair value of the investment properties in Hong Kong.

47. 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 Group and 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:

	2019		2018	
Group	**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	**10,464,222**	**10,650,322**	10,365,988	10,424,199
– Money market instruments	**1,162,883**	**1,163,329**	1,198,410	1,197,074
– Non-money market instruments	**16,011,063**	**16,360,930**	15,454,046	15,487,297
Loans, advances and financing				
– Retail loans/financing				
– housing loans/financing	**121,354,147**	**121,368,679**	112,006,737	112,030,010
– hire purchase	**50,934,622**	**50,499,431**	49,754,585	49,594,060
– credit cards	**2,121,347**	**2,121,347**	2,017,516	2,017,516
– other loans/financing	**107,472,410**	**107,493,821**	105,586,374	105,567,224
– Corporate loans/financing	**46,593,968**	**46,663,111**	45,893,954	45,915,773
Financial liabilities				
Recourse obligations on loans sold to Cagamas	**5,500,004**	**5,612,343**	5,500,003	5,548,105
Debt securities issued and other borrowed funds	**12,317,450**	**12,553,884**	13,436,794	13,522,888

47. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Fair values of financial instruments not carried at fair value (continued)

Set out below is the comparison of the carrying amounts and fair values of the financial instruments of the Group and 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 (continued):

	2019		2018	
Bank	**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	**5,087,272**	**5,212,434**	5,238,118	5,278,903
– Money market instruments	**1,309,919**	**1,311,400**	1,841,911	1,829,224
– Non-money market instruments	**14,223,265**	**14,552,257**	13,492,335	13,524,938
Loans and advances				
– Retail loans				
– housing loans	**95,098,716**	**95,099,233**	88,791,388	88,791,550
– hire purchase	**40,290,172**	**39,921,441**	37,843,029	37,726,629
– credit cards	**2,074,782**	**2,074,782**	1,979,387	1,979,387
– other loans	**81,827,173**	**81,827,173**	81,576,637	81,576,637
– Corporate loans	**36,979,231**	**37,003,960**	37,499,956	37,502,189
Financial liabilities				
Recourse obligations on loans sold to Cagamas	**5,500,004**	**5,612,343**	5,500,003	5,548,105
Debt securities issued and other borrowed funds	**10,223,214**	**10,434,044**	11,341,598	11,421,253

47. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Fair values of financial instruments not carried at fair value (continued)

The following tables show the Group's and 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 ---------------------------->			
Group 2019	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Financial assets				
Financial investments at amortised cost				
– Government securities and treasury bills	–	10,650,322	–	10,650,322
– Money market instruments	–	1,163,329	–	1,163,329
– Non-money market instruments	–	16,360,930	–	16,360,930
Loans, advances and financing				
– Retail loans/financing				
– housing loans/financing	–	–	121,368,679	121,368,679
– hire purchase	–	–	50,499,431	50,499,431
– credit cards	–	–	2,121,347	2,121,347
– other loans/financing	–	–	107,493,821	107,493,821
– Corporate loans/financing	–	–	46,663,111	46,663,111
Financial liabilities				
Recourse obligations on loans sold to Cagamas	–	–	5,612,343	5,612,343
Debt securities issued and other borrowed funds	–	12,553,884	–	12,553,884

47. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Fair values of financial instruments not carried at fair value (continued)

The following tables show the Group's and 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 (continued):

	<---------------------------- Fair Value ---------------------------->			
Group 2018	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Financial assets				
Financial investments at amortised cost				
– Government securities and treasury bills	–	10,424,199	–	10,424,199
– Money market instruments	–	1,197,074	–	1,197,074
– Non-money market instruments	–	15,487,297	–	15,487,297
Loans, advances and financing				
– Retail loans/financing				
– housing loans/financing	–	–	112,030,010	112,030,010
– hire purchase	–	–	49,594,060	49,594,060
– credit cards	–	–	2,017,516	2,017,516
– other loans/financing	–	–	105,567,224	105,567,224
– Corporate loans/financing	–	–	45,915,773	45,915,773
Financial liabilities				
Recourse obligations on loans sold to Cagamas	–	–	5,548,105	5,548,105
Debt securities issued and other borrowed funds	–	13,522,888	–	13,522,888

47. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Fair values of financial instruments not carried at fair value (continued)

The following tables show the Group's and 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 (continued):

	<---------- Fair Value ---------->			
Bank 2019	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Financial assets				
Financial investments at amortised cost				
– Government securities and treasury bills	–	5,212,434	–	5,212,434
– Money market instruments	–	1,311,400	–	1,311,400
– Non-money market instruments	–	14,552,257	–	14,552,257
Loans and advances				
– Retail loans				
– housing loans	–	–	95,099,233	95,099,233
– hire purchase	–	–	39,921,441	39,921,441
– credit cards	–	–	2,074,782	2,074,782
– other loans	–	–	81,827,173	81,827,173
– Corporate loans	–	–	37,003,960	37,003,960
Financial liabilities				
Recourse obligations on loans sold to Cagamas	–	–	5,612,343	5,612,343
Debt securities issued and other borrowed funds	–	10,434,044	–	10,434,044

47. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Fair values of financial instruments not carried at fair value (continued)

The following tables show the Group's and 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 (continued):

	<---------------------------- Fair Value ---------------------------->			
Bank 2018	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Financial assets				
Financial investments at amortised cost				
– Government securities and treasury bills	–	5,278,903	–	5,278,903
– Money market instruments	–	1,829,224	–	1,829,224
– Non-money market instruments	–	13,524,938	–	13,524,938
Loans and advances				
– Retail loans				
– housing loans	–	–	88,791,550	88,791,550
– hire purchase	–	–	37,726,629	37,726,629
– credit cards	–	–	1,979,387	1,979,387
– other loans	–	–	81,576,637	81,576,637
– Corporate loans	–	–	37,502,189	37,502,189
Financial liabilities				
Recourse obligations on loans sold to Cagamas	–	–	5,548,105	5,548,105
Debt securities issued and other borrowed funds	–	11,421,253	–	11,421,253

47. 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:

(a) *Financial investments at amortised cost* – The fair values of financial investments at amortised cost are estimated based on quoted bid prices.

(b) *Loans, advances and financing* – The fair values of fixed rate loans/financing with remaining maturity of less than one year and variable rate loans/financing are estimated to approximate their carrying amounts. For fixed rate loans/financing with remaining maturity of more than one year, the fair values are estimated based on discounted cash flows using prevailing market rates of loans/financing of similar credit risks and maturity.

The fair values of impaired loans/financing are represented by their carrying amounts, net of any expected credit losses, being the expected recoverable amount.

(c) *Recourse obligations on loans sold to Cagamas* – The fair values of recourse obligations on loans sold to Cagamas with remaining maturity of less than one year are estimated to approximate their carrying amounts. The fair values of recourse obligations on loans sold to Cagamas with remaining maturity of more than one year are estimated using discounted cash flows based on prevailing Cagamas rates with similar remaining period to maturity.

(d) *Debt securities issued and other borrowed funds* – The fair values of borrowings approximate their carrying amounts as these are variable rate borrowings. The fair values of debt securities issued are estimated based on quoted ask prices.

48. 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, reverse repurchase agreements and obligations on securities sold under repurchase agreements 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 Group and 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 and securities that are received from or pledged with counterparties.

48. 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:

Group 2019	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: Values 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
Financial assets						
Derivative financial assets						
– Foreign exchange contracts	144,528	–	144,528	(62,510)	(39,324)	42,694
– Interest/profit rate related contracts	7,802	–	7,802	(3,679)	(3,730)	393
	152,330	–	152,330	(66,189)	(43,054)	43,087
Reverse repurchase agreements	8,208	–	8,208	(8,208)	–	–
Other assets:						
– Outstanding contracts on clients' accounts	435,548	(220,892)	214,656	(3,263)	(4,087)	207,306
	596,086	(220,892)	375,194	(77,660)	(47,141)	250,393
Financial liabilities						
Derivative financial liabilities						
– Foreign exchange contracts	298,058	–	298,058	(53,624)	(122,491)	121,943
– Interest/profit rate related contracts	47,665	–	47,665	(12,565)	(14,759)	20,341
– Precious metal contracts	1	–	1	–	–	1
	345,724	–	345,724	(66,189)	(137,250)	142,285
Obligations on securities sold under repurchase agreements	970,654	–	970,654	(970,654)	–	–
Other liabilities:						
– Outstanding contracts on clients' accounts	427,157	(220,892)	206,265	–	–	206,265
	1,743,535	(220,892)	1,522,643	(1,036,843)	(137,250)	348,550

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48. 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):

Group 2018	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: Values 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
Financial assets						
Derivative financial assets						
– Foreign exchange contracts	114,652	–	114,652	(89,062)	(8,547)	17,043
– Interest/profit rate related contracts	71,239	–	71,239	(24,643)	(32,081)	14,515
	185,891	–	185,891	(113,705)	(40,628)	31,558
Reverse repurchase agreements	200,881	–	200,881	(200,881)	–	–
Other assets:						
– Outstanding contracts on clients' accounts	342,106	(112,734)	229,372	(3,294)	(2,859)	223,219
	728,878	(112,734)	616,144	(317,880)	(43,487)	254,777
Financial liabilities						
Derivative financial liabilities						
– Foreign exchange contracts	285,848	–	285,848	(108,954)	(103,682)	73,212
– Interest/profit rate related contracts	11,815	–	11,815	(4,751)	–	7,064
– Precious metal contracts	1	–	1	–	–	1
	297,664	–	297,664	(113,705)	(103,682)	80,277
Obligations on securities sold under repurchase agreements	4,045,605	–	4,045,605	(4,045,605)	–	–
Other liabilities:						
– Outstanding contracts on clients' accounts	336,942	(112,734)	224,208	–	–	224,208
	4,680,211	(112,734)	4,567,477	(4,159,310)	(103,682)	304,485

48. 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):

				Amount Not Set-off in the Statement of Financial Position		
Bank **2019**	**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**	**Values of the Financial Instruments* RM'000**	**Cash Collateral Received/ Pledged RM'000**	**Net Amount RM'000**
Financial assets						
Derivative financial assets						
– Foreign exchange contracts	134,715	–	134,715	(62,510)	(39,324)	32,881
– Interest rate related contracts	97,539	–	97,539	(3,679)	(3,730)	90,130
	232,254	–	232,254	(66,189)	(43,054)	123,011
Reverse repurchase agreements	8,208	–	8,208	(8,208)	–	–
	240,462	–	240,462	(74,397)	(43,054)	123,011
Financial liabilities						
Derivative financial liabilities						
– Foreign exchange contracts	295,610	–	295,610	(53,624)	(122,491)	119,495
– Interest rate related contracts	27,324	–	27,324	(12,565)	(14,759)	–
– Precious metal contracts	1	–	1	–	–	1
	322,935	–	322,935	(66,189)	(137,250)	119,496
Obligations on securities sold under repurchase agreements	639,154	–	639,154	(639,154)	–	–
	962,089	–	962,089	(705,343)	(137,250)	119,496

48. 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):

Bank 2018	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: Values 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
Financial assets						
Derivative financial assets						
– Foreign exchange contracts	111,928	–	111,928	(89,062)	(8,547)	14,319
– Interest rate related contracts	81,173	–	81,173	(24,643)	(32,081)	24,449
	193,101	–	193,101	(113,705)	(40,628)	38,768
Financial liabilities						
Derivative financial liabilities						
– Foreign exchange contracts	282,006	–	282,006	(108,954)	(103,682)	69,370
– Interest rate related contracts	7,988	–	7,988	(4,751)	–	3,237
– Precious metal contracts	1	–	1	–	–	1
	289,995	–	289,995	(113,705)	(103,682)	72,608
Obligations on securities sold under repurchase agreements	4,045,605	–	4,045,605	(4,045,605)	–	–
	4,335,600	–	4,335,600	(4,159,310)	(103,682)	72,608

* Include securities accepted as collateral.

49. OPERATING LEASES

The Group and the Bank as a Lessee

The Group and the Bank leased a number of premises under operating leases. The leases typically run for an initial period of three years, with an option to renew. None of the leases included contingent rentals. Total future minimum lease payments under these non-cancellable operating leases in the previous year are as follows:

	Group	Bank
	2018 RM'000	**2018 RM'000**
Within one year	43,149	844
Between one and five years	79,406	1,017
More than five years	101,745	–
	224,300	1,861

With effect from 1 January 2019, the Group and the Bank recognised right-of-use assets and the lease liabilities for these leases. Please refer to Note 18 and Note 55 for further information.

50. CAPITAL AND OTHER COMMITMENTS

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Authorised and contracted for:				
– Land and buildings	**1,293**	3,561	**–**	–
– Renovations	**1,824**	854	**–**	–
– Office equipment, furniture and fittings	**1,633**	3,327	**1,445**	2,382
– Computer equipment and software	**32,742**	41,830	**20,691**	26,978
– Motor vehicles	**2,354**	15	**–**	15
	39,846	49,587	**22,136**	29,375
Authorised but not contracted for:				
– Land and buildings	**19,481**	–	**–**	–
– Renovations	**5,315**	4,443	**1,390**	1,597
– Office equipment, furniture and fittings	**990**	1,354	**296**	585
– Computer equipment and software	**17,424**	27,106	**–**	–
	43,210	32,903	**1,686**	2,182
	83,056	82,490	**23,822**	31,557

51. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. The commitments and contingencies are not secured against the Group's and the Bank's assets.

The notional amounts of the commitments and contingencies of the Group and of the Bank are as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Contingent liabilities				
Direct credit substitutes	**949,669**	974,325	**912,117**	937,413
Transaction-related contingent items	**1,745,471**	1,650,611	**1,435,577**	1,382,478
Short term self-liquidating trade-related contingencies	**568,308**	574,080	**117,703**	121,726
	3,263,448	3,199,016	**2,465,397**	2,441,617
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	**26,968,879**	26,224,596	**21,583,171**	21,269,141
– not exceeding one year	**24,753,060**	23,502,389	**20,165,155**	19,505,430
Unutilised credit card lines	**7,663,636**	7,098,371	**7,346,453**	6,799,934
Forward asset purchases	**65,652**	323,665	**44,405**	323,665
	59,451,227	57,149,021	**49,139,184**	47,898,170
Derivative financial instruments				
Foreign exchange related contracts:				
– up to one year	**22,157,757**	22,574,272	**21,117,858**	22,040,029
– more than one year to five years	**3,446,350**	3,253,717	**3,446,350**	3,253,717
Interest/profit rate related contracts:				
– up to one year	**930,000**	5,139,280	**1,060,000**	5,315,200
– more than one year to five years	**4,494,515**	4,626,640	**4,912,645**	5,173,920
– more than five years	**571,631**	426,008	**2,150,000**	2,000,000
Commodity related contracts:				
– up to one year	**120**	382	**120**	382
	31,600,373	36,020,299	**32,686,973**	37,783,248
	94,315,048	96,368,336	**84,291,554**	88,123,035

Disclosure of the credit equivalent amount and risk-weighted asset of the commitments and contingencies above, as required by BNM's Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3), is presented in the Pillar 3 disclosures section of the Annual Report.

52. CAPITAL ADEQUACY

(a) The capital adequacy ratios of the Group and of the Bank are as follows:

	Group		Bank	
	2019	**2018**	**2019**	**2018**
Before deducting second interim dividends*				
Common Equity Tier I ("CET I") capital ratio	**14.019%**	13.628%	**12.808%**	12.657%
Tier I capital ratio	**14.076%**	14.270%	**12.853%**	13.428%
Total capital ratio	**17.317%**	16.840%	**16.243%**	15.963%
After deducting second interim dividends*				
CET I capital ratio	**13.460%**	13.092%	**12.108%**	11.989%
Tier I capital ratio	**13.517%**	13.734%	**12.153%**	12.760%
Total capital ratio	**16.758%**	16.304%	**15.543%**	15.295%

* Refer to second interim dividends declared subsequent to the financial year end.

The capital adequacy ratios of the Group consist of total capital and risk-weighted assets derived from consolidated balances of the Bank and its subsidiary companies. The capital adequacy ratios of the Bank consist of total capital and risk-weighted assets derived from the Bank and from its wholly-owned offshore banking subsidiary company, Public Bank (L) Ltd.

The total risk-weighted assets of the Group and of the Bank are computed based on the following approaches:

(i) Standardised Approach for Credit Risk;
(ii) Standardised Approach for Market Risk;
(iii) Basic Indicator Approach for Operational Risk.

The capital adequacy ratios of the Group and of the Bank are computed in accordance with BNM's Capital Adequacy Frameworks on Capital Components and Basel II – Risk-weighted Assets. The minimum regulatory capital adequacy ratios before including capital conservation buffer 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 capital conservation buffer of up to 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 Group and the Bank have exposures to, determined based on the weighted average of prevailing CCyB rates applied in those jurisdictions. The Group and the Bank have applied CCyB on their 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 Group's and the Bank's CCyB, unless specified otherwise by BNM.

The Group's and the Bank's CCyB which are determined based on the weighted average of prevailing CCyB rates of their private sector credit exposures outside Malaysia are insignificant due to their immaterial exposures. The CCyB is not a requirement for exposures in Malaysia yet but may be applied by regulators in the future.

52. CAPITAL ADEQUACY (CONTINUED)

(b) The components of CET I, Tier I and Tier II capital of the Group and of the Bank are as follows:

	Group		Bank	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
CET I/Tier I Capital:				
Share capital	**9,417,653**	9,417,653	**9,417,653**	9,417,653
Other reserves	**1,273,513**	1,247,057	**671,090**	759,892
Retained profits	**30,245,351**	28,051,532	**25,267,007**	23,619,722
Qualifying non-controlling interests	**696,901**	702,333	**–**	–
Less: Goodwill and other intangible assets	**(2,443,039)**	(2,454,755)	**(695,393)**	(695,393)
Less: Deferred tax assets, net	**(83,484)**	(81,374)	**(11,307)**	–
Less: Defined benefit pension fund assets	**(48,430)**	(249,036)	**(47,736)**	(245,535)
Less: Investment in banking/insurance subsidiary companies and associated companies deducted from CET I capital	**(99,419)**	(92,847)	**(6,183,241)**	(5,644,441)
Total CET I Capital	**38,959,046**	36,540,563	**28,418,073**	27,211,898
Additional Tier I capital securities	**99,582**	99,462	**99,582**	99,462
Non-Innovative Tier I stapled securities	**–**	1,559,840	**–**	1,559,840
Qualifying CET I and additional Tier I capital instruments held by third parties	**58,619**	61,325	**–**	–
Total Tier I Capital	**39,117,247**	38,261,190	**28,517,655**	28,871,200
Tier II Capital:				
Stage 1 and Stage 2 expected credit loss allowances	**1,685,918**	1,706,858	**1,256,999**	1,277,949
Qualifying regulatory reserves	**1,465,493**	1,340,126	**1,265,234**	1,171,183
Subordinated notes	**4,999,986**	2,999,980	**4,999,986**	2,999,980
Qualifying CET I and additional Tier I and Tier II capital instruments held by third parties	**716,141**	724,569	**–**	–
Others	**139,117**	119,871	**–**	–
Total Tier II Capital	**9,006,655**	6,891,404	**7,522,219**	5,449,112
Total Capital	**48,123,902**	45,152,594	**36,039,874**	34,320,312

In arriving at the total capital of the Group and of the Bank above, the second interim dividends were not deducted.

52. CAPITAL ADEQUACY (CONTINUED)

(c) The breakdown of risk-weighted assets by each major risk category of the Group and of the Bank is as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Credit risk	**252,112,870**	243,758,710	**201,778,618**	195,930,586
Market risk	**5,040,545**	4,313,276	**5,473,692**	4,994,901
Operational risk	**20,139,900**	19,472,018	**14,036,638**	13,517,986
Large exposure risk	**612,893**	581,132	**587,405**	556,873
	277,906,208	268,125,136	**221,876,353**	215,000,346

Detailed information on the risk exposures above, as prescribed under BNM's Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3) is presented in the Pillar 3 disclosures section of the Annual Report.

(d) The capital adequacy ratios of the banking subsidiary companies of the Bank are as follows:

	Public Islamic Bank Berhad[1]	Public Investment Bank Berhad[2]	Public Bank (L) Ltd[3]	Public Bank (Hong Kong) Limited[4]	Public Finance Limited[4]	Cambodian Public Bank Plc[5]	Public Bank Vietnam Limited[6]
2019							
Before deducting interim dividends*:							
CET I capital ratio	**12.362%**	**53.270%**	**18.741%**	**18.335%**	**22.348%**	**N/A**	**N/A**
Tier I capital ratio	**12.362%**	**53.270%**	**18.741%**	**18.335%**	**22.348%**	**N/A**	**N/A**
Total capital ratio	**16.192%**	**53.794%**	**18.748%**	**19.596%**	**23.411%**	**18.441%**	**43.588%**
After deducting interim dividends*:							
CET I capital ratio	**12.362%**	**49.503%**	**18.741%**	**18.335%**	**20.930%**	**N/A**	**N/A**
Tier I capital ratio	**12.362%**	**49.503%**	**18.741%**	**18.335%**	**20.930%**	**N/A**	**N/A**
Total capital ratio	**16.192%**	**50.027%**	**18.748%**	**19.596%**	**21.993%**	**18.441%**	**43.588%**
2018							
Before deducting interim dividends*:							
CET I capital ratio	12.087%	51.529%	19.171%	16.342%	23.326%	N/A	N/A
Tier I capital ratio	12.087%	51.529%	19.171%	16.342%	23.326%	N/A	N/A
Total capital ratio	16.116%	52.062%	19.175%	17.510%	24.381%	19.756%	25.703%
After deducting interim dividends*:							
CET I capital ratio	11.955%	47.019%	19.171%	16.342%	21.248%	N/A	N/A
Tier I capital ratio	11.955%	47.019%	19.171%	16.342%	21.248%	N/A	N/A
Total capital ratio	15.984%	47.552%	19.175%	17.510%	22.303%	19.756%	25.703%

* Refer to interim dividends declared subsequent to the financial year end.

52. CAPITAL ADEQUACY (CONTINUED)

(d) The capital adequacy ratios of the banking subsidiary companies of the Bank are as follows (continued):

[1] The risk-weighted assets of Public Islamic Bank Berhad ("PIBB") are computed based on the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The capital adequacy ratios 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 requirements before including capital conservation buffer and CCyB for CET I capital ratio, Tier I capital ratio and total capital ratio are 4.5%, 6.0% and 8.0% respectively. PIBB is required to maintain a capital conservation buffer of 2.5% and a CCyB if this buffer is applied by regulators in countries which PIBB has exposures to.

[2] The risk-weighted assets of Public Investment Bank Berhad ("PIVB") are computed based on the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The capital adequacy ratios are computed in accordance with BNM's Capital Adequacy Frameworks on Capital Components and Basel II – Risk-Weighted Assets. The minimum regulatory capital adequacy requirements before including capital conservation buffer and CCyB for CET I capital ratio, Tier I capital ratio and total capital ratio are 4.5%, 6.0% and 8.0% respectively. PIVB is required to maintain a capital conservation buffer of 2.5% and a CCyB if this buffer is applied by regulators in countries which PIVB has exposures to.

[3] The risk-weighted assets of Public Bank (L) Ltd are computed based on the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The capital adequacy ratios are computed accordance with the Banking Capital Adequacy Framework – Guidelines on Capital Components and Risk Weighted Assets issued by the Labuan Financial Services Authority. The minimum regulatory capital adequacy requirements for CET I capital ratio, Tier I capital ratio and total capital ratio are 4.5%, 6.0% and 8.0% respectively.

[4] These two subsidiary companies have adopted the Standardised Approach for Credit and Market Risk. Public Bank (Hong Kong) Limited has adopted the Basic Indicator Approach for Operational Risk and Public Finance Limited has adopted the Standardised Approach for Operational Risk. The capital adequacy ratios of these two subsidiary companies are computed in accordance with the provisions of the Banking (Amendment) Ordinance 2012 relating to Basel III capital standards and the amended Banking Capital Rules. These two subsidiaries are required to maintain a capital conservation buffer of 2.5% and a CCyB of 2.0% (2018: 1.875%) as imposed by Hong Kong Monetary Authority to their private sector exposures in Hong Kong.

[5] The amount presented here is the solvency ratio of Cambodian Public Bank Plc ("Campu Bank"), which is the nearest equivalent regulatory compliance ratio. This ratio is computed in accordance with National Bank of Cambodia Prakas B7-010-182 and B7-00-46 (amended by Prakas No. B7-04-206 and Prakas No. B7-07-135). This ratio is derived as Campu Bank's net worth divided by its risk-weighted assets and off-balance sheet items. The minimum regulatory solvency ratio requirement is 15.0%.

[6] The amount presented here is the capital adequacy ratio of Public Bank Vietnam Limited ("PBVN"), which is the nearest equivalent regulatory compliance ratio. This ratio is computed in accordance with SBV Circular No.19/2017/TT-NHNN being amendment of and supplement to Circular No.36/2014/TT-NHNN on safety ratios, limits in operations of credit institutions issued by the State Bank of Vietnam. This ratio is derived as PBVN's capital divided by its risk-weighted assets and off-balance sheet items. The minimum regulatory capital adequacy ratio requirement is 9.0%.

53. CAPITAL MANAGEMENT

The Group actively manages its capital to support underlying risks in its business activities and to enable future business growth. The Group's capital management strategy is to continue to maximise shareholders' value via an efficient capital structure, whilst ensuring that it complies with regulatory capital requirements. The allocation of capital resources represents part of the Group's strategic planning review and is subject to the approval of the Board of Directors.

The Group's capital is managed in line with the objectives of the Group 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 Group 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 shareholders and focus on growth in non-interest income and other less capital-intensive business activities. The Group's Internal Capital Adequacy Assessment Process ("ICAAP") assesses the Group's internal capital requirements beyond the minimum regulatory requirements to ensure its capital commensurates with the Group's risk profile, the complexity of the business activities undertaken and its risk appetite.

The Group's and Bank's regulatory capital are determined under BNM's Capital Adequacy Frameworks on Capital Components and Basel II – Risk-weighted Assets and their capital ratios have complied with the minimum requirements set under this guideline. Information on the Group's and Bank's capital adequacy ratios, regulatory minimum capital requirements and the components of total capital are disclosed in Note 52 (a) and (b).

54. 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 Group's operating and reportable segments are business units engaged in providing different products or services and business units operating in different geographical locations. 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, geographical 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 Group's domestic business, which also includes Islamic banking 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 loans), credit cards, remittance services, deposit collection and investment products.

(iii) Corporate Lending

The corporate lending operations cater to the funding needs of large corporate customers which are primarily public listed companies and their related corporations.

54. SEGMENT INFORMATION (CONTINUED)

The Group's domestic business, which also includes Islamic banking business, is organised into the following key operating segments (continued):

(iv) Treasury and Capital Market Operations

The treasury and capital market operations are involved in proprietary trading in treasury related products and services such as foreign exchange, money market operations and securities trading, as well as their roles as the funding center.

(v) Investment Banking

The investment banking operations cater to the business needs of large corporate customers through the provision of financial solutions and direct lending. The services offered include structured financing, corporate advisory services, merger and acquisition, stock-broking and debt restructuring advisory services.

(vi) Fund Management

The fund management operations consist of sale of trust units and the management of unit trust funds as conducted by the Bank's wholly-owned subsidiary company, Public Mutual Berhad.

(vii) Others

Others refer mainly to non-core operations such as property holding.

(viii) Head Office

Head office manages the investment of funds from shareholders' funds and capital securities, as well as provides support services to the business segments within the Bank.

The Group's overseas business operations are organised according to the following geographical locations:

(i) Hong Kong SAR

This includes all business operations conducted by the Bank's subsidiary companies in Hong Kong SAR and the People's Republic of China, including retail and commercial banking and lending, wealth management services, stock-broking and other related financial services.

(ii) Cambodia

This comprises all business operations conducted by the Bank's subsidiary companies in Cambodia, which includes mainly financing, deposit-taking, general insurance businesses and stock-broking.

(iii) Other Countries

This refers to the Group's banking business operations in the Socialist Republic of Vietnam, Lao People's Democratic Republic and Sri Lanka.

There are no changes in the operating segments during the year.

Measurement and Evaluation of Segment Performance

The Management Committee evaluates operating segments' performance on the basis of revenue, profit, cost-to-income ratio, loan 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 interest income.

Major Customers

There is no single customer which contributes revenue amount greater than 10% of the Group's revenues for the current financial year (2018 – none).

54. SEGMENT INFORMATION (CONTINUED)

By Business Segments:

	Domestic Operating Segments									Overseas Operating Segments					
2019	Hire Purchase RM'000	Retail Operations RM'000	Corporate Lending RM'000	Treasury and Capital Market Operations RM'000	Investment Banking RM'000	Fund Management RM'000	Others RM'000	Head Office RM'000	Total Domestic Operations RM'000	Hong Kong SAR RM'000	Cambodia RM'000	Other Countries RM'000	Total Overseas Operations RM'000	Inter-segment Elimination RM'000	Group Total RM'000
External revenue	2,538,073	11,181,421	2,002,850	1,421,071	149,867	1,327,445	70,752	1,821,056	20,512,535	1,162,735	449,054	330,410	1,942,199	-	22,454,734
Revenue from other segments	5,705	1,530,090	43,437	2,023,288	1,094	48,522	1,851	473,542	4,127,529	-	60,821	27,423	88,244	(4,215,773)	-
Total revenue	2,543,778	12,711,511	2,046,287	3,444,359	150,961	1,375,967	72,603	2,294,598	24,640,064	1,162,735	509,875	357,833	2,030,443	(4,215,773)	22,454,734
Net interest income/(expense) and Islamic banking income	656,039	4,983,363	558,176	(19,615)	25,611	8,761	(23,257)	1,236,444	7,425,522	718,993	365,694	191,138	1,275,825	-	8,701,347
Other income	3,029	703,212	49,094	345,404	59,208	879,420	71,165	98,497	2,209,029	155,477	55,127	20,805	231,409	(39,534)	2,400,904
Net income	659,068	5,686,575	607,270	325,789	84,819	888,181	47,908	1,334,941	9,634,551	874,470	420,821	211,943	1,507,234	(39,534)	11,102,251
Other operating expenses	(255,573)	(1,975,528)	(17,697)	(45,721)	(43,258)	(241,380)	(25,344)	(573,225)	(3,177,726)	(460,867)	(119,042)	(101,091)	(681,000)	39,534	(3,819,192)
of which:															
Depreciation	*(2,318)*	*(87,950)*	*(773)*	*(1,886)*	*(3,052)*	*(23,789)*	*(6,364)*	*(140,202)*	*(266,334)*	*(53,705)*	*(22,655)*	*(9,478)*	*(85,838)*	-	*(352,172)*
(Allowance)/Writeback of allowance for impairment on loans, advances and financing	(4,391)	11,981	(74,098)	-	(2,008)	(13)	-	-	(68,529)	(117,390)	48,706	(17,253)	(85,937)	-	(154,466)
Writeback of allowance/(Allowance) for impairment on other assets	-	4,013	-	577	48	-	-	(1,101)	3,537	(13)	(1,676)	327	(1,362)	-	2,175
Profit by segments	399,104	3,727,041	515,475	280,645	39,601	646,788	22,564	760,615	6,391,833	296,200	348,809	93,926	738,935	-	7,130,768
Reconciliation of segment profits to consolidated profits:															
Share of profit after tax of equity accounted associated companies									3,376				-		3,376
Profit before tax expense and zakat									6,395,209				738,935		7,134,144
Cost-to-income ratio	38.8%	34.7%	2.9%	14.0%	51.0%	27.2%	52.9%	42.9%	33.0%	52.7%	28.3%	47.7%	45.2%		34.4%

54. SEGMENT INFORMATION (CONTINUED)

By Business Segments (continued):

2019 (continued)	Domestic Operating Segments: Hire Purchase RM'000	Retail Operations RM'000	Corporate Lending RM'000	Treasury and Capital Market Operations RM'000	Investment Banking RM'000	Fund Management RM'000	Others RM'000	Head Office RM'000	Total Domestic Operations RM'000	Overseas Operating Segments: Hong Kong SAR RM'000	Cambodia RM'000	Other Countries RM'000	Total Overseas Operations RM'000	Inter-segment Elimination RM'000	Group Total RM'000
Gross loans, advances and financing	49,122,692	215,229,173	42,356,727	-	349,499	104,438	1,546	-	307,164,075	15,164,688	4,720,804	3,418,874	23,304,366	-	330,468,441
Loan growth	2.3%	5.2%	3.4%	-	-6.8%	5.5%	-7.0%	-	4.5%	-4.5%	8.4%	14.4%	0.3%	-	4.1%
Impaired loans and financing	232,976	1,028,251	47,060	-	1,772	270	-	-	1,310,329	103,643	45,233	145,714	294,590	-	1,604,919
Impaired loan/financing ratio	0.5%	0.5%	0.1%	-	0.5%	0.3%	-	-	0.4%	0.7%	1.0%	4.3%	1.3%	-	0.5%
Deposits from customers	-	259,483,622	197,410	64,771,138	746,663	-	-	-	325,198,833	17,828,694	7,784,335	2,528,613	28,141,642	-	353,340,475
Deposit growth	-	4.7%	-40.1%	5.6%	-26.0%	-	-	-	4.7%	-4.3%	0.9%	13.8%	-1.5%	-	4.2%
Addition to non-current assets	3,720	87,061	293	398	268	12,940	1,162	204,770	310,612	60,911	27,464	25,066	113,441	-	424,053
Segment assets	48,964,714	267,629,253	41,846,191	76,800,791	1,876,299	531,436	838,599	47,428,899	485,916,182	22,300,172	10,790,838	6,271,852	39,362,862	(96,292,456)	428,986,588
Reconciliation of segment assets to consolidated assets:															
Investment in associated companies									75,064				16		75,080
Unallocated assets									1,325,968				-		1,325,968
Intangible assets									775,493				1,667,546		2,443,039
Total assets									488,092,707				41,030,424		432,830,675

54. SEGMENT INFORMATION (CONTINUED)

By Business Segments (continued):

2018	Hire Purchase RM'000	Retail Operations RM'000	Corporate Lending RM'000	Treasury and Capital Market Operations RM'000	Investment Banking RM'000	Fund Management RM'000	Others RM'000	Head Office RM'000	Total Domestic Operations RM'000	Hong Kong SAR RM'000	Cambodia RM'000	Other Countries RM'000	Total Overseas Operations RM'000	Inter-segment Elimination RM'000	Group Total RM'000
	<------ Domestic Operating Segments ------>									<------ Overseas Operating Segments ------>					
External revenue	2,552,228	11,092,486	1,980,455	1,377,884	171,217	1,395,428	44,607	1,635,664	20,249,969	1,088,559	426,470	276,787	1,791,816	-	22,041,785
Revenue from other segments	5,931	1,313,656	41,606	2,242,744	914	48,310	43,946	495,012	4,192,119	-	45,708	14,034	59,742	(4,251,861)	-
Total revenue	2,558,159	12,406,142	2,022,061	3,620,628	172,131	1,443,738	88,553	2,130,676	24,442,088	1,088,559	472,178	290,821	1,851,558	(4,251,861)	22,041,785
Net interest income/(expense) and Islamic banking income	679,511	4,721,329	532,429	349,945	25,141	19,548	(23,526)	1,118,080	7,422,457	722,701	315,345	168,349	1,206,395	-	8,628,852
Other income/(expense)	2,999	707,436	48,185	314,503	66,247	878,915	87,280	(19,490)	2,086,075	123,796	76,528	13,513	213,837	(85,334)	2,214,578
Net income	682,510	5,428,765	580,614	664,448	91,388	898,463	63,754	1,098,590	9,508,532	846,497	391,873	181,862	1,420,232	(85,334)	10,843,430
Other operating expenses	(242,477)	(1,829,409)	(15,609)	(41,425)	(41,908)	(231,748)	(24,335)	(601,445)	(3,028,356)	(442,361)	(107,820)	(80,283)	(630,464)	85,334	(3,573,486)
of which:															
Depreciation	*(2,314)*	*(81,499)*	*(690)*	*(1,930)*	*(520)*	*(6,946)*	*(6,126)*	*(90,454)*	*(190,479)*	*(16,670)*	*(14,670)*	*(6,858)*	*(38,198)*	-	*(228,677)*
(Allowance)/Writeback of allowance for impairment on loans, advances and financing	(115,473)	50,438	(6,516)	-	(246)	394	-	-	(71,403)	(83,521)	14,155	(28,494)	(97,860)	-	(169,263)
(Allowance)/Writeback of allowance for impairment on other assets	-	(2,223)	-	(542)	(53)	-	-	(758)	(3,576)	17	-	(1,207)	(1,190)	-	(4,766)
Profit by segments	324,560	3,647,571	558,489	622,481	49,181	667,109	39,419	496,387	6,405,197	320,632	298,208	71,878	690,718	-	7,095,915
Reconciliation of segment profits to consolidated profits:															
Share of profit after tax of equity accounted associated companies									5,250				-		5,250
Profit before tax expense and zakat									6,410,447				690,718		7,101,165
Cost-to-income ratio	35.5%	33.7%	2.7%	6.2%	45.9%	25.8%	38.2%	54.7%	31.8%	52.3%	27.5%	44.1%	44.4%		33.0%

54. SEGMENT INFORMATION (CONTINUED)

By Business Segments (continued):

2018 (continued)	<---- Domestic Operating Segments							---->		<---- Overseas Operating Segments		---->			
	Hire Purchase RM'000	Retail Operations RM'000	Corporate Lending RM'000	Treasury and Capital Market Operations RM'000	Investment Banking RM'000	Fund Management RM'000	Others RM'000	Head Office RM'000	Total Domestic Operations RM'000	Hong Kong SAR RM'000	Cambodia RM'000	Other Countries RM'000	Total Overseas Operations RM'000	Inter-segment Elimination RM'000	Group Total RM'000
Gross loans, advances and financing	48,024,853	204,619,801	40,953,498	-	375,123	98,947	1,663	-	294,073,885	15,884,112	4,355,773	2,987,809	23,227,694	-	317,301,579
Loan growth	-0.2%	5.3%	4.2%	-	-4.6%	11.3%	4.4%	-	4.2%	3.3%	4.7%	15.4%	5.0%	-	4.2%
Impaired loans and financing	295,208	966,562	38,298	-	-	363	-	-	1,300,431	104,861	65,858	149,583	320,302	-	1,620,733
Impaired loan/financing ratio	0.6%	0.5%	0.1%	-	-	0.4%	-	-	0.4%	0.7%	1.5%	5.0%	1.4%	-	0.5%
Deposits from customers	-	247,927,509	329,473	61,318,423	1,009,317	-	-	-	310,584,722	18,637,179	7,716,437	2,221,554	28,575,170	-	339,159,892
Deposit growth	-	5.3%	29.2%	8.7%	3.6%	-	-	-	5.9%	5.8%	18.4%	14.0%	9.6%	-	6.2%
Addition to non-current assets	782	88,210	-	1,785	327	22,709	307	57,096	171,216	18,368	13,235	15,014	46,617	-	217,833
Segment assets	47,767,310	256,175,771	40,530,095	76,841,089	2,074,568	401,684	856,107	45,575,856	470,222,480	22,687,282	10,061,789	4,833,329	37,582,400	(91,732,823)	416,072,057
Reconciliation of segment assets to consolidated assets:															
Investment in associated companies									70,399				17		70,416
Unallocated assets									1,096,054				-		1,096,054
Intangible assets									775,493				1,679,262		2,454,755
Total assets									472,164,426				39,261,679		419,693,282

55. CHANGES IN ACCOUNTING POLICIES

(a) Effects of adoption of MFRS 16 Leases

MFRS 16 'Leases' supersedes MFRS 117 'Leases' and its related interpretations. Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. MFRS 16 introduces a single accounting model for a lessee and eliminates the classification of leases by the lessee as either finance leases (on-balance sheet) or operating leases (off-balance sheet).

The Group and the Bank have adopted the requirements of MFRS 16 Leases on 1 January 2019 using the modified retrospective approach, with the cumulative effect of adopting MFRS 16 being recognised in equity as an adjustment to the opening balance of retained profits for the current year. Prior periods have not been restated.

(i) Definition of a Lease

On adoption of MFRS 16, the Group and the Bank have elected not to reassess whether a contract is, or contains a lease at the date of initial application as described in Note 2(iii)(j)(i). Instead, for contracts entered into before the transition date, the Group and the Bank relied on the previous assessment made in accordance with MFRS 117 and IC Interpretation 4 Determining Whether an Arrangement contains a Lease. Therefore, the definition of a lease under MFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

(ii) As a Lessee

As a lessee, the Group and the Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group and the Bank. Under MFRS 16, the Group and the Bank recognise right-of-use assets and lease liabilities for most leases.

Leases previously classified as operating leases under MFRS 117

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's and the Bank's incremental borrowing rate as of 1 January 2019. The carrying value of the lease liabilities also includes the extension options granted in favour of the Group and the Bank if it is reasonably certain the option will be exercised.

Right-of-use assets were measured at their carrying amount as if MFRS 16 had been applied since the lease commencement date, discounted using the Group's and the Bank's incremental borrowing rate at the date of initial application and include an estimate of 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.

The Group and the Bank elected the following transition practical expedients on a lease-by-lease basis for measurement purposes at first-time application of the standard:

– Relied on previous impairment assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;

– Elected not to recognise the associated right-of-use assets and lease liabilities for lease contracts with remaining lease term not exceeding twelve (12) months at the date of initial application;

– Excluded initial direct costs from the measurement of the right-of-use assets at the date of initial application; and

– Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

In addition, the Group and the Bank decided to apply recognition exemptions not to recognise right-of-use assets but to account for the lease expense as incurred to leases that contain variable payment terms, as described in Note 18(i)(f).

55. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Effects of adoption of MFRS 16 Leases (continued)

(ii) As a Lessee (continued)

Leases previously classified as finance leases

For leases previously classified as finance leases, the Group and the Bank recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application.

Leasehold land

The carrying amount of leasehold land previously classified as property and equipment is now reclassified as right-of-use assets at the date of initial application.

(iii) As a Lessor

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. The Group and the Bank did not make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of MFRS 16.

(iv) Financial Effects

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 for the Group and the Bank were 4.32% and 4.47% respectively.

The following table presents the reconciliation of lease liabilities as of 1 January 2019:

	Group	Bank
	RM'000	RM'000
Future minimum lease payments as at 31 December 2018		
– under non-cancellable operating leases	224,300	1,861
– under cancellable operating leases	119,536	164,311
Finance lease liabilities recognised under MFRS 117	95,666	95,666
	439,502	261,838
Extension and termination options reasonably certain to be exercised	1,024,008	1,631,373
Effects of discounting using incremental borrowing rate	(384,768)	(563,108)
Leases with a remaining term of twelve months or less from the date of application not recognised	(397)	–
Leases that do not fall under MFRS 16 Leases definition	(1,402)	–
Lease liabilities recognised as at 1 January 2019	1,076,943	1,330,103

The recognised right-of-use assets relate to the following type of assets:

	At 1 January 2019	
	Group RM'000	Bank RM'000
Short term leasehold land	107,893	–
Long term leasehold land	239,470	115
Land and buildings	995,685	1,249,465
Computer equipment and software	90,488	90,488
	1,433,536	1,340,068

55. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Effects of change in management remuneration policy

During the current financial year, the Group and the Bank revised their remuneration policy in which a new assessment process was established to align with revised internal remuneration policy to determine variable pay compensation for employees of the Group and of the Bank. The effects of the realignment of variable pay compensation have been adjusted to the opening retained profits as at 1 January 2019. The financial effects of the realignment of variable pay compensation are presented below.

(c) Financial effects due to changes in accounting policies

The following table analyses the impact, net of tax arising from changes in accounting policies on the statements of financial position of the Group and of the Bank:

	Effects of Changes in Accounting Policies As At 1 January 2019	
	Group RM'000	**Bank RM'000**
Other Assets		
Closing balance at 31 December 2018	2,393,887	2,366,764
– Reversal of deposits and prepayment under MFRS 16	(947)	(922)
– Recognition of cost allocation receivables arising from change in management remuneration policy	–	3,053
Opening balance at 1 January 2019	2,392,940	2,368,895
Deferred Tax Assets		
Closing balance at 31 December 2018	81,374	–
– Recognition of deferred tax under MFRS 16	2,949	–
– Recognition of deferred tax arising from change in management remuneration policy	760	–
Opening balance at 1 January 2019	85,083	–
Right-of-use Assets		
Closing balance at 31 December 2018	–	–
– Recognition of right-of-use assets under MFRS 16	995,685	1,249,465
– Reclassification from property and equipment	437,851	90,603
Opening balance at 1 January 2019	1,433,536	1,340,068

55. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) Financial effects due to changes in accounting policies (continued)

The following table analyses the impact, net of tax arising from changes in accounting policies on the statements of financial position of the Group and of the Bank (continued):

	Effects of Changes in Accounting Policies As At 1 January 2019	
	Group RM'000	Bank RM'000
Property and Equipment		
Closing balance at 31 December 2018	1,567,199	711,274
– Reclassification to right-of-use assets	(437,851)	(90,603)
– Reversal of restoration cost	75	75
Opening balance at 1 January 2019	1,129,423	620,746
Lease Liabilities		
Closing balance at 31 December 2018	–	–
– Recognition of lease liabilities under MFRS 16	981,277	1,234,437
– Reclassification from other liabilities	95,666	95,666
Opening balance at 1 January 2019	1,076,943	1,330,103
Other Liabilities		
Closing balance at 31 December 2018	4,975,470	3,416,816
– Recognition of accrued restoration costs	62,952	64,148
– Reclassification to lease liabilities	(95,666)	(95,666)
– Recognition of provision arising from change in management remuneration policy	292,664	288,186
Opening balance at 1 January 2019	5,235,420	3,673,484
Provision for Tax Expense and Zakat		
Closing balance at 31 December 2018	341,697	249,207
– Recognition of tax expense arising from change in management remuneration policy	–	733
Opening balance at 1 January 2019	341,697	249,940
Deferred Tax Liabilities		
Closing balance at 31 December 2018	141,948	84,502
– Recognition of deferred tax under MFRS 16	(10,243)	(13,842)
– Recognition of deferred tax arising from change in management remuneration policy	(69,358)	(69,165)
Opening balance at 1 January 2019	62,347	1,495

55. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) Financial effects due to changes in accounting policies (continued)

The following table analyses the impact, net of tax arising from changes in accounting policies on the statements of financial position of the Group and of the Bank (continued):

	Effects of Changes in Accounting Policies As At 1 January 2019	
	Group RM'000	**Bank RM'000**
Retained Profits		
Closing balance at 31 December 2018	**28,317,913**	**23,551,092**
– Arising from the adoption of MFRS 16	**(49,416)**	**(49,967)**
– Non-controlling interests' share of impact arising from adoption of MFRS 16 in respect of foreign operations	**1,054**	**–**
– Arising from change in management remuneration policy	**(292,664)**	**(285,133)**
– Recognition of deferred tax expense under MFRS 16	**13,192**	**13,842**
– Recognition of deferred tax expense and tax expense arising from change in management remuneration policy	**70,118**	**68,432**
Opening balance at 1 January 2019	**28,060,197**	**23,298,266**
Non-controlling Interests		
Closing balance at 31 December 2018	**1,123,407**	**–**
– Non-controlling interests' share of impact arising from adoption of MFRS 16 in respect of foreign operations	**(1,054)**	**–**
Opening balance at 1 January 2019	**1,122,353**	**–**

The financial effects due to the changes in accounting policies have been adjusted to the statements of financial position and capital adequacy ratios of the Group and of the Bank as at 1 January 2019. There are no changes to the comparatives in the statements of profit or loss and statements of cash flows of the Group and of the Bank. A reconciliation of these changes is summarised in the following tables.

55. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) Financial effects due to changes in accounting policies (continued)

Group Statement of Financial Position	31 December 2018 RM'000	Remeasurement RM'000	Reclassification RM'000	1 January 2019 RM'000
ASSETS				
Cash and balances with banks	14,740,218			**14,740,218**
Reverse repurchase agreements	200,881			**200,881**
Financial assets at fair value through profit or loss	2,380,134			**2,380,134**
Derivative financial assets	185,891			**185,891**
Financial investments at fair value through other comprehensive income	42,342,483			**42,342,483**
Financial investments at amortised cost	27,018,444			**27,018,444**
Loans, advances and financing	315,259,166			**315,259,166**
Other assets	2,393,887	**(947)**		**2,392,940**
Statutory deposits with Central Banks	10,279,227			**10,279,227**
Deferred tax assets	81,374	**3,709**		**85,083**
Investment in associated companies	70,416			**70,416**
Investment properties	719,207			**719,207**
Right-of-use assets	–	**995,685**	**437,851**	**1,433,536**
Property and equipment	1,567,199	**75**	**(437,851)**	**1,129,423**
Intangible assets	2,454,755			**2,454,755**
TOTAL ASSETS	419,693,282	**998,522**	**–**	**420,691,804**
LIABILITIES				
Deposits from customers	339,159,892			**339,159,892**
Deposits from banks	9,483,154			**9,483,154**
Obligations on securities sold under repurchase agreements	4,045,605			**4,045,605**
Bills and acceptances payable	214,592			**214,592**
Recourse obligations on loans sold to Cagamas	5,500,003			**5,500,003**
Derivative financial liabilities	297,664			**297,664**
Debt securities issued and other borrowed funds	13,436,794			**13,436,794**
Lease liabilities	–	**981,277**	**95,666**	**1,076,943**
Other liabilities	4,975,470	**355,616**	**(95,666)**	**5,235,420**
Provision for tax expense and zakat	341,697			**341,697**
Deferred tax liabilities	141,948	**(79,601)**		**62,347**
TOTAL LIABILITIES	377,596,819	**1,257,292**	**–**	**378,854,111**
EQUITY				
Share capital	9,417,653			**9,417,653**
Regulatory reserves	1,806,123			**1,806,123**
Other reserves	1,431,367			**1,431,367**
Retained profits	28,317,913	**(257,716)**		**28,060,197**
Equity attributable to equity holders of the Bank	40,973,056	**(257,716)**		**40,715,340**
Non-controlling interests	1,123,407	**(1,054)**		**1,122,353**
TOTAL EQUITY	42,096,463	**(258,770)**	**–**	**41,837,693**
TOTAL LIABILITIES AND EQUITY	419,693,282	**998,522**	**–**	**420,691,804**
Net assets per share attributable to ordinary equity holders of the Bank (RM)	10.55			**10.49**

55. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) Financial effects due to changes in accounting policies (continued)

Bank Statement of Financial Position	31 December 2018 RM'000	Remeasurement RM'000	Reclassification RM'000	1 January 2019 RM'000
ASSETS				
Cash and balances with banks	9,416,853			**9,416,853**
Financial assets at fair value through profit or loss	2,293,636			**2,293,636**
Derivative financial assets	193,101			**193,101**
Financial investments at fair value through other comprehensive income	29,070,703			**29,070,703**
Financial investments at amortised cost	20,572,364			**20,572,364**
Loans and advances	247,690,397			**247,690,397**
Other assets	2,366,764	**2,131**		**2,368,895**
Statutory deposits with Central Banks	7,258,452			**7,258,452**
Collective investments	5,517,109			**5,517,109**
Investment in subsidiary companies	5,955,494			**5,955,494**
Investment in an associated company	45,000			**45,000**
Right-of-use assets	–	**1,249,465**	**90,603**	**1,340,068**
Property and equipment	711,274	**75**	**(90,603)**	**620,746**
Intangible assets	695,393			**695,393**
TOTAL ASSETS	331,786,540	**1,251,671**	**–**	**333,038,211**
LIABILITIES				
Deposits from customers	258,877,559			**258,877,559**
Deposits from banks	12,487,063			**12,487,063**
Obligations on securities sold under repurchase agreements	4,045,605			**4,045,605**
Bills and acceptances payable	214,388			**214,388**
Recourse obligations on loans sold to Cagamas	5,500,003			**5,500,003**
Derivative financial liabilities	289,995			**289,995**
Debt securities issued and other borrowed funds	11,341,598			**11,341,598**
Lease liabilities	–	**1,234,437**	**95,666**	**1,330,103**
Other liabilities	3,416,816	**352,334**	**(95,666)**	**3,673,484**
Provision for tax expense	249,207	**733**		**249,940**
Deferred tax liabilities	84,502	**(83,007)**		**1,495**
TOTAL LIABILITIES	296,506,736	**1,504,497**	**–**	**298,011,233**
EQUITY				
Share capital	9,417,653			**9,417,653**
Regulatory reserves	1,461,892			**1,461,892**
Other reserves	849,167			**849,167**
Retained profits	23,551,092	**(252,826)**		**23,298,266**
TOTAL EQUITY	35,279,804	**(252,826)**	**–**	**35,026,978**
TOTAL LIABILITIES AND EQUITY	331,786,540	**1,251,671**	**–**	**333,038,211**
Net assets per share attributable to ordinary equity holders of the Bank (RM)	9.09			**9.02**

55. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) Financial effects due to changes in accounting policies (continued)

Based on the Capital Adequacy Frameworks issued by Bank Negara Malaysia, the "right-of-use assets" are accorded a risk weight of 100% for the computation of risk-weighted assets.

Capital Adequacy	31 December 2018 RM'000	Effects of Changes in Acccounting Policies RM'000	1 January 2019 RM'000
Group			
CET I capital	36,540,563	**(261,425)**	**36,279,138**
Tier I capital	38,261,190	**(261,425)**	**37,999,765**
Total capital	45,152,594	**(248,049)**	**44,904,545**
Risk-weighted assets	268,125,136	**994,813**	**269,119,949**
Before deducting interim dividends*			
CET I capital ratio (%)	13.628%	**–0.147%**	**13.481%**
Tier I capital ratio (%)	14.270%	**–0.150%**	**14.120%**
Total capital ratio (%)	16.840%	**–0.154%**	**16.686%**
After deducting interim dividends*			
CET I capital ratio (%)	13.092%	**–0.145%**	**12.947%**
Tier I capital ratio (%)	13.734%	**–0.148%**	**13.586%**
Total capital ratio (%)	16.304%	**–0.152%**	**16.152%**
Bank			
CET I capital	27,211,898	**(253,277)**	**26,958,621**
Tier I capital	28,871,200	**(253,277)**	**28,617,923**
Total capital	34,320,312	**(237,631)**	**34,082,681**
Risk-weighted assets	215,000,346	**1,251,671**	**216,252,017**
Before deducting interim dividends*			
CET I capital ratio (%)	12.657%	**–0.191%**	**12.466%**
Tier I capital ratio (%)	13.428%	**–0.194%**	**13.234%**
Total capital ratio (%)	15.963%	**–0.202%**	**15.761%**
After deducting interim dividends*			
CET I capital ratio (%)	11.989%	**–0.187%**	**11.802%**
Tier I capital ratio (%)	12.760%	**–0.191%**	**12.569%**
Total capital ratio (%)	15.295%	**–0.199%**	**15.096%**

* Refer to interim dividends declared subsequent to the financial year end.

56. RATING STATEMENT

As at 31 December 2019, the Bank was accorded the following ratings:

Agencies	Date accorded/Reaffirmed	Ratings
RAM Rating Services Berhad	14 May 2019 (Reaffirmed)	Long-Term Rating: AAA
	14 May 2019 (Reaffirmed)	Short-Term Rating: P1
	14 May 2019 (Reaffirmed)	Outlook: Stable
	14 May 2019 (Reaffirmed)	Senior Medium-Term Notes Programme: AAA/Stable
	14 May 2019 (Reaffirmed)	RM10 Billion Subordinated Medium-Term Notes Programme: AA1/Stable
	14 May 2019 (Reaffirmed)	RM10 Billion Additional Tier-I Capital Securities Programme: AA3/Stable
Moody's Investors Service	20 August 2018 (Reaffirmed)	Foreign Currency: Long-Term Deposits Rating: A3 Short-Term Deposits Rating: P-2
	20 August 2018 (Reaffirmed)	Local Currency: Long-Term Deposits Rating: A3 Short-Term Deposits Rating: P-2
	20 August 2018 (Reaffirmed)	Foreign Currency Outlook: Stable
	20 August 2018 (Reaffirmed)	Local Currency Outlook: Stable
Standard & Poor's Ratings Services	11 November 2019 (Reaffirmed)	Foreign Currency: Long-Term Rating: A- Short-Term Rating: A-2
	11 November 2019 (Reaffirmed)	Local Currency: Long-Term Deposits Rating: A- Short-Term Deposits Rating: A-2
	11 November 2019 (Reaffirmed)	Foreign Currency Outlook: Stable
	11 November 2019 (Reaffirmed)	Local Currency Outlook: Stable

57. SIGNIFICANT EVENTS

The significant events relating to debt issuance and debt redemption of the Group and of the Bank are disclosed in Note 25.

58. SUBSEQUENT EVENTS

There were no material events subsequent to the reporting date that require disclosure or adjustments to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

59. ISLAMIC BANKING BUSINESS

The financial position as at 31 December 2019 and results for the financial year ended on this date under the Islamic banking business of the Group, which is conducted by the Bank's wholly-owned subsidiary company, Public Islamic Bank Berhad, are summarised as follows:

Statement of Financial Position as at 31 December 2019

		Group	
	Note	2019 RM'000	2018 RM'000
ASSETS			
Cash and balances with banks		**3,139,455**	2,127,231
Financial assets at fair value through profit or loss		**249,541**	30,310
Derivative financial assets		**–**	3,946
Financial investments at fair value through other comprehensive income		**9,528,034**	8,654,277
Financial investments at amortised cost		**3,743,715**	3,186,041
Financing and advances	(a)	**49,728,576**	45,629,999
Other assets		**71,437**	69,628
Statutory deposits with Bank Negara Malaysia		**1,800,450**	1,891,250
Deferred tax assets		**–**	2,637
Collective investments		**549,042**	530,514
Investment in an associated company		**45,000**	45,000
Right-of-use assets		**18,707**	–
Property and equipment		**4,005**	3,079
Total Assets		**68,877,962**	62,173,912
LIABILITIES AND ISLAMIC BANKING FUNDS			
Deposits from customers	(b)	**59,374,011**	53,639,575
Deposits from banks		**2,453,316**	1,982,936
Bills and acceptances payable		**377**	204
Derivative financial liabilities		**90,130**	23,601
Senior Sukuk Murabahah		**519,862**	519,775
Subordinated Sukuk Murabahah		**1,000,000**	999,887
Lease liabilities		**19,385**	–
Other liabilities		**396,753**	451,580
Provision for zakat and taxation		**19,888**	11,299
Deferred tax liabilities		**264**	–
Total Liabilities		**63,873,986**	57,628,857
Islamic Banking Funds		**5,003,976**	4,545,055
Total Liabilities and Islamic Banking Funds		**68,877,962**	62,173,912
COMMITMENTS AND CONTINGENCIES		**10,168,972**	10,404,744

The accompanying notes form an integral part of the financial statements

59. ISLAMIC BANKING BUSINESS (CONTINUED)

Statement of Profit or Loss for the year ended 31 December 2019

	Group	
	2019 RM'000	**2018 RM'000**
Income derived from investment of depositors' funds and others	**2,710,707**	2,566,476
Income derived from investment of Islamic Banking Funds	**224,485**	210,079
Allowance for impairment on financing and advances	**(41,756)**	(32,256)
Allowance for impairment on other assets	**(232)**	(461)
Total distributable income	**2,893,204**	2,743,838
Income attributable to depositors and others	**(1,787,697)**	(1,693,021)
Total net income	**1,105,507**	1,050,817
Personnel expenses	**(21,243)**	(19,248)
Other overheads and expenditures	**(441,976)**	(412,980)
Profit before zakat and taxation	**642,288**	618,589
Zakat	**(300)**	(260)
Taxation	**(149,834)**	(144,332)
Profit for the year	**492,154**	473,997

Net income from Islamic banking business as reported in the statement of profit or loss of the Group is derived as follows:

	Group	
	2019 RM'000	**2018 RM'000**
Income derived from investment of depositors' funds and others	**2,710,707**	2,566,476
Income derived from investment of Islamic Banking Funds	**224,485**	210,079
Income attributable to depositors and others	**(1,787,697)**	(1,693,021)
Elimination of inter-company income and expenses	**(18,434)**	(17,649)
Net income from Islamic banking business reported in the statement of profit or loss of the Group	**1,129,061**	1,065,885

The accompanying notes form an integral part of the financial statements

59. ISLAMIC BANKING BUSINESS (CONTINUED)

Statement of Comprehensive Income for the year ended 31 December 2019

	Group	
	2019 RM'000	**2018 RM'000**
Profit for the year	**492,154**	473,997
Other comprehensive (loss)/income:		
Items that will not be reclassified to profit or loss:		
(Loss)/Gain on remeasurements of defined benefit plans	**(2,563)**	1,573
Items that may be reclassified to profit or loss:		
Net change in revaluation of financial investments at fair value through other comprehensive income	**98,501**	5,316
Net change in cash flow hedges	**(71,664)**	180
	26,837	5,496
Income tax effect	**(5,826)**	(1,696)
Other comprehensive income for the year, net of tax	**18,448**	5,373
Total comprehensive income for the year	**510,602**	479,370

The accompanying notes form an integral part of the financial statements

59. ISLAMIC BANKING BUSINESS (CONTINUED)

Statement of Changes in Islamic Banking Funds for the year ended 31 December 2019

	<---------- Non-distributable					---------->	Distributable	
Group	**Capital Funds RM'000**	**Regulatory Reserves RM'000**	**Hedging Reserves RM'000**	**Revaluation Reserves RM'000**	**Defined Benefit Reserves RM'000**	**Profit Equalisation Reserves RM'000**	**Retained Profits RM'000**	**Total RM'000**
At 1 January 2019								
– as previously stated	2,732,717	259,285	(15,195)	7,308	6,206	172	1,554,562	4,545,055
– effects of changes in accounting policies	–	–	–	–	–	–	(5,438)	(5,438)
At 1 January 2019, as restated	2,732,717	259,285	(15,195)	7,308	6,206	172	1,549,124	4,539,617
Profit for the year	–	–	–	–	–	–	492,154	492,154
Other comprehensive (loss)/ income for the year	–	–	(54,465)	74,861	(1,948)	–	–	18,448
Total comprehensive (loss)/ income for the year	–	–	(54,465)	74,861	(1,948)	–	492,154	510,602
Transactions with owners/ other equity movements:								
Transfer to regulatory reserves	–	50,146	–	–	–	–	(50,146)	–
Dividends paid	–	–	–	–	–	–	(46,243)	(46,243)
	–	50,146	–	–	–	–	(96,389)	(46,243)
At 31 December 2019	2,732,717	309,431	(69,660)	82,169	4,258	172	1,944,889	5,003,976

The accompanying notes form an integral part of the financial statements

59. ISLAMIC BANKING BUSINESS (CONTINUED)

Statement of Changes in Islamic Banking Funds for the year ended 31 December 2019 (continued)

	<------ Non-distributable					------>	Distributable	
Group	**Capital Funds RM'000**	**Regulatory Reserves RM'000**	**Hedging Reserves RM'000**	**Revaluation Reserves RM'000**	**Defined Benefit Reserves RM'000**	**Profit Equalisation Reserves RM'000**	**Retained Profits RM'000**	**Total RM'000**
At 1 January 2018	2,732,717	194,070	(15,332)	3,268	5,010	172	1,238,267	4,158,172
Profit for the year	–	–	–	–	–	–	473,997	473,997
Other comprehensive income for the year	–	–	137	4,040	1,196	–	–	5,373
Total comprehensive income for the year	–	–	137	4,040	1,196	–	473,997	479,370
Transactions with owners/ other equity movements:								
Transfer to regulatory reserves	–	65,215	–	–	–	–	(65,215)	–
Dividends paid	–	–	–	–	–	–	(92,487)	(92,487)
	–	65,215	–	–	–	–	(157,702)	(92,487)
At 31 December 2018	2,732,717	259,285	(15,195)	7,308	6,206	172	1,554,562	4,545,055

The accompanying notes form an integral part of the financial statements

59. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances

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

31 December 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
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

59. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances (continued)

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

31 December 2018	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	1,639,516	–	–	–	–	–	1,639,516
Term financing							
– House financing	4,553,457	–	–	13,161,403	–	–	17,714,860
– Syndicated financing	1,441,460	–	–	–	–	–	1,441,460
– Hire purchase receivables	–	9,662,180	–	–	–	–	9,662,180
– Other term financing	3,468,827	–	1,681,610	9,724,292	–	105,517	14,980,246
Credit card receivables	–	–	–	–	–	21,776	21,776
Bills receivables	–	–	–	–	2,267	–	2,267
Trust receipts	–	–	–	–	5,200	–	5,200
Claims on customers under acceptance credits	–	–	–	–	173,522	–	173,522
Revolving credits	221,221	–	–	–	–	–	221,221
Staff financing	–	8,212	–	73,307	–	–	81,519
Gross financing and advances	11,324,481	9,670,392	1,681,610	22,959,002	180,989	127,293	45,943,767
Allowance for impairment on financing and advances:							
– Expected credit losses							(313,768)
– Stage 1: 12-Month ECL							(144,142)
– Stage 2: Lifetime ECL not credit-impaired							(77,514)
– Stage 3: Lifetime ECL credit-impaired							(92,112)
Net financing and advances							45,629,999

All the Group's Islamic banking financing and advances are located in Malaysia.

59. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances (continued)

(ii) The maturity structure of gross financing and advances by residual contractual maturity are as follows:

	Group	
	2019 RM'000	**2018 RM'000**
Maturity within one year	**2,883,519**	2,826,936
More than one year to three years	**3,000,768**	3,109,731
More than three years to five years	**4,444,876**	3,422,211
More than five years	**39,704,976**	36,584,889
	50,034,139	45,943,767

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

	Group	
	2019 RM'000	**2018 RM'000**
Retail financing*		
– House financing	**20,594,336**	17,714,860
– Hire purchase	**8,310,016**	9,662,180
– Credit cards	**30,375**	21,776
– Other financing^	**15,975,442**	14,844,687
	44,910,169	42,243,503
Corporate financing	**5,123,970**	3,700,264
	50,034,139	45,943,767

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

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

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

	Group	
	2019 RM'000	**2018 RM'000**
Other domestic non-bank financial institutions	**1,587,879**	1,054,681
Domestic business enterprises		
– Small and medium enterprises	**9,253,552**	8,548,276
– Others	**2,651,101**	1,595,022
Government and statutory bodies	**1,005,773**	1,308,324
Individuals	**35,326,968**	33,236,546
Other domestic entities	**4,991**	5,334
Foreign entities	**203,875**	195,584
	50,034,139	45,943,767

NOTES TO THE FINANCIAL STATEMENTS
– 31 DECEMBER 2019

59. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances (continued)

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

	Group	
	2019 RM'000	**2018 RM'000**
Fixed rate		
– House financing	**273,262**	574,874
– Hire purchase receivables	**8,309,305**	9,661,717
– Other fixed rate financing	**3,125,661**	3,456,622
Variable rate		
– Base rate/Base financing rate plus	**34,120,141**	29,659,488
– Cost plus	**4,205,770**	2,591,066
	50,034,139	45,943,767

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

	Group	
	2019 RM'000	**2018 RM'000**
Purchase of transport vehicles	**8,318,886**	9,670,391
Purchase of landed properties	**32,255,720**	27,988,101
(of which: – residential	**21,138,886**	18,203,122
– non-residential)	**11,116,834**	9,784,979
Personal use	**2,891,612**	2,783,502
Credit card	**30,375**	21,776
Purchase of consumer durables	**700**	820
Construction	**510,885**	390,561
Working capital	**5,882,984**	5,060,802
Other purpose	**142,977**	27,814
	50,034,139	45,943,767

59. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances (continued)

(vii) Gross financing and advances analysed by sector are as follows:

	Group	
	2019 RM'000	**2018 RM'000**
Agriculture, hunting, forestry and fishing	**910,538**	920,845
Mining and quarrying	**169,036**	52,234
Manufacturing	**1,448,787**	858,775
Electricity, gas and water	**4,791**	4,141
Construction	**1,972,635**	1,432,328
Wholesale & retail trade and restaurants & hotels	**2,678,149**	2,408,990
Transport, storage and communication	**397,533**	414,538
Finance, insurance and business services	**2,055,679**	1,517,189
Real estate	**3,628,663**	3,464,881
Community, social and personal services	**1,345,141**	1,543,232
Households	**35,423,187**	33,326,614
	50,034,139	45,943,767

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

	Group	
	2019 RM'000	**2018 RM'000**
At 1 January	**277,731**	244,386
Impaired during the year	**673,499**	673,794
Reclassified as non-impaired during the year	**(533,038)**	(506,901)
Recoveries	**(56,730)**	(50,578)
Amount written off	**(76,223)**	(77,993)
Financing converted to foreclosed properties	**(10,189)**	(4,977)
At 31 December	**275,050**	277,731
Gross impaired financing and advances as % of gross financing and advances	**0.55%**	0.60%

59. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances (continued)

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

	Group	
	2019 RM'000	2018 RM'000
Purchase of transport vehicles	**72,786**	95,087
Purchase of landed properties	**170,061**	150,269
(of which: – residential	**146,493**	120,726
– non-residential)	**23,568**	29,543
Personal use	**26,291**	27,605
Credit card	**262**	264
Working capital	**5,628**	4,491
Other purpose	**22**	15
	275,050	277,731

(x) Impaired financing and advances analysed by sector are as follows:

	Group	
	2019 RM'000	2018 RM'000
Agriculture, hunting, forestry and fishing	**50**	258
Mining and quarrying	**2**	1,053
Manufacturing	**1,032**	2,607
Construction	**8,924**	7,130
Wholesale & retail trade and restaurants & hotels	**7,337**	7,399
Transport, storage and communication	**1,393**	672
Finance, insurance and business services	**3,107**	7,800
Real estate	**75**	118
Community, social and personal services	**1,578**	2,339
Households	**251,552**	248,355
	275,050	277,731

All the Group's Islamic banking impaired financing and advances are located in Malaysia.

59. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances (continued)

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

2019	House Financing RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Financing RM'000	Corporate Financing RM'000	Total RM'000
	<----------------- Retail Financing			----------------->		
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

59. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances (continued)

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

2019	Retail Financing: House Financing RM'000	Retail Financing: Hire Purchase RM'000	Retail Financing: Credit Cards RM'000	Retail Financing: Other Financing RM'000	Corporate Financing RM'000	Total RM'000
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

59. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances (continued)

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

2019	Retail Financing: House Financing RM'000	Retail Financing: Hire Purchase RM'000	Retail Financing: Credit Cards RM'000	Retail Financing: Other Financing RM'000	Corporate Financing RM'000	Total RM'000
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 transferred to allowance for impairment loss on foreclosed properties	–	–	–	(155)	–	(155)
Amount written off	(9,316)	(47,447)	(237)	(19,223)	–	(76,223)
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 were not credit-impaired at origination but subsequently the credit risk has deteriorated.

59. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances (continued)

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

	<----------------- Retail Financing ----------------->					
2018	**House Financing RM'000**	**Hire Purchase RM'000**	**Credit Cards RM'000**	**Other Financing RM'000**	**Corporate Financing RM'000**	**Total RM'000**
Stage 1: 12-Month ECL						
At 1 January 2018	14,129	63,477	188	59,771	14,533	152,098
Changes due to financing and advances recognised as at 1 January 2018	9,116	7,914	16	11,747	7,632	36,425
– Transfer to Stage 1: 12-Month ECL	9,645	13,164	26	12,420	7,665	42,920
– Transfer to Stage 2: Lifetime ECL not credit-impaired	(485)	(5,034)	(9)	(601)	(33)	(6,162)
– Transfer to Stage 3: Lifetime ECL credit-impaired	(44)	(216)	(1)	(72)	–	(333)
New financing and advances originated	2,558	8,523	88	5,282	4,857	21,308
Net remeasurement due to changes in credit risk	(8,494)	(21,014)	4	(20,296)	(8,501)	(58,301)
Financing and advances derecognised (other than write-off)	(281)	(2,438)	(5)	(915)	(3,448)	(7,087)
Modifications to contractual cash flows of financing and advances	(2)	(2)	(5)	(287)	(5)	(301)
At 31 December 2018	17,026	56,460	286	55,302	15,068	144,142

59. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances (continued)

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

2018	<----------------- Retail Financing		---------------->		Corporate Financing RM'000	Total RM'000
	House Financing RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Financing RM'000		
Stage 2: Lifetime ECL not credit-impaired						
At 1 January 2018	16,013	36,721	33	27,999	15,264	96,030
Changes due to financing and advances recognised as at 1 January 2018	(2,803)	(3,556)	1	(6,571)	(7,632)	(20,561)
– Transfer to Stage 1: 12-Month ECL	(6,666)	(10,986)	(16)	(10,235)	(7,665)	(35,568)
– Transfer to Stage 2: Lifetime ECL not credit-impaired	4,550	9,202	20	4,455	33	18,260
– Transfer to Stage 3: Lifetime ECL credit-impaired	(687)	(1,772)	(3)	(791)	–	(3,253)
New financing and advances originated	1,186	1,807	22	1,109	6,089	10,213
Net remeasurement due to changes in credit risk	3,875	(2,392)	17	5,344	(5,229)	1,615
Financing and advances derecognised (other than write-off)	(729)	(1,100)	(8)	(279)	(7,633)	(9,749)
Modifications to contractual cash flows of financing and advances	(8)	(9)	(10)	3	(10)	(34)
At 31 December 2018	17,534	31,471	55	27,605	849	77,514

59. ISLAMIC BANKING BUSINESS (CONTINUED)

(a) Financing and Advances (continued)

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

2018	<---- 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
Stage 3: Lifetime ECL credit-impaired						
At 1 January 2018	15,954	44,378	166	25,624	–	86,122
Changes due to financing and advances recognised as at 1 January 2018	(6,313)	(4,358)	(17)	(5,176)	–	(15,864)
– Transfer to Stage 1: 12-Month ECL	(2,979)	(2,178)	(10)	(2,185)	–	(7,352)
– Transfer to Stage 2: Lifetime ECL not credit-impaired	(4,065)	(4,168)	(11)	(3,854)	–	(12,098)
– Transfer to Stage 3: Lifetime ECL credit-impaired	731	1,988	4	863	–	3,586
New financing and advances originated*	125	180	19	101	–	425
Net remeasurement due to changes in credit risk	13,918	62,930	178	26,805	–	103,831
Financing and advances derecognised (other than write-off)	(692)	(4,180)	(40)	(359)	–	(5,271)
Modifications to contractual cash flows of financing and advances	(6)	240	147	481	–	862
Amount written off	(7,048)	(50,467)	(232)	(20,246)	–	(77,993)
At 31 December 2018	15,938	48,723	221	27,230	–	92,112
Total ECL as at 31 December 2018	50,498	136,654	562	110,137	15,917	313,768

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

59. ISLAMIC BANKING BUSINESS (CONTINUED)

(b) Deposits From Customers

(i) By type of deposit and contract:

	Group	
	2019 RM'000	**2018 RM'000**
At amortised cost		
Savings deposit		
– Qard	**6,716,978**	6,479,885
Demand deposit		
– Qard	**4,816,878**	4,338,942
Term deposit		
– Negotiable Islamic Debt Certificate		
– Bai' Bithaman Ajil	**22,959**	23,149
– Commodity Murabahah	**41,363,757**	35,286,960
– Special term deposit account		
– Qard	**6,453,439**	7,510,639
	59,374,011	53,639,575

Included in deposits from customers are deposits of RM368,930,000 (2018 – RM320,977,000) held as collateral for financing and advances.

59. ISLAMIC BANKING BUSINESS (CONTINUED)

(b) Deposits From Customers (continued)

(ii) By type of customers:

	Group	
	2019 RM'000	2018 RM'000
Federal and state governments	**2,348,406**	1,507,963
Local government and statutory authorities	**879,729**	449,917
Business enterprises	**9,791,744**	9,857,402
Individuals	**23,466,357**	23,759,284
Foreign customers	**601,272**	802,711
Others	**22,286,503**	17,262,298
	59,374,011	53,639,575

(iii) The maturity structure of term deposits is as follows:

	Group	
	2019 RM'000	2018 RM'000
Due within six months	**41,567,949**	29,468,215
More than six months to one year	**6,270,511**	13,323,915
More than one year to three years	**883**	28,313
More than three years to five years	**812**	305
	47,840,155	42,820,748

APPENDIX

DIRECTORS OF SUBSIDIARY COMPANIES OF THE BANK

The following is the list of directors who served on the boards of the subsidiary companies of the Bank since the beginning of the current financial year to the date of the Directors' Report:

Name of Subsidiary Company	Name of Director
Public Islamic Bank Berhad	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 (appointed on 1 February 2019)
Public Investment Bank Berhad	Tan Sri Dato' Sri Dr. Teh Hong Piow Mr Lim Chao Li Tan Sri Dato' Sri Tay Ah Lek Dato' Dr. Thillainathan A/L Ramasamy En. Abdul Karim bin Md Lassim Dato' Mohd Hanif bin Sher Mohamed (resigned on 22 January 2019)
Public Invest Nominees (Tempatan) Sdn. Bhd.	Mr Lee Yo-Hunn Mr Lim Jit Seng Ms Lim Geok Lian
Public Invest Nominees (Asing) Sdn. Bhd.	Mr Lee Yo-Hunn Mr Lim Jit Seng Ms Lim Geok Lian
Public Consolidated Holdings Sdn. Bhd.	Tan Sri Dato' Sri Dr. Teh Hong Piow Mr Quah Poh Keat Dato' Chia Lee Kee
Public Mutual Berhad	Tan Sri Dato' Sri Dr. Teh Hong Piow Tan Sri Dato' Sri Tay Ah Lek Dato' (Dr) Haji Mohamed Ishak bin Haji Mohamed Ariff Mr Quah Poh Keat Dato' Mohammed Najeeb bin Abdullah Dato' Mohd Hanif bin Sher Mohamed Ms Yeoh Kim Hong
Public Holdings Sdn. Bhd.	Mr Quah Poh Keat Mr Cheong Kien Meng
Public Nominees (Tempatan) Sdn. Bhd.	Dato' Chang Kat Kiam Mr Chan Kok Kwai Mr Raymond Paul Lai Fook Sung Mr Goh Kah Poh

Name of Subsidiary Company	Name of Director
Public Nominees (Asing) Sdn. Bhd.	Dato' Chang Kat Kiam Mr Chan Kok Kwai Mr Raymond Paul Lai Fook Sung Mr Goh Kah Poh
Public Bank (L) Ltd.	Ms Chan Chew Fung Mr Tang Wing Chew Mr Lai Wan
PB Trust (L) Ltd.	Ms Chang Siew Yen Ms Yik Sook Ling
PB Trustee Services Berhad	Dato' Mohammed Najeeb bin Abdullah Ms Chang Siew Yen Ms Yik Sook Ling
PB Venture Capital Sdn. Bhd.	Mr Quah Poh Keat Dato' Chia Lee Kee
Public Leasing & Factoring Sdn. Bhd.	Mr Chan Kok Kwai Mr Wong Man Hoe
PB International Factors Sdn. Bhd.	Mr Chan Kok Kwai Mr Wong Man Hoe
PBFIN Berhad	Mr Chan Kok Kwai Dato' Chia Lee Kee
Cambodian Public Bank Plc	Tan Sri Dato' Sri Dr. Teh Hong Piow Dato' Mohammed Najeeb bin Abdullah Dato' Chang Kat Kiam Mr Quah Poh Keat Dr Ghanty Sam Abdoullah Datuk Phan Ying Tong
Campu Securities Plc	Mr Quah Poh Keat Dato' Chang Kat Kiam Datuk Phan Ying Tong
Campu Lonpac Insurance Plc	Mr Tan Kok Guan Dato' Chang Kat Kiam Mr Quah Poh Keat Dr Ghanty Sam Abdoullah Dato' Mohammed Najeeb bin Abdullah

APPENDIX

DIRECTORS OF SUBSIDIARY COMPANIES OF THE BANK (CONTINUED)

The following is the list of directors who served on the boards of the subsidiary companies of the Bank since the beginning of the current financial year to the date of the Directors' Report (continued):

Name of Subsidiary Company	Name of Director
Public Financial Holdings Limited	Tan Sri Dato' Sri Dr. Teh Hong Piow Mr Lai Wan Mr Quah Poh Keat Mr Lee Chin Guan Mr Tang Wing Chew Dato' Chang Kat Kiam Mr Tan Yoke Kong Mr Chong Yam Kiang Mr Lee Huat Oon (resigned on 1 January 2020)
Public Bank (Hong Kong) Limited	Tan Sri Dato' Sri Dr. Teh Hong Piow Mr Lai Wan Tan Sri Dato' Sri Tay Ah Lek Mr Quah Poh Keat Mr Lee Chin Guan Mr Tang Wing Chew Dato' Chang Kat Kiam Mr Tan Yoke Kong Mr Chong Yam Kiang
Public Finance Limited	Tan Sri Dato' Sri Dr. Teh Hong Piow Mr Tang Wing Chew Mr Quah Poh Keat Mr Lee Chin Guan Mr Lai Wan Dato' Chang Kat Kiam Mr Chong Yam Kiang Mr Lee Huat Oon (resigned on 1 January 2020)
Public Financial Limited	Ms Chiu Chik Shang Mr Chong Yam Kiang (appointed on 1 January 2020) Mr Lee Huat Oon (resigned on 1 January 2020)
Public Securities Limited	Ms Chiu Chik Shang Mr Chong Yam Kiang (appointed on 1 January 2020) Mr Lee Huat Oon (resigned on 1 January 2020)

Name of Subsidiary Company	Name of Director
Public Securities (Nominees) Limited	Ms Chiu Chik Shang Mr Chong Yam Kiang (appointed on 1 January 2020) Mr Lee Huat Oon (resigned on 1 January 2020)
Public Financial Securities Limited	Mr Tan Yoke Kong Ms Chau Man Ching, Gladys Mr Ma Hin Lap (resigned on 15 May 2019)
Public Bank (Nominees) Limited	Mr Tan Yoke Kong Ms Chan Sau Kuen Mr Chong Yam Kiang
Public Futures Limited	Mr Tan Yoke Kong Ms Chiu Chik Shang
Public Credit Limited (Dissolved by Members' Voluntary Winding-up on 21 January 2020)	Mr Tan Yoke Kong Mr Chong Yam Kiang
Public Pacific Securities Limited (Dissolved by Members' Voluntary Winding-up on 21 January 2020)	Mr Tan Yoke Kong Ms Chiu Chik Shang
Winton (B.V.I.) Limited	Mr Ng Chee Khuen Mr Chong Yam Kiang
Winton Financial Limited	Mr Ng Chee Khuen Mr Chong Yam Kiang
Winton Motors, Limited	Mr Ng Chee Khuen Mr Chong Yam Kiang
Public Bank Vietnam Limited	Tan Sri Dato' Sri Dr. Teh Hong Piow Dato' Chang Kat Kiam Mr Quah Poh Keat Datuk Phan Ying Tong Mr Chee Keng Eng Mr Lee Chin Guan (appointed on 16 December 2019)

PILLAR 3 DISCLOSURE
AS AT 31 DECEMBER 2019

OVERVIEW

The Pillar 3 Disclosure is required under the Bank Negara Malaysia ("BNM")'s Risk-Weighted Capital Adequacy Framework ("RWCAF"), which is the equivalent to Basel II issued by the Basel Committee on Banking Supervision and the Islamic Financial Services Board. Basel II consists of 3 Pillars as follows:

(a) Pillar 1 sets out the minimum amount of regulatory capital that banking institutions must hold against credit, market and operational risks they assume;

(b) Pillar 2 promotes the adoption of a more forward-looking approach to capital management and encourages banking institutions to develop and employ more rigorous risk management framework and techniques, including specific oversight by the Board of Directors ("the Board") and senior management on internal controls and corporate governance practices, to ensure that banking institutions maintain adequate capital levels consistent with their risk profile and business plan at all times; and

(c) Pillar 3 aims to harness market discipline through enhanced disclosure to supplement regulatory supervision of banking institutions through a consistent and comprehensive disclosure framework on risk management practices and capital adequacy of banking institutions that will enhance comparability amongst banking institutions.

The Public Bank Group ("the Group") adopted the Standardised Approach in determining the capital requirements for credit risk and market risk and applied the Basic Indicator Approach for operational risk of the Pillar 1 under BNM's RWCAF. Under the Standardised Approach, the Group applied the standard risk weights prescribed by BNM to assess the capital requirements for exposures in credit risk and market risk. The assessment of the capital required for operational risk under the Basic Indicator Approach however, is based on a percentage fixed by BNM over the Group's average gross income for a fixed number of quarterly periods.

The Group's Pillar 3 Disclosure is governed by the Group's Disclosure Policy on Basel II RWCAF/Capital Adequacy Framework for Islamic Banks – Pillar 3 which sets out the minimum disclosure standards, the approach in determining the appropriateness of information disclosed and the internal controls over the disclosure process which cover the verification and review of the accuracy of information disclosed. The information provided herein has been reviewed and verified by the internal auditors and certified by Public Bank Berhad ("the Bank")'s Managing Director/Chief Executive Officer. Under the BNM's RWCAF, the information disclosed herein is not required to be audited by external auditors. The Pillar 3 Disclosure will be published in the Bank's website, www.publicbankgroup.com

PILLAR 3 DISCLOSURE
AS AT 31 DECEMBER 2019

MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Group's principal business activity is commercial banking which focuses mainly on retail banking and financing operations. The following tables present the minimum regulatory capital requirements to support the Group's and the Bank's risk–weighted assets.

	2019		2018	
	Risk-Weighted Assets RM'000	**Minimum Capital Requirement at 8% RM'000**	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Group				
Credit Risk	**252,112,870**	**20,169,030**	243,758,710	19,500,697
Market Risk	**5,040,545**	**403,244**	4,313,276	345,062
Operational Risk	**20,139,900**	**1,611,192**	19,472,018	1,557,761
Large Exposure Risk	**612,893**	**49,031**	581,132	46,491
Total	**277,906,208**	**22,232,497**	268,125,136	21,450,011
Bank				
Credit Risk	**201,778,618**	**16,142,289**	195,930,586	15,674,447
Market Risk	**5,473,692**	**437,895**	4,994,901	399,592
Operational Risk	**14,036,638**	**1,122,931**	13,517,986	1,081,439
Large Exposure Risk	**587,405**	**46,992**	556,873	44,550
Total	**221,876,353**	**17,750,107**	215,000,346	17,200,028

1. SCOPE OF APPLICATION

The Pillar 3 Disclosure is prepared on a consolidated basis and comprises information on the Bank and its subsidiary and associated companies. The Group offers Islamic banking financial services via the Bank's wholly-owned subsidiary company, Public Islamic Bank Berhad ("Public Islamic"). Information on subsidiary and associated companies of the Group is available in Notes 15 and 16 to the financial statements respectively.

The basis of consolidation for financial accounting purposes is described in Note 2(iii)(b) to the financial statements, and differs from that used for regulatory capital purposes. The investment in its insurance associated company, which is equity-accounted in the financial accounting consolidation and the investment in the subsidiary company engaged in insurance activities is excluded from the regulatory consolidation and is deducted from the regulatory capital.

There were no significant restrictions or impediments on the transfer of funds or regulatory capital within the Group.

There were no capital deficiencies in any of the subsidiary companies of the Group during the financial year.

All information in the ensuing sections is based on the Group's positions. Certain information on capital adequacy relating to the Bank is presented on a voluntary basis to provide additional information to users. The capital adequacy-related information of the Bank, which is presented on a global basis, includes its wholly-owned offshore banking subsidiary company, Public Bank (L) Ltd, as required under the RWCAF.

2. CAPITAL MANAGEMENT

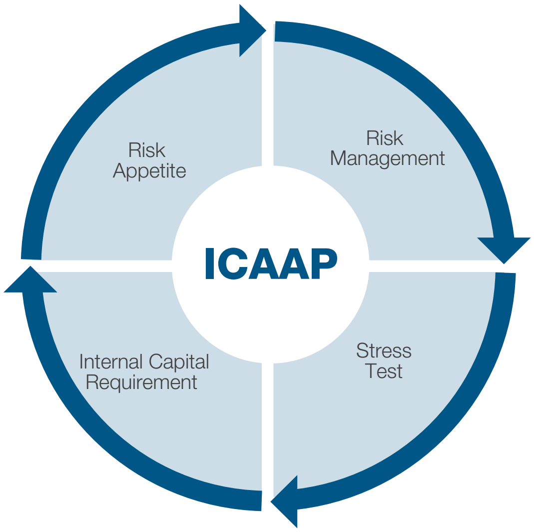
The objective of the Group's capital management is to protect the interests of its depositors, creditors and shareholders. To achieve this, the capital management is subject to ongoing review and the Board's approval on the level and composition of the Group's total capital, assessed against the following key objectives:

- Regulatory requirements on minimal capital required
- Capital levels maintained are adequate to support all material risks and to meet the strategic and business plans
- Capital levels maintained are adequate to support the strong external rating for domestic and international rating agencies
- An appropriate balance between maximising shareholders returns and prudent capital management

The Group achieves this through its Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP requires the Group to identify and assess all material risks, maintain sufficient capital to support these risks and apply the appropriate risk management techniques to manage and mitigate these risks within the given level of capital, on an ongoing and forward looking basis. The ICAAP is supported by a strong risk governance structure with clear roles and responsibilities to ensure the effectiveness of the ICAAP with the Board being ultimately responsible for the overall oversight of the ICAAP. In discharging its duty, the Board is assisted by the Risk Management Committee ("RMC") and ICAAP Working Group. Senior management together with the management committees are responsible to ensure the effective implementation of the capital management directions of the Board. The Internal Audit Division ("IAD") is responsible to conduct reviews of processes relating to the ICAAP to ensure their integrity, objectivity and consistency in application.

2. CAPITAL MANAGEMENT (CONTINUED)

The key elements of the Group's ICAAP are as follows:



(a) Risk Appetite

The Group's Risk Appetite expresses the level of risk which the Group is willing to assume within the Group's capacity in order to achieve the Group's objectives, as defined by a set of minimum quantitative metrics and qualitative standards. The key elements applied in setting the Group's Risk Appetite are the strategic business directions, the risk taking capacity and the level of risk currently assumed by the Group. The Board reviews and approves the Risk Appetite on an annual basis, or more frequently in the event of unexpected changes in the risk environment, with the aim of ensuring the Risk Appetite is consistent with the Group's strategic directions, business and regulatory environment and stakeholders' requirements. The setting, cascading, monitoring and the review/revision of the Risk Appetite is set out in the Group's Risk Appetite Framework and is as follows:

Set Risk Appetite	Cascade Risk Appetite	Monitor Risk Appetite	Review/ Revise Risk Appetite
• Set the desired risk appetite considering: – Strategic business directions – Risk taking capacity – Current risk profile • Articulate risk appetite using: – Risk Appetite Metrics	• Cascade the applicable risk appetite via: – Financial budgeting process to: (i) Entity level (ii) Business units/ control units level • Assimilation of the risk appetite into policies, frameworks and procedures • Implementation of Key Risk Indicators	• Regular monitoring of the risk profile against the risk appetite • Identify the underlying reason for the non-achievements of the risk appetite and develop action plans to address the non-achievements	• Review/revise risk appetite in the light of: – Changing business and economic condition – Evolving strategic business directions

2. CAPITAL MANAGEMENT (CONTINUED)

(b) Risk Management

The Group's Risk Management Framework sets out the principles applied in managing the material risks that the Group is exposed to. The Framework serves to drive the development of a consistent risk management practices which enable the continuous identification, measurement, control, monitoring and reporting of all applicable and material risks and this includes the continuous identification of emerging risks followed by the assessment of the risks on the Group's business and capital positions. The Group's risk limits established to manage the size of the risk exposures are aligned to the overall Risk Appetite.

The key principles and components of the Group's Risk Management Framework are further discussed in item 3 of the Pillar 3 Disclosure.

In addition, an annual comprehensive risk assessment is undertaken across all the banking entities within the Group as part of ICAAP to identify and assess the following risks:

(i) Risks captured under Pillar 1 (credit risk, operational risk and market risk);

(ii) Risks not fully captured under Pillar 1 (e.g. model risk and residual credit risk); and

(iii) Risk types not covered by Pillar 1 (e.g. credit concentration risk, interest rate risk on banking book, reputation risk, amongst others).

Compile a Comprehensive List of Risks

To obtain a comprehensive list of risks inherent to banking business guided by the guidelines issued by:
- BNM or respective Regulators
- Basel Committee and Banking Committees

↓

Identify Risks that are Applicable to the Group

From the comprehensive list of risks, identify the risks that are applicable to the Group/respective entities taking into consideration the current risk taking activities of the Group/respective entities

↓

Assess the Applicable Risks

For risks that are identified to be applicable to the Group/respective entities, ensure the risk assessments are supported by the following:
- consistent and robust risk assessment approaches
- quality data used for risk measurement
- sound techniques and methodologies that commensurate with the banking institution's size, nature of business and complexity of activities

All assessments of risks incorporate both quantitative and/or qualitative assessment.

Qualitative Approach	Quantitative Approach
Risks which may not be easily quantified due to lack of commonly accepted risk measurement techniques. The focus for such non-quantifiable risks would then be the risk processes put in place to manage these risks including the following: • Adequate governance process • Adequate system, procedure and internal controls • Effective risk mitigation strategies • Regular monitoring and reporting	Risks which can be quantified based on best practices methodologies which are prescribed by regulators or internal methodologies, capital will be set aside for the amount of quantified risks. Apart from this, the quantified liquidity risk will be managed through the holdings of high quality liquid assets or identification of alternative funds.

2. CAPITAL MANAGEMENT (CONTINUED)

(c) Stress Test

The Group's stress testing process is guided by the Group's Stress Test Policy ("Stress Test Policy"). The objectives of the Stress Test Policy are as follows:

(i) To ensure the establishment of a comprehensive and consistent stress test process in conducting the stress test by all entities within the Group;

(ii) To drive the development of stress test parameters, assumptions and scenarios that are relevant and effective, taking into account the nature, risk profile and complexity of the Group's business as well as the environment in which it operates;

(iii) To ensure all material risks are captured in the stress test including emerging risks;

(iv) To ensure all stress test parameters, assumptions and scenarios are duly deliberated by senior management and the relevant committees prior to the execution of the stress test exercise; and

(v) To ensure the adverse unexpected outcomes are identified and that capital buffers are set aside to absorb losses that may be experienced during an economic downturn.

The key focus of the stress test is to identify the potential adverse impact on the Group's capital, profitability, asset quality and liquidity positions followed by the identification of the appropriate actions to mitigate the risk of such possibilities. The results of the stress test are reviewed and deliberated by the ICAAP Working Group and the RMC and are applied to recalibrate the Group's Internal Capital Targets.

(d) Internal Capital Requirement

The Group's internal capital requirement is articulated through its capital plans which are drawn up annually, covering a three-year horizon, and are approved by the Board. The capital plan ensures that adequate levels of capital and an efficient mix of different components of capital are maintained to support the Group's strategic directions and business plans. In formulating the Group's capital plans, the Group considers the current regulatory requirements, the demands for capital arising from the business outlooks and potential market stresses and the available supply of capital including the sources of the capital. The Group's capital plans are reviewed regularly by the Board against the Group's Internal Capital Targets.

3. RISK MANAGEMENT FRAMEWORK

The key principles and components of the Group's Risk Management Framework are as follows:

(a) Risk Governance Structure;

(b) Risk Appetite;

(c) Risk Management Culture; and

(d) Risk Management and Internal Controls.

3. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(a) Risk Governance Structure

The Group's risk governance structure sets out the roles and responsibilities of the parties involved in the Group's risk management and internal control system as follows:

ESTABLISH RISK APPETITE & POLICY	**1. Board of Directors**	**10. COMPLIANCE COMMITTEE** (supported by Compliance Function)	**11. AUDIT COMMITTEE** (supported by Internal Audit Function)
	2. Risk Management Committee		
	3. Credit Risk Management Committee		
	4. Shariah Committee		
ENSURE IMPLEMENTATION OF RISK AND COMPLIANCE POLICY	**5. Dedicated Risk Committees** Assets & Liabilities Management Committee Operational Risk Management Committee Internal Capital Adequacy Assessment Process Working Group		
	6. Credit Committee		
	7. Risk Management and Control Functions Risk Management Function Compliance Function Shariah Compliance Function		
IMPLEMENT AND COMPLY WITH RISK POLICY	**8. Support Functions** Human Resource Information Technology Finance Banking Operations Credit Control, Administration & Supervision Property Security		
	9. Business Functions Corporate Lending Investment Banking Islamic Banking Retail Banking and Financing Operations Share Broking Fund Management Treasury and Capital Market Operations		

3. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(a) Risk Governance Structure (Continued)

Board of Directors

The Board has overall responsibility for the Group's risk management and internal control system. For this purpose, the Board:

(i) Ensures that the corporate objectives are supported by sound risk strategies and an effective risk management framework that is appropriate to the nature, scale and complexity of its activities;

(ii) Responsible for the overall oversight on the soundness of the risk management processes and internal controls;

(iii) Responsible for the remuneration of the senior management and that the remuneration is aligned with prudent risk taking; and

(iv) Provides direction and guidance to the senior management on action plans to be taken to address the material risks identified.

Risk Management Committee

The RMC assists the Board to oversee the management of all identified material risks including inter-alia reviewing risk management frameworks and policies, reviewing risk management limits, risk exposures and portfolio composition and ensuring risk infrastructure, resources and systems are put in place for effective risk management oversight.

Credit Risk Management Committee

The Credit Risk Management Committee assists the Board in discharging its oversight role over the management of credit risk including inter-alia in ensuring the risk infrastructures and systems are able to manage and control the risk taking activities within the risk appetite and credit risk strategy.

Compliance Committee

The Compliance Committee maintains overall responsibility to oversee the design and implementation of sound compliance management system in assessing the compliance profile, and evaluating the effectiveness of the overall management of compliance risks. The Compliance Committee also deliberates on compliance issues identified regularly to ensure such issues are resolved effectively, and ensures appropriate infrastructure, resources, processes and systems are in place for compliance risk management.

Audit Committee

The Audit Committee assists the Board to evaluate and assess the adequacy and effectiveness of the risk management systems, internal control and governance processes. In performing this role, the Audit Committee reviews the internal control issues, the root causes and impacts identified by the IAD during its periodic audits, external auditor and regulatory authorities. The Audit Committee also reviews the performance and effectiveness of the Internal Audit function with particular emphasis on the achievement of key performance indicators, audit methodology applied, adequacy of audit scope and coverage, adequacy of resources, and knowledge and competency of the internal audit personnel.

Shariah Committee

The Shariah Committee advises the Board on Shariah related matters. It provides objective and sound advice to ensure that the Islamic operations, business and activities are in compliance with Shariah. The Shariah Committee deliberates and endorses all Shariah matters governing the Islamic operations, the Islamic products and the documents used in the Islamic business operations. It also deliberates on Shariah related findings and endorses rectification measures to address the findings. The Shariah Committee is supported by the Shariah compliance and research functions.

3. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(a) Risk Governance Structure (Continued)

Dedicated Risk Committees

The dedicated risk committees assist the RMC in the management of all identified material risk. These committees are responsible for the effective implementation of the risk management strategies and policies as approved by the Board or by the RMC. The key responsibilities of the dedicated risk committees are as follows:

(i) Ensuring all relevant and material risks associated with the Group have been identified and assessed and are operating within the Group's risk appetite;

(ii) Implementing, assessing and monitoring the risk management and internal control system in accordance with the Group's risk management strategies and overall risk appetite; and

(iii) Identifying changes in the operating environment which may give rise to risks and taking the appropriate actions followed by the prompt escalation of the identified risks and actions to the Board.

(b) Risk Appetite

The Group's risk appetite defines the amount and the types of risk that the Group is able and willing to accept in pursuit of its business objectives. It also sets out the level of risk tolerance and limits to govern, manage and control the Group's risk taking activities. The strategic objectives, business plans, desired risk profile and capital plans are aligned to the risk appetite.

(c) Risk Management Culture

The culture of managing risk is embedded into the day-to-day operations and decision-making process through the following:

(i) Strong corporate governance;

(ii) Organisational structure with clearly defined roles and responsibilities;

(iii) Effective communication;

(iv) Commitment to compliance with laws, regulations and internal controls;

(v) Integrity in fiduciary responsibilities;

(vi) Clear policies, procedures and guidelines; and

(vii) Continuous training.

3. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(d) Risk Management and Internal Controls

The Group's risk management and internal control system provide reasonable assurance on the adequacy and effectiveness of the risk management approach in identifying, measuring, continuous monitoring and reporting of all the relevant and material risks on a group and entity-wide basis, including new and emerging risks.

The key elements of risk management and internal controls are as follows:

4. CAPITAL ADEQUACY RATIOS AND CAPITAL STRUCTURE

The following tables present the capital adequacy ratios and the capital structure of the Group and of the Bank.

(a) Capital Adequacy Ratios of the Group and of the Bank

	Group		Bank	
	2019	**2018**	**2019**	**2018**
Before deducting interim dividends*:				
Common equity tier I ("CET I") capital ratio	**14.019%**	13.628%	**12.808%**	12.657%
Tier I capital ratio	**14.076%**	14.270%	**12.853%**	13.428%
Total capital ratio	**17.317%**	16.840%	**16.243%**	15.963%
After deducting interim dividends*:				
CET I capital ratio	**13.460%**	13.092%	**12.108%**	11.989%
Tier I capital ratio	**13.517%**	13.734%	**12.153%**	12.760%
Total capital ratio	**16.758%**	16.304%	**15.543%**	15.295%

* *Refer to interim dividends declared subsequent to the financial year end.*

The capital adequacy ratios of the banking subsidiary companies of the Bank are set out in Note 52(d) to the financial statements.

The capital adequacy ratios of the Group and of the Bank are computed in accordance with BNM's Capital Adequacy Frameworks on Capital Components and Basel II – Risk-Weighted Assets. The minimum regulatory capital adequacy ratios before including capital conservation buffer 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 capital conservation buffer 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 Group and the Bank have exposures to, determined based on the weighted average of prevailing CCyB rates applied in those jurisdictions. The Group and the Bank have applied CCyB on their private sector credit exposures outside Malaysia in line with the respective jurisdictions' requirement to maintain their CCyB. Where the prevailing CCyB rate applied in jurisdictions outside Malaysia is more than 2.5%, the CCyB rate for that jurisdiction is capped at 2.5% for the purpose of calculating the Group's and the Bank's CCyB, unless specified otherwise by BNM.

The Group's and the Bank's CCyB which are determined based on the weighted average of prevailing CCyB rates of their private sector credit exposures outside Malaysia are insignificant due to their immaterial exposures. The CCyB is not a requirement for exposures in Malaysia yet but may be applied by regulators in the future.

PILLAR 3 DISCLOSURE
AS AT 31 DECEMBER 2019

4. CAPITAL ADEQUACY RATIOS AND CAPITAL STRUCTURE (CONTINUED)

The following tables present the capital adequacy ratios and the capital structure of the Group and of the Bank. (Continued)

(b) Capital Structure

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
CET I/Tier I capital				
Share capital	**9,417,653**	9,417,653	**9,417,653**	9,417,653
Other reserves	**1,273,513**	1,247,057	**671,090**	759,892
Retained profits	**30,245,351**	28,051,532	**25,267,007**	23,619,722
Qualifying non-controlling interests	**696,901**	702,333	**–**	–
Less: Goodwill and other intangible assets	**(2,443,039)**	(2,454,755)	**(695,393)**	(695,393)
Less: Deferred tax assets, net	**(83,484)**	(81,374)	**(11,307)**	–
Less: Defined benefit pension fund assets	**(48,430)**	(249,036)	**(47,736)**	(245,535)
Less: Investment in banking/insurance subsidiary companies and associated companies deducted from CET I capital	**(99,419)**	(92,847)	**(6,183,241)**	(5,644,441)
Total CET I capital	**38,959,046**	36,540,563	**28,418,073**	27,211,898
Additional Tier I capital securities	**99,582**	99,462	**99,582**	99,462
Non-innovative Tier I stapled securities	**–**	1,559,840	**–**	1,559,840
Qualifying CET I and additional Tier I capital instruments held by third parties	**58,619**	61,325	**–**	–
Total Tier I capital	**39,117,247**	38,261,190	**28,517,655**	28,871,200
Tier II capital				
Stage 1 and Stage 2 expected credit loss allowances	**1,685,918**	1,706,858	**1,256,999**	1,277,949
Qualifying regulatory reserves	**1,465,493**	1,340,126	**1,265,234**	1,171,183
Subordinated notes	**4,999,986**	2,999,980	**4,999,986**	2,999,980
Qualifying CET I and additional Tier I and Tier II capital instruments held by third parties	**716,141**	724,569	**–**	–
Others	**139,117**	119,871	**–**	–
Total Tier II capital	**9,006,655**	6,891,404	**7,522,219**	5,449,112
Total capital	**48,123,902**	45,152,594	**36,039,874**	34,320,312

4. CAPITAL ADEQUACY RATIOS AND CAPITAL STRUCTURE (CONTINUED)

The following tables present the capital adequacy ratios and the capital structure of the Group and of the Bank. (Continued)

(b) Capital Structure (continued)

The Group has issued various capital instruments which qualify as components of regulatory capital under the BNM's Capital Adequacy Framework (Capital Components), as summarised in the following table:

	Capital Instruments	Capital Component	Main Features
Issued by the Bank:			
(a)	Non-Innovative Tier I stapled securities ("NIT-I") (fully redeemed during the year)	Tier I Capital	• Subordinated to all liabilities, including depositors and Subordinated Notes/ Sukuk Murabahah, except to Basel III-ATICS • Unsecured • Perpetual, with optional redemption after 10 years. No step-up • Able to defer interest but will trigger an assignment event, resulting in unstapling of the NIT-I. Investors will end up holding the perpetual securities • Right of Bank not to pay distribution, upon which the only restriction is on payment of ordinary dividend to shareholders
(b)	Basel III-Compliant Additional Tier I capital securities ("Basel III-ATICS")	Tier I Capital	• Subordinated to all liabilities, including depositors and Subordinated Notes/ Sukuk Murabahah, except to NIT-I • Unsecured • Perpetual, with optional redemption after 5 years. No step-up • Upon occurrence of a Non-Viability Event as determined by BNM and Perbadanan Insurans Deposit Malaysia, the Basel III-ATICS may be subject to write-off • The write-off shall not constitute an event of default or an enforcement event, nor would it trigger any cross-default under the Basel III-ATICS
(c)	Basel III-Compliant Subordinated notes ("Basel III-Compliant Sub Notes")	Tier II Capital	• Subordinated to all liabilities, including depositors, except to NIT-I and Basel III-ATICS • Unsecured • Optional redemption after 5 years. No step-up • Upon occurrence of a Non-Viability Event as determined by BNM and Perbadanan Insurans Deposit Malaysia, the Basel III-Compliant Sub Notes may be subject to write-off • The write-off shall not constitute an event of default or an enforcement event, nor would it trigger any cross-default under the Basel III-Compliant Sub Notes
Issued by Public Islamic:			
(a)	Basel III-Compliant Subordinated Sukuk Murabahah ("Basel III-Compliant Sub Sukuk Murabahah")	Tier II Capital	• Subordinated to all liabilities, including depositors, except to NIT-I and Basel III-ATICS • Unsecured • Optional redemption after 5 years. No step-up • Upon occurrence of a Trigger Event at the Bank/Public Islamic as determined by BNM and Perbadanan Insurans Deposit Malaysia, the Basel III-Compliant Sub Sukuk Murabahah may be subject to write-off • The write-off shall not constitute an event of default or trigger any cross-default under the Basel III-Compliant Sub Sukuk Murabahah

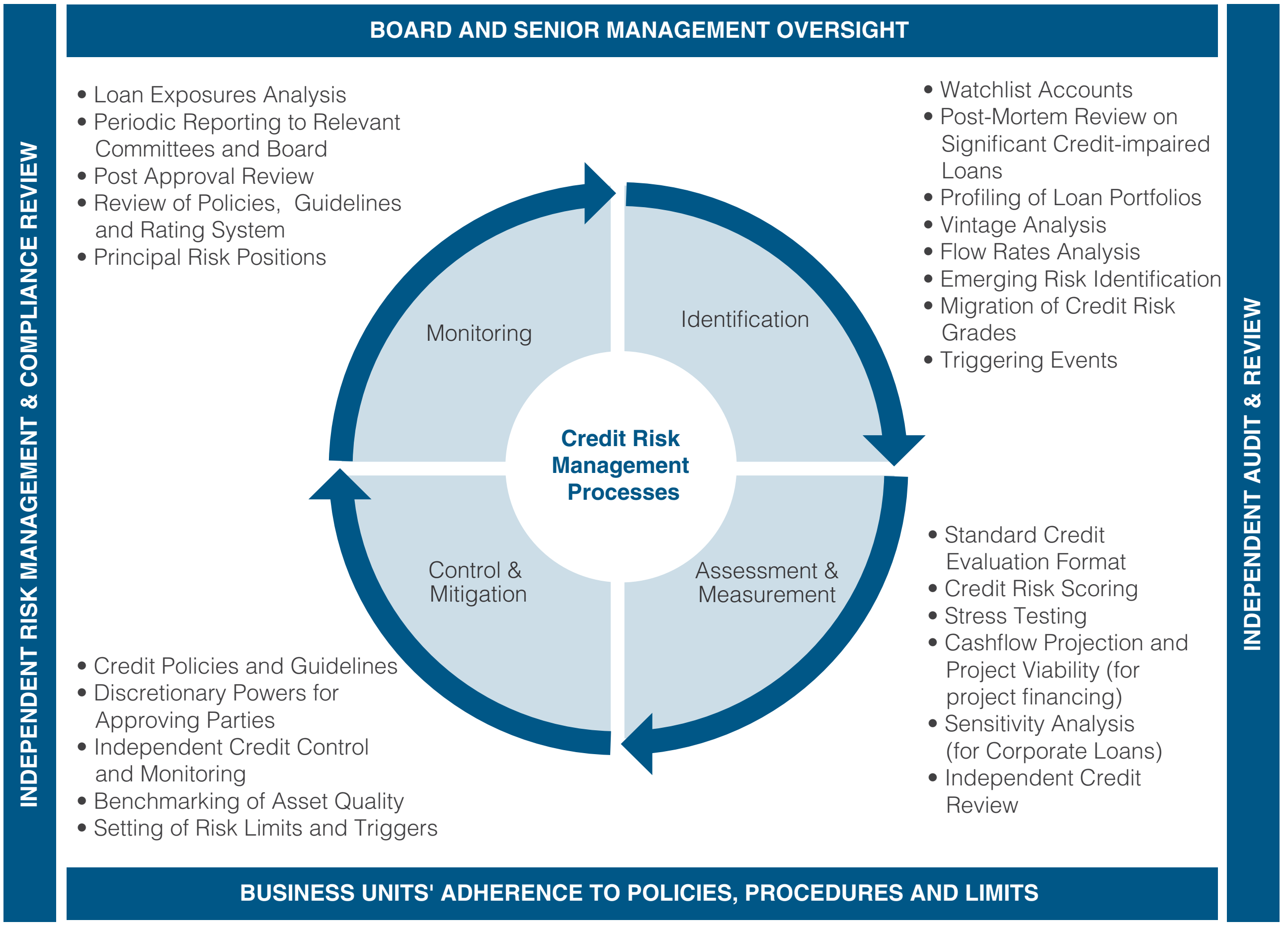
The details of the capital instruments are found in Note 25 to the financial statements.

In line with the transitional arrangements under the BNM's Capital Adequacy Framework (Capital Components) for the purpose of determining the capital adequacy ratios of the Group and of the Bank, capital instruments which were issued prior to 31 December 2012 are subject to a gradual phased-out treatment. The Basel III-Compliant capital instruments which were issued after 31 December 2012 are fully qualified as regulatory capital.

5. 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 Group's primary business is in commercial banking, the Group's exposure to credit risk is primarily from its lending and financing to retail consumers, small and medium enterprises ("SMEs") and corporate customers. Trading activities and investing the surplus funds of the Group, such as trading or holding of debt securities, deposit placements, settlement of transactions, also expose the Group to credit risk and counterparty credit risk ("CCR").

The following diagram presents the risk management processes over credit risk.



The risk governance and risk management approach for credit risk are set out in the credit risk section of Note 46 to the financial statements.

5. CREDIT RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Credit Risk

The following tables present the minimum regulatory capital requirements for credit risk of the Group and of the Bank.

Group Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2019				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	59,836,515	59,836,515	1,313,914	105,113
Public Sector Entities	1,709,913	1,709,913	30,712	2,457
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	12,404,531	12,404,531	4,385,345	350,827
Insurance Companies, Securities Firms and Fund Managers	567,296	567,236	567,236	45,379
Corporates	92,379,595	89,194,029	68,496,322	5,479,706
Regulatory Retail	132,937,578	131,841,201	101,664,887	8,133,191
Residential Mortgages	118,060,283	117,855,231	51,026,701	4,082,136
Higher Risk Assets	76,056	76,055	114,083	9,127
Other Assets	7,648,536	7,648,536	4,341,738	347,339
Equity Exposures	774,913	774,913	774,913	61,993
Defaulted Exposures	1,295,287	1,294,748	1,670,835	133,667
	427,690,503	423,202,908	234,386,686	18,750,935
Off-Balance Sheet Exposures				
Credit-related Exposures	21,895,056	21,241,224	17,399,315	1,391,945
Derivative Financial Instruments	787,361	787,361	311,299	24,904
Other Treasury-related Exposures	65,652	65,652	4,669	374
Defaulted Exposures	8,080	8,080	10,901	872
	22,756,149	22,102,317	17,726,184	1,418,095
Total Credit Exposures	450,446,652	445,305,225	252,112,870	20,169,030

5. CREDIT RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Credit Risk (Continued)

The following tables present the minimum regulatory capital requirements for credit risk of the Group and of the Bank. (Continued)

Group Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2018				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	61,117,206	60,916,325	1,663,396	133,072
Public Sector Entities	2,072,039	2,072,039	49,633	3,971
Banks, DFIs and MDBs	15,060,728	15,060,728	4,228,340	338,267
Insurance Companies, Securities Firms and Fund Managers	444,896	444,878	444,878	35,590
Corporates	91,583,089	89,305,235	69,474,704	5,557,976
Regulatory Retail	128,526,289	127,553,860	98,105,114	7,848,409
Residential Mortgages	109,103,738	108,928,547	46,409,880	3,712,790
Higher Risk Assets	72,106	72,105	108,158	8,653
Other Assets	6,174,885	6,174,885	3,587,561	287,005
Equity Exposures	742,415	742,415	742,415	59,393
Defaulted Exposures	1,205,769	1,205,269	1,502,760	120,221
	416,103,160	412,476,286	226,316,839	18,105,347
Off-Balance Sheet Exposures				
Credit-related Exposures	21,139,417	20,462,894	16,996,889	1,359,751
Derivative Financial Instruments	886,469	886,469	371,057	29,685
Other Treasury-related Exposures	323,665	323,665	64,733	5,179
Defaulted Exposures	6,969	6,969	9,192	735
	22,356,520	21,679,997	17,441,871	1,395,350
Total Credit Exposures	438,459,680	434,156,283	243,758,710	19,500,697

5. CREDIT RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Credit Risk (Continued)

The following tables present the minimum regulatory capital requirements for credit risk of the Group and of the Bank. (Continued)

Bank Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2019				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	37,503,871	37,503,871	69,742	5,579
Public Sector Entities	457,980	457,980	2,865	229
Banks, DFIs and MDBs	7,522,814	7,522,814	2,365,922	189,274
Insurance Companies, Securities Firms and Fund Managers	11,872	11,863	11,863	949
Corporates	75,598,466	73,229,552	55,702,916	4,456,233
Regulatory Retail	102,449,301	101,555,104	77,039,676	6,163,174
Residential Mortgages	92,811,722	92,641,007	39,629,837	3,170,387
Higher Risk Assets	64,954	64,954	97,430	7,794
Other Assets	6,456,494	6,456,494	4,671,390	373,711
Equity Exposures	6,458,693	6,458,693	6,458,693	516,696
Defaulted Exposures	982,596	982,213	1,295,747	103,660
	330,318,763	326,884,545	187,346,081	14,987,686
Off-Balance Sheet Exposures				
Credit-related Exposures	17,957,421	17,344,628	14,073,826	1,125,906
Derivative Financial Instruments	982,285	982,285	348,043	27,843
Other Treasury-related Exposures	44,405	44,405	4,669	374
Defaulted Exposures	4,481	4,481	5,999	480
	18,988,592	18,375,799	14,432,537	1,154,603
Total Credit Exposures	349,307,355	345,260,344	201,778,618	16,142,289

5. CREDIT RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Credit Risk (Continued)

The following tables present the minimum regulatory capital requirements for credit risk of the Group and of the Bank. (Continued)

Bank **Exposure Class**	**Total Exposures before Credit Risk Mitigation RM'000**	**Total Exposures after Credit Risk Mitigation RM'000**	**Risk-Weighted Assets RM'000**	**Minimum Capital Requirement at 8% RM'000**
2018				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	40,342,425	40,342,425	54,228	4,338
Public Sector Entities	446,323	446,323	2,007	161
Banks, DFIs and MDBs	10,358,329	10,358,329	2,558,965	204,717
Insurance Companies, Securities Firms and Fund Managers	8,979	8,961	8,961	717
Corporates	77,026,973	75,583,503	58,043,625	4,643,490
Regulatory Retail	97,815,466	97,010,777	73,517,528	5,881,402
Residential Mortgages	86,732,285	86,584,459	36,396,246	2,911,700
Higher Risk Assets	62,022	62,022	93,033	7,443
Other Assets	4,480,282	4,480,282	3,400,615	272,049
Equity Exposures	6,220,982	6,220,982	6,220,982	497,678
Defaulted Exposures	916,817	916,415	1,189,260	95,141
	324,410,883	322,014,478	181,485,450	14,518,836
Off-Balance Sheet Exposures				
Credit-related Exposures	17,564,626	16,942,391	13,972,145	1,117,771
Derivative Financial Instruments	1,055,728	1,055,728	402,536	32,203
Other Treasury-related Exposures	323,665	323,665	64,733	5,179
Defaulted Exposures	4,260	4,260	5,722	458
	18,948,279	18,326,044	14,445,136	1,155,611
Total Credit Exposures	343,359,162	340,340,522	195,930,586	15,674,447

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures

Tables (a)-(c) present the analysis of credit exposures of financial assets before the effect of credit risk mitigation of the Group as follows:

(a) Industry analysis

(b) Geographical analysis based on geographical location where the credit risk resides

(c) Maturity analysis based on the residual contractual maturity

For on-balance sheet exposures, the maximum exposure to credit risk equals their carrying amounts. For financial guarantees, the maximum exposure to credit risk is the full amount that the Group 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.

(a) Industry Analysis

Group	Government and Central Banks RM'000	Financial Services RM'000	Transport & 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 Loans RM'000	Total RM'000
2019									
On-Balance Sheet Exposures									
Cash and balances with banks	5,096,678	8,979,021	–	–	–	–	–	–	14,075,699
Reverse repurchase agreements	8,208	–	–	–	–	–	–	–	8,208
Financial assets at fair value through profit or loss*	3,480,322	284,515	–	–	–	–	–	–	3,764,837
Derivative financial assets	–	152,330	–	–	–	–	–	–	152,330
Financial investments at fair value through other comprehensive income*	34,377,662	4,224,811	324,591	660,344	212,991	–	–	–	39,800,399
Financial investments at amortised cost (Gross)	11,753,724	11,071,528	1,383,470	1,798,699	1,635,293	–	–	–	27,642,714
Gross loans, advances and financing	1,020,101	13,519,318	12,136,869	43,843,317	45,086,053	128,542,790	42,165,530	44,154,463	330,468,441
Statutory deposits with Central Banks	10,044,185	–	–	–	–	–	–	–	10,044,185
	65,780,880	38,231,523	13,844,930	46,302,360	46,934,337	128,542,790	42,165,530	44,154,463	425,956,813
Commitments and Contingencies									
Contingent liabilities	2,016	138,823	434,156	698,826	881,334	–	–	1,108,293	3,263,448
Commitments	557,059	1,703,589	3,779,416	11,784,677	10,457,652	16,197,137	17,532	14,954,165	59,451,227
	559,075	1,842,412	4,213,572	12,483,503	11,338,986	16,197,137	17,532	16,062,458	62,714,675
Total Credit Exposures	66,339,955	40,073,935	18,058,502	58,785,863	58,273,323	144,739,927	42,183,062	60,216,921	488,671,488

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (Continued)

(a) Industry Analysis (Continued)

Group	Government and Central Banks RM'000	Financial Services RM'000	Transport & 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 Loans RM'000	Total RM'000
2018									
On-Balance Sheet Exposures									
Cash and balances with banks	5,235,329	9,504,889	–	–	–	–	–	–	14,740,218
Reverse repurchase agreements	200,881	–	–	–	–	–	–	–	200,881
Financial assets at fair value through profit or loss*	1,924,256	–	–	–	31,929	–	–	–	1,956,185
Derivative financial assets	–	185,891	–	–	–	–	–	–	185,891
Financial investments at fair value through other comprehensive income*	34,458,019	6,312,336	289,394	680,435	255,099	–	–	–	41,995,283
Financial investments at amortised cost (Gross)	11,641,144	10,589,151	1,567,698	1,619,513	1,605,054	–	–	–	27,022,560
Gross loans, advances and financing	1,318,357	10,262,582	14,128,779	42,150,665	46,305,196	118,535,265	41,044,922	43,555,813	317,301,579
Statutory deposits with Central Banks	10,279,227	–	–	–	–	–	–	–	10,279,227
	65,057,213	36,854,849	15,985,871	44,450,613	48,197,278	118,535,265	41,044,922	43,555,813	413,681,824
Commitments and Contingencies									
Contingent liabilities	2,456	119,522	569,836	826,396	1,014,359	–	–	666,447	3,199,016
Commitments	518,609	1,633,583	3,748,542	11,715,846	11,107,701	14,136,868	65,580	14,222,292	57,149,021
	521,065	1,753,105	4,318,378	12,542,242	12,122,060	14,136,868	65,580	14,888,739	60,348,037
Total Credit Exposures	65,578,278	38,607,954	20,304,249	56,992,855	60,319,338	132,672,133	41,110,502	58,444,552	474,029,861

* *Excluding equity securities which do not have any credit risk.*

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (Continued)

(b) Geographical Analysis

Group	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
2019					
On-Balance Sheet Exposures					
Cash and balances with banks	7,043,362	3,311,934	2,142,464	1,577,939	14,075,699
Reverse repurchase agreements	–	–	–	8,208	8,208
Financial assets at fair value through profit or loss*	3,764,837	–	–	–	3,764,837
Derivative financial assets	69,920	32,807	–	49,603	152,330
Financial investments at fair value through other comprehensive income*	39,497,323	–	–	303,076	39,800,399
Financial investments at amortised cost (Gross)	23,448,580	2,049,263	941,505	1,203,366	27,642,714
Gross loans, advances and financing	306,810,560	15,164,688	4,720,804	3,772,389	330,468,441
Statutory deposits with Central Banks	8,763,996	59,455	1,132,483	88,251	10,044,185
	389,398,578	20,618,147	8,937,256	7,002,832	425,956,813
Commitments and Contingencies					
Contingent liabilities	2,547,900	184,779	20,000	510,769	3,263,448
Commitments	55,897,829	1,699,854	1,264,933	588,611	59,451,227
	58,445,729	1,884,633	1,284,933	1,099,380	62,714,675
Total Credit Exposures	447,844,307	22,502,780	10,222,189	8,102,212	488,671,488

** Excluding equity securities which do not have any credit risk.*

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (Continued)

(b) Geographical Analysis (Continued)

Group	Malaysia RM'000	Hong Kong & China RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
2018					
On-Balance Sheet Exposures					
Cash and balances with banks	9,141,156	2,951,967	1,423,505	1,223,590	14,740,218
Reverse repurchase agreements	200,881	–	–	–	200,881
Financial assets at fair value through profit or loss*	1,956,185	–	–	–	1,956,185
Derivative financial assets	140,861	4,948	–	40,082	185,891
Financial investments at fair value through other comprehensive income*	41,772,878	–	–	222,405	41,995,283
Financial investments at amortised cost (Gross)	22,234,980	2,028,587	1,323,520	1,435,473	27,022,560
Gross loans, advances and financing	293,447,564	15,884,113	4,355,773	3,614,129	317,301,579
Statutory deposits with Central Banks	9,153,911	–	1,032,714	92,602	10,279,227
	378,048,416	20,869,615	8,135,512	6,628,281	413,681,824
Commitments and Contingencies					
Contingent liabilities	2,512,565	111,329	142,933	432,189	3,199,016
Commitments	53,818,214	1,642,247	1,130,555	558,005	57,149,021
	56,330,779	1,753,576	1,273,488	990,194	60,348,037
Total Credit Exposures	434,379,195	22,623,191	9,409,000	7,618,475	474,029,861

** Excluding equity securities which do not have any credit risk.*

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (Continued)

(c) Maturity Analysis

Group	Up to 1 Year RM'000	>1 to 3 Years RM'000	>3 to 5 Years RM'000	>5 Years RM'000	Total RM'000
2019					
On-Balance Sheet Exposures					
Cash and balances with banks	14,075,699	–	–	–	14,075,699
Reverse repurchase agreements	8,208	–	–	–	8,208
Financial assets at fair value through profit or loss*	2,605,819	968,792	148,203	42,023	3,764,837
Derivative financial assets	98,932	46,394	6,306	698	152,330
Financial investments at fair value through other comprehensive income*	2,845,271	14,085,052	12,983,365	9,886,711	39,800,399
Financial investments at amortised cost (Gross)	6,568,307	11,323,033	7,639,746	2,111,628	27,642,714
Gross loans, advances and financing	30,074,737	28,380,117	33,530,946	238,482,641	330,468,441
Statutory deposits with Central Banks	–	–	–	10,044,185	10,044,185
Total On-Balance Sheet Exposures	56,276,973	54,803,388	54,308,566	260,567,886	425,956,813

* *Excluding equity securities which do not have any credit risk.*

5. CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (Continued)

(c) Maturity Analysis (Continued)

Group	Up to 1 Year RM'000	>1 to 3 Years RM'000	>3 to 5 Years RM'000	>5 Years RM'000	Total RM'000
2018					
On-Balance Sheet Exposures					
Cash and balances with banks	14,740,218	–	–	–	14,740,218
Reverse repurchase agreements	200,881	–	–	–	200,881
Financial assets at fair value through profit or loss*	1,764,617	–	191,568	–	1,956,185
Derivative financial assets	79,033	16,334	79,866	10,658	185,891
Financial investments at fair value through other comprehensive income*	8,003,422	19,185,617	11,864,929	2,941,315	41,995,283
Financial investments at amortised cost (Gross)	4,891,305	5,755,949	11,616,081	4,759,225	27,022,560
Gross loans, advances and financing	33,476,534	25,630,391	30,813,477	227,381,177	317,301,579
Statutory deposits with Central Banks	–	–	–	10,279,227	10,279,227
Total On-Balance Sheet Exposures	63,156,010	50,588,291	54,565,921	245,371,602	413,681,824

* *Excluding equity securities which do not have any credit risk.*

Approximately 13% (2018: 15%) of the Group's exposures to customers and counterparties are short-term, having contractual maturity of one year or less. About 72% (2018: 72%) of the Group's gross loans, advances and financing has residual maturity of more than five years. The longer maturity is from the housing loans/financing and hire purchase which made up 52% (2018: 51%) of the portfolio and are traditionally longer term in nature and well secured.

The residual contractual maturity for off-balance sheet exposures is not presented as the total off-balance sheet exposures do not represent future cash requirements since the Group 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.

5. CREDIT RISK (CONTINUED)

5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk

(a) Off-Balance Sheet Exposures

Off-balance sheet exposures of the Group are mainly from the following:

(i) Financial guarantees and standby letters of credit, which represent undertakings that the Group will make payments in the event that a customer cannot meet its obligations to third parties. These exposures carry the same credit risk as loans even though they are contingent in nature;

(ii) Documentary and commercial letters of credit, which are undertakings by the Group on behalf of the customer. These exposures are usually collateralised by the underlying shipment of goods to which they relate;

(iii) Commitments to extend credit including the unutilised or undrawn portions of credit facilities;

(iv) Unutilised credit card lines; and

(v) Principal/notional amount of derivative financial instruments.

The management of off-balance sheet exposures is in accordance with the credit risk management approach as set out in item 5 of the Pillar 3 Disclosure.

(b) Counterparty Credit Risk on Derivative Financial Instruments

The risk management approach on counterparty credit risk on derivative financial instruments are set out in the credit risk section of Note 46 to the financial statements.

Credit Ratings Downgrade

As at reporting date, there were no requirements to post additional collateral in the event of a one-notch downgrade in rating (2018: Nil) as the ISDA/CSA agreements entered with the majority of the counterparties had removed the threshold limit for posting of additional collateral whereby any shortfalls in value, cash collateral were posted immediately. For ISDA/CSA with threshold limits, no collateral was required to be posted as the shortfalls were well within the threshold limits for one-notch downgrade.

5. CREDIT RISK (CONTINUED)

5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Continued)

(b) Counterparty Credit Risk on Derivative Financial Instruments (Continued)

Composition of Off-Balance Sheet Exposures

The following tables present the composition of off-balance sheet exposures of the Group and of the Bank. All derivative financial instruments are at their notional amounts.

Group	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2019				
Contingent Liabilities				
Direct credit substitutes	949,669		949,669	526,348
Transaction-related contingent items	1,745,471		872,736	496,559
Short-term self-liquidating trade-related contingencies	568,308		113,662	99,777
	3,263,448		1,936,067	1,122,684
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	26,968,879		13,483,731	11,075,340
– not exceeding one year	24,753,060		4,950,611	4,062,646
Unutilised credit card lines	7,663,636		1,532,727	1,149,546
Forward asset purchases	65,652		65,652	4,669
	59,451,227		20,032,721	16,292,201
Derivative Financial Instruments				
Foreign exchange related contracts:				
– up to one year	22,157,757	98,932	344,652	97,933
– more than one year to five years	3,446,350	45,596	324,949	162,871
Interest/profit rate related contracts:				
– up to one year	930,000	–	600	119
– more than one year to five years	4,494,515	7,104	82,081	35,745
– more than five years	571,631	698	35,078	14,630
Commodity related contracts:				
– up to one year	120	–	1	1
	31,600,373	152,330	787,361	311,299
Total Off-Balance Sheet Exposures	94,315,048	152,330	22,756,149	17,726,184

5. CREDIT RISK (CONTINUED)

5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Continued)

(b) Counterparty Credit Risk on Derivative Financial Instruments (Continued)

Composition of Off-Balance Sheet Exposures (Continued)

The following tables present the composition of off-balance sheet exposures of the Group and of the Bank. All derivative financial instruments are at their notional amounts. (Continued)

Group	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2018				
Contingent Liabilities				
Direct credit substitutes	974,325		974,325	579,964
Transaction-related contingent items	1,650,611		825,305	449,892
Short-term self-liquidating trade-related contingencies	574,080		114,816	90,843
	3,199,016		1,914,446	1,120,699
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	26,224,596		13,111,789	10,851,604
– not exceeding one year	23,502,389		4,700,477	3,969,022
Unutilised credit card lines	7,098,371		1,419,674	1,064,756
Forward asset purchases	323,665		323,665	64,733
	57,149,021		19,555,605	15,950,115
Derivative Financial Instruments				
Foreign exchange related contracts:				
– up to one year	22,574,272	57,831	300,368	98,401
– more than one year to five years	3,253,717	56,821	370,170	185,190
Interest/profit rate related contracts:				
– up to one year	5,139,280	21,202	30,750	10,205
– more than one year to five years	4,626,640	39,379	144,614	56,974
– more than five years	426,008	10,658	40,563	20,283
Commodity related contracts:				
– up to one year	382	–	4	4
	36,020,299	185,891	886,469	371,057
Total Off-Balance Sheet Exposures	96,368,336	185,891	22,356,520	17,441,871

5. CREDIT RISK (CONTINUED)

5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Continued)

(b) Counterparty Credit Risk on Derivative Financial Instruments (Continued)

Composition of Off-Balance Sheet Exposures (Continued)

The following tables present the composition of off-balance sheet exposures of the Group and of the Bank. All derivative financial instruments are at their notional amounts. (Continued)

Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2019				
Bank (excluding Public Bank (L) Ltd.)				
Contingent Liabilities				
Direct credit substitutes	912,117		912,117	499,754
Transaction-related contingent items	1,435,577		717,789	378,051
Short-term self-liquidating trade-related contingencies	117,703		23,541	19,466
	2,465,397		1,653,447	897,271
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	21,583,171		10,791,108	8,880,729
– not exceeding one year	20,165,155		4,033,031	3,185,035
Unutilised credit card lines	7,346,453		1,469,291	1,101,968
Forward asset purchases	44,405		44,405	4,669
	49,139,184		16,337,835	13,172,401
Derivative Financial Instruments				
Foreign exchange related contracts:				
– up to one year	21,117,858	89,119	324,446	91,651
– more than one year to five years	3,446,350	45,596	324,949	162,871
Interest rate related contracts:				
– up to one year	1,060,000	19	619	123
– more than one year to five years	4,912,645	10,975	95,135	37,993
– more than five years	2,150,000	86,545	210,545	42,109
Commodity related contracts:				
– up to one year	120	–	1	1
	32,686,973	232,254	955,695	334,748
Total	84,291,554	232,254	18,946,977	14,404,420

5. CREDIT RISK (CONTINUED)

5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Continued)

(b) Counterparty Credit Risk on Derivative Financial Instruments (Continued)

Composition of Off-Balance Sheet Exposures (Continued)

The following tables present the composition of off-balance sheet exposures of the Group and of the Bank. All derivative financial instruments are at their notional amounts. (Continued)

Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2019				
Public Bank (L) Ltd.				
Contingent Liabilities				
Direct credit substitutes	2,047		2,047	2,047
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	64,889		12,978	12,775
Derivative Financial Instruments				
Interest rate related contracts:				
– more than one year to five years	81,870	393	1,210	605
– more than five years	421,631	–	25,380	12,690
	503,501	393	26,590	13,295
Total	570,437	393	41,615	28,117
Total Off-Balance Sheet Exposures of the Bank and Public Bank (L) Ltd.	84,861,991	232,647	18,988,592	14,432,537

5. CREDIT RISK (CONTINUED)

5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Continued)

(b) Counterparty Credit Risk on Derivative Financial Instruments (Continued)

Composition of Off-Balance Sheet Exposures (Continued)

The following tables present the composition of off-balance sheet exposures of the Group and of the Bank. All derivative financial instruments are at their notional amounts. (Continued)

Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2018				
Bank (excluding Public Bank (L) Ltd.)				
Contingent Liabilities				
Direct credit substitutes	937,413		937,413	552,896
Transaction-related contingent items	1,382,478		691,239	350,919
Short-term self-liquidating trade-related contingencies	121,726		24,345	22,676
	2,441,617		1,652,997	926,491
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	21,269,141		10,634,120	8,824,868
– not exceeding one year	19,505,430		3,901,086	3,186,027
Unutilised credit card lines	6,799,934		1,359,987	1,019,990
Forward asset purchases	323,665		323,665	64,733
	47,898,170		16,218,858	13,095,618
Derivative Financial Instruments				
Foreign exchange related contracts:				
– up to one year	22,040,029	55,107	294,685	94,892
– more than one year to five years	3,253,717	56,821	370,170	185,190
Interest rate related contracts:				
– up to one year	5,315,200	21,345	31,333	10,230
– more than one year to five years	5,173,920	37,452	157,334	58,332
– more than five years	2,000,000	22,376	157,376	31,475
Commodity related contracts:				
– up to one year	382	–	4	4
	37,783,248	193,101	1,010,902	380,123
Total	88,123,035	193,101	18,882,757	14,402,232

5. CREDIT RISK (CONTINUED)

5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Continued)

(b) Counterparty Credit Risk on Derivative Financial Instruments (Continued)

Composition of Off-Balance Sheet Exposures (Continued)

The following tables present the composition of off-balance sheet exposures of the Group and of the Bank. All derivative financial instruments are at their notional amounts. (Continued)

Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2018				
Public Bank (L) Ltd.				
Contingent Liabilities				
Direct credit substitutes	4,136		4,136	4,136
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	82,798		16,560	16,355
Derivative Financial Instruments				
Interest rate related contracts:				
– up to one year	124,080	–	310	155
– more than one year to five years	82,720	2,300	3,953	1,976
– more than five years	426,008	10,658	40,563	20,282
	632,808	12,958	44,826	22,413
Total	719,742	12,958	65,522	42,904
Total Off-Balance Sheet Exposures of the Bank and Public Bank (L) Ltd.	88,842,777	206,059	18,948,279	14,445,136

5. CREDIT RISK (CONTINUED)

5.3 Credit Risk Mitigation

The Group's approach in granting credit facilities is based on the credit standing of the customer, source of repayment and debt servicing ability rather than placing primary reliance on credit risk mitigants ("CRM"). Depending on a customer's credit standing and the type of product, facilities may be provided unsecured. Nevertheless, mitigation of credit risk is a key aspect of effective risk management and takes many forms.

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

(a) for residential mortgages – charges over residential properties;

(b) for commercial property loans/financing – charges over the properties being financed;

(c) for motor vehicle financing – ownership claims over the vehicles financed;

(d) for share margin financing – pledges over securities from listed exchange; and

(e) for other loans/financing – charges over business assets such as premises, inventories, trade receivables or deposits.

The reliance that can be placed on CRM is carefully assessed in light of issues such as legal enforceability, market value and the ease of realising the CRM. Policies and procedures are in place to govern the protection of the Group's position from the onset of a customer relationship, for instance in requiring standard terms and conditions or specifically agreed upon during documentation to ensure the legal enforceability of the CRM.

The valuation of CRM seeks to monitor and ensure that they will continue to provide the credit protection. Policy on the periodic valuation updates of CRM is in place to ensure this. The value of properties taken as collateral is generally updated from time to time during the review of the customers' facilities to reflect the current market value. The quality, liquidity and collateral type will determine the appropriate haircuts or discounts applied on the market value of the collateral.

Where there is a currency mismatch, haircuts are applied to protect against currency fluctuations, in addition to ongoing review and controls over maturity mismatch between collateral and exposures. In mortgage financing, the collateral is required to be insured at all times against major risks, for instance, against fire, with the respective banking entities as the loss payee under the insurance policy. In addition, customers are generally insured against major risks, such as, death and permanent disability.

The Group also accepts guarantees from individuals, corporate and institutional customers to mitigate credit risk, subject to internal guidelines on eligibility. Currently, the Group does not employ the use of derivative credit instruments such as credit default swaps, structured credit notes and securitisation structures to mitigate the Group's credit exposures. In addition, the Group enters into master netting arrangements with its derivative counterparties to reduce the credit risk, all amounts with the counterparty are settled on a net basis.

5. CREDIT RISK (CONTINUED)

5.3 Credit Risk Mitigation (Continued)

Credit Risk Mitigation Analysis

The following tables present the credit risk mitigation analysis of the Group i.e. credit exposures covered by eligible financial collateral and financial guarantees as defined under the Standardised Approach. Eligible financial collateral consists primarily of cash, securities from listed exchange, unit trust or marketable securities. The Group does not have any credit exposure which is reduced through the application of other eligible collateral.

Group Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures Covered by Guarantees RM'000	Total Exposures Covered by Eligible Financial Collateral RM'000	Total Exposures Covered by Other Eligible Collateral RM'000
2019				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	59,836,515	–	–	–
Public Sector Entities	1,709,913	1,556,354	–	–
Banks, DFIs and MDBs	12,404,531	374,832	–	–
Insurance Companies, Securities Firms and Fund Managers	567,296	–	60	–
Corporates	92,379,595	11,217,476	3,185,566	–
Regulatory Retail	132,937,578	–	1,096,377	–
Residential Mortgages	118,060,283	–	205,052	–
Higher Risk Assets	76,056	–	1	–
Other Assets	7,648,536	–	–	–
Equity Exposures	774,913	–	–	–
Defaulted Exposures	1,295,287	–	539	–
	427,690,503	13,148,662	4,487,595	–
Off-Balance Sheet Exposures				
Credit-related Exposures	21,895,056	112,704	653,832	–
Derivative Financial Instruments	787,361	–	–	–
Other Treasury-related Exposures	65,652	–	–	–
Defaulted Exposures	8,080	–	–	–
	22,756,149	112,704	653,832	–
Total Credit Exposures	450,446,652	13,261,366	5,141,427	–

5. CREDIT RISK (CONTINUED)

5.3 Credit Risk Mitigation (Continued)

Credit Risk Mitigation Analysis (Continued)

The following tables present the credit risk mitigation analysis of the Group i.e. credit exposures covered by eligible financial collateral and financial guarantees as defined under the Standardised Approach. Eligible financial collateral consists primarily of cash, securities from listed exchange, unit trust or marketable securities. The Group does not have any credit exposure which is reduced through the application of other eligible collateral. (Continued)

Group Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures Covered by Guarantees RM'000	Total Exposures Covered by Eligible Financial Collateral RM'000	Total Exposures Covered by Other Eligible Collateral RM'000
2018				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	61,117,206	–	200,881	–
Public Sector Entities	2,072,039	1,823,874	–	–
Banks, DFIs and MDBs	15,060,728	435,548	–	–
Insurance Companies, Securities Firms and Fund Managers	444,896	–	18	–
Corporates	91,583,089	7,163,846	2,277,854	–
Regulatory Retail	128,526,289	2	972,429	–
Residential Mortgages	109,103,738	–	175,191	–
Higher Risk Assets	72,106	–	1	–
Other Assets	6,174,885	–	–	–
Equity Exposures	742,415	–	–	–
Defaulted Exposures	1,205,769	–	500	–
	416,103,160	9,423,270	3,626,874	–
Off-Balance Sheet Exposures				
Credit-related Exposures	21,139,417	60,794	676,523	–
Derivative Financial Instruments	886,469	–	–	–
Other Treasury-related Exposures	323,665	–	–	–
Defaulted Exposures	6,969	–	–	–
	22,356,520	60,794	676,523	–
Total Credit Exposures	438,459,680	9,484,064	4,303,397	–

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach

Under the Standardised Approach, the Group makes use of credit ratings assigned by credit rating agencies in its calculation of credit risk-weighted assets. The following are the rating agencies or Eligible Credit Assessment Institutions ("ECAI") ratings used by the Group and are recognised by BNM in the RWCAF:

(a) Standard & Poor's ("S&P")

(b) Moody's Investors Service ("Moody's")

(c) Fitch Ratings ("Fitch")

(d) RAM Rating Services Berhad ("RAM")

(e) Malaysian Rating Corporation Berhad ("MARC")

The ECAI ratings accorded to the following counterparty exposure classes are used in the calculation of risk-weighted assets for capital adequacy purposes:

(a) Sovereigns and Central Banks

(b) Banking Institutions

(c) Corporates

Unrated and Rated Counterparties

In general, the rating specific to the credit exposure is used, i.e. the issue rating. Where no specific rating exists, the credit rating assigned to the issuer or counterparty of that particular credit exposure is used. In cases where an exposure has neither an issue or issuer rating, it is deemed as unrated or the rating of another rated obligation of the same counterparty may be used if the exposure is ranked at least pari passu with the obligation that is rated, as stipulated in the RWCAF. Where a counterparty or an exposure is rated by more than one ECAI, the second highest rating is then used to determine the risk weight. In cases where the credit exposures are secured by guarantees issued by eligible or rated guarantors, the risk weights similar to that of the guarantor are assigned.

The following is a summary of the rules governing the assignment of risk weights under the Standardised Approach. Each rated exposure must be assigned to one of the six credit quality rating categories defined in the table below:

Rating Category	S & P	Moody's	Fitch	RAM	MARC
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBB1 to BBB3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	BB1 to BB3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below	C1 and below	C+ and below

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Continued)

Unrated and Rated Counterparties (Continued)

The Group uses a system to automatically execute the selection of ratings and allocation of risk weights. The following table is a summarised risk weight mapping matrix for each credit quality rating category:

<table>
<tr><th rowspan="3">Rating Category</th><th colspan="4">Risk Weights Based on Credit Rating of the Counterparty Exposure Class</th></tr>
<tr><th rowspan="2">Sovereigns and Central Banks</th><th rowspan="2">Corporates</th><th colspan="2">Banking Institutions</th></tr>
<tr><th>For Exposure Greater Than Six Months Original Maturity</th><th>For Exposure Less Than Six Months Original Maturity</th></tr>
<tr><td>1</td><td>0%</td><td>20%</td><td>20%</td><td>20%</td></tr>
<tr><td>2</td><td>20%</td><td>50%</td><td>50%</td><td>20%</td></tr>
<tr><td>3</td><td>50%</td><td>100%</td><td>50%</td><td>20%</td></tr>
<tr><td>4</td><td>100%</td><td>100%</td><td>100%</td><td>50%</td></tr>
<tr><td>5</td><td>100%</td><td>150%</td><td>100%</td><td>50%</td></tr>
<tr><td>6</td><td>150%</td><td>150%</td><td>150%</td><td>150%</td></tr>
</table>

In addition to the above, credit exposures under the counterparty exposure class of Banking Institutions, with an original maturity of three months or less which are denominated and funded in Ringgit Malaysia, are all risk-weighted at 20% regardless of credit rating.

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Continued)

Credit Exposures before the Effect of Credit Risk Mitigation by Credit Quality Rating Categories

The following tables present the credit exposures of the Group before the effect of credit risk mitigation by credit quality rating categories.

Group Exposure Class	Rating Categories 1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
2019								
On-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Exposures risk-weighted using ratings of Corporates								
– Corporates	16,786,938	525,746	138,557	–	–	–		17,451,241
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks#								
– Sovereigns and Central Banks	1,088,702	55,866,470	–	288,626	2,558,892	–		59,802,690
– Public Sector Entities	–	1,690,662	–	–	–	–		1,690,662
– Banks, DFIs and MDBs	–	664,048	–	–	–	–		664,048
– Corporates	–	6,260,934	–	–	–	–		6,260,934
	1,088,702	64,482,114	–	288,626	2,558,892	–		68,418,334
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	6,043,240	3,063,420	22,718	262,419	286,185	–		9,677,982
– Corporates	454,568	160,048	33,345	–	–	–		647,961
	6,497,808	3,223,468	56,063	262,419	286,185	–		10,325,943
Total Rated Exposures	24,373,448	68,231,328	194,620	551,045	2,845,077	–		96,195,518
(b) Total Unrated Exposures							331,494,985	331,494,985
	24,373,448	68,231,328	194,620	551,045	2,845,077	–	331,494,985	427,690,503

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Continued)

Credit Exposures before the Effect of Credit Risk Mitigation by Credit Quality Rating Categories (Continued)

The following tables present the credit exposures of the Group before the effect of credit risk mitigation by credit quality rating categories. (Continued)

Group Exposure Class	Rating Categories 1 RM'000	 2 RM'000	 3 RM'000	 4 RM'000	 5 RM'000	 6 RM'000	 Unrated RM'000	Total RM'000
2019								
Off-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Exposures risk-weighted using ratings of Corporates								
– Corporates	151,613	–	–	–	–	–		151,613
– Regulatory Retail	20	–	–	–	–	–		20
	151,633	–	–	–	–	–		151,633
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks#								
– Sovereigns and Central Banks	–	89,588	–	–	–	–		89,588
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	212,834	106,622	53,510	5,875	1,596	–		380,437
– Corporates	4,189	5,778	429	–	–	–		10,396
	217,023	112,400	53,939	5,875	1,596	–		390,833
Total Rated Exposures	368,656	201,988	53,939	5,875	1,596	–		632,054
(b) Total Unrated Exposures							22,124,095	22,124,095
	368,656	201,988	53,939	5,875	1,596	–	22,124,095	22,756,149
Total Credit Exposures before Credit Risk Mitigation	24,742,104	68,433,316	248,559	556,920	2,846,673	–	353,619,080	450,446,652

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Continued)

Credit Exposures before the Effect of Credit Risk Mitigation by Credit Quality Rating Categories (Continued)

The following tables present the credit exposures of the Group before the effect of credit risk mitigation by credit quality rating categories. (Continued)

Group Exposure Class	Rating Categories 1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
2018								
On-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Exposures risk-weighted using ratings of Corporates								
– Corporates	15,641,830	410,850	126,789	–	–	–		16,179,469
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks#								
– Sovereigns and Central Banks	1,062,511	56,910,876	–	274,650	2,831,226	–		61,079,263
– Public Sector Entities	186,099	1,823,874	–	–	–	–		2,009,973
– Banks, DFIs and MDBs	–	435,586	–	–	–	–		435,586
– Corporates	–	6,680,353	–	–	–	–		6,680,353
	1,248,610	65,850,689	–	274,650	2,831,226	–		70,205,175
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	7,318,155	3,890,876	1,539,390	269,980	138,032	–		13,156,433
– Corporates	423,246	186,754	–	–	–	–		610,000
– Regulatory Retail	–	2	–	–	–	–		2
	7,741,401	4,077,632	1,539,390	269,980	138,032	–		13,766,435
(iv) Exposures risk-weighted using ratings of Public Sector Entities								
– Public Sector Entities	45,164	–	–	–	–	–		45,164
Total Rated Exposures	24,677,005	70,339,171	1,666,179	544,630	2,969,258	–		100,196,243
(b) Total Unrated Exposures							315,906,917	315,906,917
	24,677,005	70,339,171	1,666,179	544,630	2,969,258	–	315,906,917	416,103,160

Under the RWCAF, exposures denominated and funded in Ringgit Malaysia and guaranteed by the Federal Government of Malaysia or BNM are accorded a preferential sovereign risk weight of 0%.

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Continued)

Credit Exposures before the Effect of Credit Risk Mitigation by Credit Quality Rating Categories (Continued)

The following tables present the credit exposures of the Group before the effect of credit risk mitigation by credit quality rating categories. (Continued)

Group Exposure Class	Rating Categories 1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
2018								
Off-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Exposures risk-weighted using ratings of Corporates								
– Corporates	94,543	–	–	–	–	–		94,543
– Regulatory Retail	320	–	–	–	–	–		320
	94,863	–	–	–	–	–		94,863
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks#								
– Sovereigns and Central Banks	–	18,640	–	–	–	–		18,640
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	209,026	295,112	109,108	1,761	1,204	–		616,211
– Corporates	9,885	2,955	409	–	–	–		13,249
– Regulatory Retail	–	36	–	–	–	–		36
	218,911	298,103	109,517	1,761	1,204	–		629,496
Total Rated Exposures	313,774	316,743	109,517	1,761	1,204	–		742,999
(b) Total Unrated Exposures							21,613,521	21,613,521
	313,774	316,743	109,517	1,761	1,204	–	21,613,521	22,356,520
Total Credit Exposures before Credit Risk Mitigation	24,990,779	70,655,914	1,775,696	546,391	2,970,462	–	337,520,438	438,459,680

Under the RWCAF, exposures denominated and funded in Ringgit Malaysia and guaranteed by the Federal Government of Malaysia or BNM are accorded a preferential sovereign risk weight of 0%.

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Continued)

Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights

The following tables present the credit exposures of the Group and of the Bank after the effect of credit risk mitigation by risk weights.

	Credit Exposures after the Effect of Credit Risk Mitigation											
Group Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
2019												
0%	58,288,631	1,556,354	380,049	-	6,544,933	-	-	-	3,293,187	-	70,063,154	-
20%	517,643	157,517	8,162,015	-	17,397,308	20	-	-	17,014	-	26,251,517	5,250,303
35%	-	-	-	-	-	-	82,921,285	-	-	-	82,921,285	29,022,450
50%	2	-	3,299,577	-	735,694	8,316	27,257,130	-	-	-	31,300,719	15,650,360
75%	-	-	-	-	-	131,461,488	593,626	-	-	-	132,055,114	99,041,335
100%	1,219,841	-	1,433,382	587,516	70,587,939	13,474,519	9,427,019	-	4,338,335	774,913	101,843,464	101,843,464
150%	-	-	-	-	182,728	565,039	35,674	86,531	-	-	869,972	1,304,958
Total	60,026,117	1,713,871	13,275,023	587,516	95,448,602	145,509,382	120,234,734	86,531	7,648,536	774,913	445,305,225	252,112,870
Risk-Weighted Assets by Exposures	1,323,371	31,503	4,715,573	587,516	74,709,340	112,922,355	52,576,764	129,797	4,341,738	774,913	252,112,870	
Average Risk Weights	2.2%	1.8%	35.5%	100.0%	78.3%	77.6%	43.7%	150.0%	56.8%	100.0%	56.6%	
Deduction from Total Capital			-							-	-	

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Continued)

Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights (Continued)

The following tables present the credit exposures of the Group and of the Bank after the effect of credit risk mitigation by risk weights. (Continued)

	Credit Exposures after the Effect of Credit Risk Mitigation											
Group Risk Weights	**Sovereigns/ Central Banks RM'000**	**Public Sector Entities RM'000**	**Banks, DFIs and MDBs RM'000**	**Insurance Companies, Securities Firms and Fund Managers RM'000**	**Corporates RM'000**	**Regulatory Retail RM'000**	**Residential Mortgages RM'000**	**Higher Risk Assets RM'000**	**Other Assets RM'000**	**Equity Exposures RM'000**	**Total Exposures after Credit Risk Mitigation RM'000**	**Total Risk-Weighted Assets RM'000**
2018												
0%	58,975,267	1,823,874	435,548	–	6,679,670	–	–	–	2,549,756	–	70,464,115	–
20%	490,728	251,837	11,402,002	–	16,169,503	320	–	–	46,960	–	28,361,350	5,672,270
35%	–	–	–	–	–	–	79,057,063	–	–	–	79,057,063	27,669,972
50%	2	–	4,259,674	–	611,319	68,778	23,505,432	–	–	–	28,445,205	14,222,602
75%	–	–	–	–	–	127,504,517	561,892	–	–	–	128,066,409	96,049,807
100%	1,568,978	–	275,320	464,929	72,852,158	11,686,351	7,829,985	–	3,578,169	742,415	98,998,305	98,998,305
150%	–	–	–	–	178,467	462,161	40,573	82,635	–	–	763,836	1,145,754
Total	61,034,975	2,075,711	16,372,544	464,929	96,491,117	139,722,127	110,994,945	82,635	6,174,885	742,415	434,156,283	243,758,710
Risk-Weighted Assets by Exposures	1,667,125	50,367	4,685,557	464,929	76,659,419	108,042,433	47,734,951	123,953	3,587,561	742,415	243,758,710	
Average Risk Weights	2.7%	2.4%	28.6%	100.0%	79.4%	77.3%	43.0%	150.0%	58.1%	100.0%	56.1%	
Deduction from Total Capital			–							–	–	

5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Continued)

Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights (Continued)

The following tables present the credit exposures of the Group and of the Bank after the effect of credit risk mitigation by risk weights. (Continued)

	Credit Exposures after the Effect of Credit Risk Mitigation											
Bank Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
2019												
0%	37,473,348	443,655	288,746	-	5,476,640	-	-	-	2,820,058	-	46,502,447	-
20%	149,597	18,283	6,135,942	-	14,906,985	20	-	-	-	-	21,210,827	4,242,165
35%	-	-	-	-	-	-	66,381,159	-	-	-	66,381,159	23,233,406
50%	2	-	1,447,296	-	514,656	4,038	20,760,666	-	-	-	22,726,658	11,363,329
75%	-	-	-	-	-	107,183,852	398,868	-	-	-	107,582,720	80,687,040
100%	49,279	-	849,634	31,162	56,952,756	5,387,145	6,769,046	-	3,546,440	6,458,693	80,044,155	80,044,155
150%	-	-	-	-	152,082	475,047	21,704	73,549	-	-	722,382	1,083,573
1250%	-	-	-	-	-	-	-	-	89,996	-	89,996	1,124,950
Total	37,672,226	461,938	8,721,618	31,162	78,003,119	113,050,102	94,331,443	73,549	6,456,494	6,458,693	345,260,344	201,778,618
Risk-Weighted Assets by Exposures	79,199	3,657	2,800,470	31,162	60,419,604	86,489,628	40,714,492	110,323	4,671,390	6,458,693	201,778,618	
Average Risk Weights	0.2%	0.8%	32.1%	100.0%	77.5%	76.5%	43.2%	150.0%	72.4%	100.0%	58.4%	
Deduction from Total Capital			-							-	-	

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5. CREDIT RISK (CONTINUED)

5.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Continued)

Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights (Continued)

The following tables present the credit exposures of the Group and of the Bank after the effect of credit risk mitigation by risk weights. (Continued)

	Credit Exposures after the Effect of Credit Risk Mitigation											
Bank Risk Weights	**Sovereigns/ Central Banks RM'000**	**Public Sector Entities RM'000**	**Banks, DFIs and MDBs RM'000**	**Insurance Companies, Securities Firms and Fund Managers RM'000**	**Corporates RM'000**	**Regulatory Retail RM'000**	**Residential Mortgages RM'000**	**Higher Risk Assets RM'000**	**Other Assets RM'000**	**Equity Exposures RM'000**	**Total Exposures after Credit Risk Mitigation RM'000**	**Total Risk-Weighted Assets RM'000**
2018												
0%	40,311,200	436,290	329,225	–	5,771,126	–	–	–	2,114,619	–	48,962,460	–
20%	114,896	13,705	9,837,462	–	14,441,868	320	–	–	–	–	24,408,251	4,881,650
35%	–	–	–	–	–	–	63,998,986	–	–	–	63,998,986	22,399,645
50%	2	–	1,321,484	–	611,225	3,182	18,121,572	–	–	–	20,057,465	10,028,733
75%	–	–	–	–	–	102,192,391	386,832	–	–	–	102,579,223	76,934,417
100%	34,977	–	489,728	29,010	60,402,960	4,602,236	5,554,481	–	2,275,667	6,220,982	79,610,041	79,610,041
150%	–	–	–	–	172,798	381,005	9,580	70,717	–	–	634,100	951,150
1250%	–	–	–	–	–	–	–	–	89,996	–	89,996	1,124,950
Total	40,461,075	449,995	11,977,899	29,010	81,399,977	107,179,134	88,071,451	70,717	4,480,282	6,220,982	340,340,522	195,930,586
Risk-Weighted Assets by Exposures	57,957	2,741	3,117,962	29,010	63,856,144	81,819,692	37,319,406	106,075	3,400,617	6,220,982	195,930,586	
Average Risk Weights	0.1%	0.6%	26.0%	100.0%	78.4%	76.3%	42.4%	150.0%	75.9%	100.0%	57.6%	
Deduction from Total Capital			–							–	–	

5. CREDIT RISK (CONTINUED)

5.5 Credit Quality of Gross Loans, Advances and Financing

Gross Loans, Advances and Financing by Credit Quality

All loans, advances and financing are categorised as either:

(a) neither past due nor credit-impaired;

(b) past due but not credit-impaired; or

(c) credit-impaired.

The loans, advances and financing are considered past due when any payment (whether principal and/or interest/profit) due under the contractual terms are received late or missed.

The loans, advances and financing of the Group and of the Bank are classified as credit-impaired when they fulfil any of the following criteria:

(a) principal or interest/profit or both are past due for ninety (90) days or more; or

(b) outstanding amount is in excess of approved limit for ninety (90) days or more in the case of revolving facilities; or

(c) where the loans, advances and financing are in arrears or the outstanding amount has been in excess of the approved limit for less than ninety (90) days, the loans, advances and financing exhibits indications of significant credit weaknesses; or

(d) where credit-impaired loans, advances and financing are rescheduled and restructured ("R&R"), the loans, advances and 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 their required nursing period; or

(e) for repayments scheduled on intervals of ninety (90) days or more including bullet repayment as soon as default occurs.

In addition, the loans, advances and financing that are considered individually significant, the Group assesses on a case-by-case basis at each reporting date whether there is any objective evidence that the loans, advances and financing are credit-impaired.

The gross loans, advances and financing analysed by credit quality are set out in the credit risk section of Note 46(ii) to the financial statements.

The description of the approaches adopted for the determination of individual and collective impairment allowance are set out in Note 2(iii)(h)(ii) to the financial statements.

(a) Past Due But Not Credit-impaired

Tables (i)-(iii) present the analyses of past due but not credit-impaired loans, advances and financing of the Group by the following:

(i) Economic purpose

(ii) Geographical

(iii) Aging

5. CREDIT RISK (CONTINUED)

5.5 Credit Quality of Gross Loans, Advances and Financing (Continued)

(a) Past Due But Not Credit-impaired (Continued)

(i) Economic Purpose

Group	2019 RM'000	2018 RM'000
Purchase of securities	**36,773**	686
Purchase of transport vehicles	**9,086,702**	9,747,156
Purchase of landed properties	**13,727,663**	14,454,844
(Of which: – residential	**10,209,427**	10,182,267
– non-residential)	**3,518,236**	4,272,577
Purchase of fixed assets (excluding landed properties)	**12,408**	2,286
Personal use	**780,839**	797,950
Credit card	**240,513**	291,753
Purchase of consumer durables	**209**	319
Construction	**33,150**	49,848
Working capital	**799,651**	1,259,146
Other purpose	**41,859**	69,844
	24,759,767	26,673,832

(ii) Geographical

Group	2019 RM'000	2018 RM'000
Malaysia	**23,996,874**	25,886,412
Hong Kong & China	**285,166**	237,238
Cambodia	**224,717**	226,702
Other countries	**253,010**	323,480
	24,759,767	26,673,832

(iii) Aging

Group	2019 RM'000	2018 RM'000
1 day to 30 days	**14,964,494**	15,905,838
31 to 59 days	**6,818,278**	7,669,213
60 to 89 days	**2,976,995**	3,098,781
	24,759,767	26,673,832

5. CREDIT RISK (CONTINUED)

5.5 Credit Quality of Gross Loans, Advances and Financing (Continued)

(b) Credit-impaired Loans, Advances and Financing

Tables (i)-(ii) present the analyses of credit-impaired loans, advances and financing of the Group and the impairment allowances of the Group by the following:

(i) Economic purpose
(ii) Geographical

(i) Economic Purpose

Group	Credit-impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000
2019							
Purchase of securities	724	–	–	–	–	4,548	4,548
Purchase of transport vehicles	241,765	2,592	4,448	(2,736)	4,304	409,607	413,911
Purchase of landed properties	856,891	16,903	11,306	(17,989)	10,220	738,523	748,743
(Of which: – residential	629,565	3,242	2,729	(5,687)	284	333,661	333,945
– non-residential)	227,326	13,661	8,577	(12,302)	9,936	404,862	414,798
Purchase of fixed assets (excluding landed properties)	8,523	2,264	1,505	(2,678)	1,091	3,105	4,196
Personal use	153,351	30,839	158,311	(156,202)	32,948	130,842	163,790
Credit card	17,983	–	–	–	–	39,598	39,598
Purchase of consumer durables	1	–	–	–	–	2	2
Construction	57,119	6,013	3,235	(364)	8,884	56,485	65,369
Mergers and acquisitions	–	–	–	–	–	62	62
Working capital	256,412	46,876	11,301	(49,507)	8,670	201,431	210,101
Other purpose	12,150	2,758	4,091	(3,777)	3,072	338,555	341,627
	1,604,919	108,245	194,197	(233,253)	69,189	1,922,758	1,991,947

5. CREDIT RISK (CONTINUED)

5.5 Credit Quality of Gross Loans, Advances and Financing (Continued)

(b) Credit-impaired Loans, Advances and Financing (Continued)

Tables (i)-(ii) present the analyses of credit-impaired loans, advances and financing of the Group and the impairment allowances of the Group by the following (Continued):

(i) Economic Purpose (Continued)

Group	Credit-impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000
2018							
Purchase of securities	722	–	–	–	–	20,095	20,095
Purchase of transport vehicles	304,027	836	1,877	(121)	2,592	493,988	496,580
Purchase of landed properties	803,830	8,063	15,270	(6,430)	16,903	723,267	740,170
(Of which: – residential	569,671	1,967	1,944	(669)	3,242	358,535	361,777
– non-residential)	234,159	6,096	13,326	(5,761)	13,661	364,732	378,393
Purchase of fixed assets (excluding landed properties)	7,500	2,080	172	12	2,264	3,652	5,916
Personal use	141,699	29,450	142,816	(141,427)	30,839	125,475	156,314
Credit card	19,572	–	–	–	–	47,217	47,217
Purchase of consumer durables	–	–	–	–	–	4	4
Construction	69,316	6,418	1,919	(2,324)	6,013	70,128	76,141
Mergers and acquisitions	–	–	–	–	–	179	179
Working capital	263,975	34,024	47,710	(34,858)	46,876	307,669	354,545
Other purpose	10,092	1,769	1,813	(824)	2,758	142,494	145,252
	1,620,733	82,640	211,577	(185,972)	108,245	1,934,168	2,042,413

5. CREDIT RISK (CONTINUED)

5.5 Credit Quality of Gross Loans, Advances and Financing (Continued)

(b) Credit-impaired Loans, Advances and Financing (Continued)

Tables (i)-(ii) present the analyses of credit-impaired loans, advances and financing of the Group and the impairment allowances of the Group by the following (Continued):

(ii) Geographical

Group	Credit-Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000
2019							
Malaysia	**1,310,329**	**29,294**	**16,113**	**(20,782)**	**24,625**	**1,706,006**	**1,730,631**
Hong Kong & China	**103,643**	**29,635**	**161,137**	**(154,459)**	**36,313**	**129,223**	**165,536**
Cambodia	**45,233**	**40,640**	**-**	**(40,640)**	**-**	**55,140**	**55,140**
Other countries	**145,714**	**8,676**	**16,947**	**(17,372)**	**8,251**	**32,389**	**40,640**
	1,604,919	**108,245**	**194,197**	**(233,253)**	**69,189**	**1,922,758**	**1,991,947**

Group	Credit-Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000
2018							
Malaysia	1,300,431	13,437	24,399	(8,542)	29,294	1,738,131	1,767,425
Hong Kong & China	104,861	30,025	141,205	(141,595)	29,635	123,819	153,454
Cambodia	65,858	14,273	25,889	478	40,640	42,762	83,402
Other countries	149,583	24,905	20,084	(36,313)	8,676	29,456	38,132
	1,620,733	82,640	211,577	(185,972)	108,245	1,934,168	2,042,413

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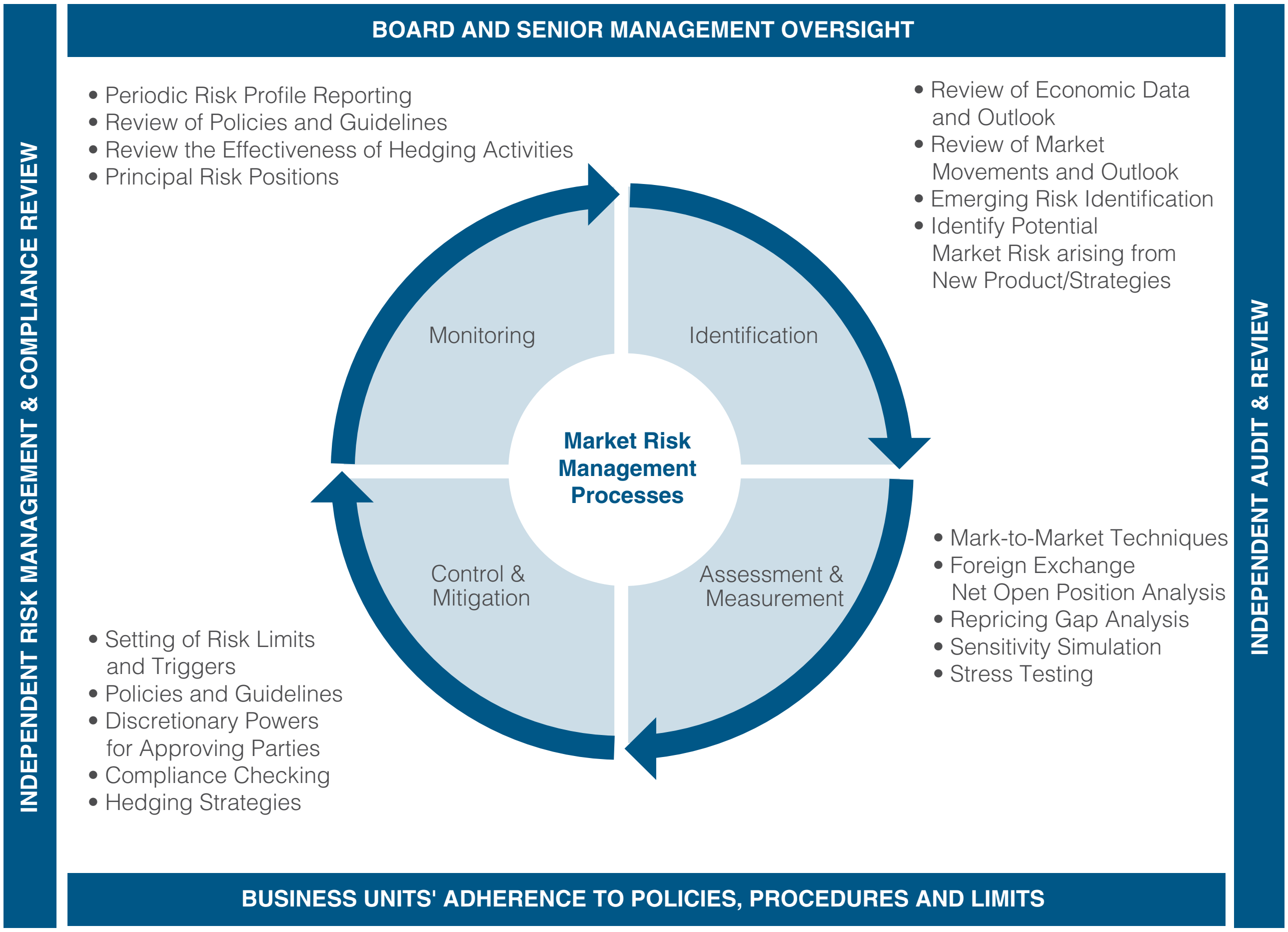
6. MARKET RISK

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

The following diagram presents the risk management processes over market risk.



The risk governance and risk management approach for market risk are set out in the market risk section of Note 46 to the financial statements.

6. MARKET RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Market Risk

The following tables present the minimum regulatory capital requirements for market risk of the Group and of the Bank.

Group	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2019				
Interest rate/rate of return risk	**28,248,902**	**(24,764,830)**	**1,927,554**	**154,204**
Foreign exchange risk	**3,112,991**	**(1,550,146)**	**3,112,991**	**249,040**
Total	**31,361,893**	**(26,314,976)**	**5,040,545**	**403,244**
2018				
Interest rate/rate of return risk	25,730,145	(24,054,399)	1,986,236	158,899
Foreign exchange risk	2,326,897	(1,324,812)	2,327,040	186,163
Total	28,057,042	(25,379,211)	4,313,276	345,062

Bank	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
2019				
Interest rate risk	**26,849,458**	**(23,681,759)**	**1,905,491**	**152,439**
Foreign exchange risk	**1,963,324**	**(3,568,201)**	**3,568,201**	**285,456**
Total	**28,812,782**	**(27,249,960)**	**5,473,692**	**437,895**
2018				
Interest rate risk	25,227,697	(23,614,190)	1,974,659	157,973
Foreign exchange risk	1,266,958	(3,020,243)	3,020,242	241,619
Total	26,494,655	(26,634,433)	4,994,901	399,592

7. EQUITY EXPOSURES IN THE BANKING BOOK

The following tables present the equity exposures in the banking book and the gains and losses on equity exposures in the banking book of the Group.

(a) Equity Exposures in the Banking Book

Group	2019		2018	
	Gross Credit Exposure RM'000	Risk-Weighted Assets RM'000	Gross Credit Exposure RM'000	Risk-Weighted Assets RM'000
Publicly traded				
Investments in unit trust funds	**12,853**	**12,853**	12,956	12,956
Holdings of equity investments	**1,556**	**1,556**	2,204	2,204
	14,409	**14,409**	15,160	15,160
Privately held				
For socio-economic purposes	**760,504**	**760,504**	727,255	727,255
Not for socio-economic purposes	**36,462**	**54,693**	41,690	62,535
	796,966	**815,197**	768,945	789,790
Total	**811,375**	**829,606**	784,105	804,950

(i) Publicly Traded

The investment in unit trust funds comprises bond fund and wholesale income funds, are held for yield purposes. Holdings of equity investments comprise mainly of shares listed in an exchange, are held for dividend yield purpose and to take advantage of favourable movements in equity prices. Decisions concerning investing in equities are made by the Share Investment Committee. Equity positions are monitored against pre-determined cut-loss limits. All publicly traded equity exposures are stated at fair value.

(ii) Privately Held

The Group and the Bank has adopted the requirements of MFRS 9 on 1 January 2018. Upon adoption of MFRS 9, the privately held equity investments are stated at fair value.

7. EQUITY EXPOSURES IN THE BANKING BOOK (CONTINUED)

The following tables present the equity exposures in the banking book and the gains and losses on equity exposures in the banking book of the Group. (Continued)

(b) Gains and Losses on Equity Exposures in the Banking Book

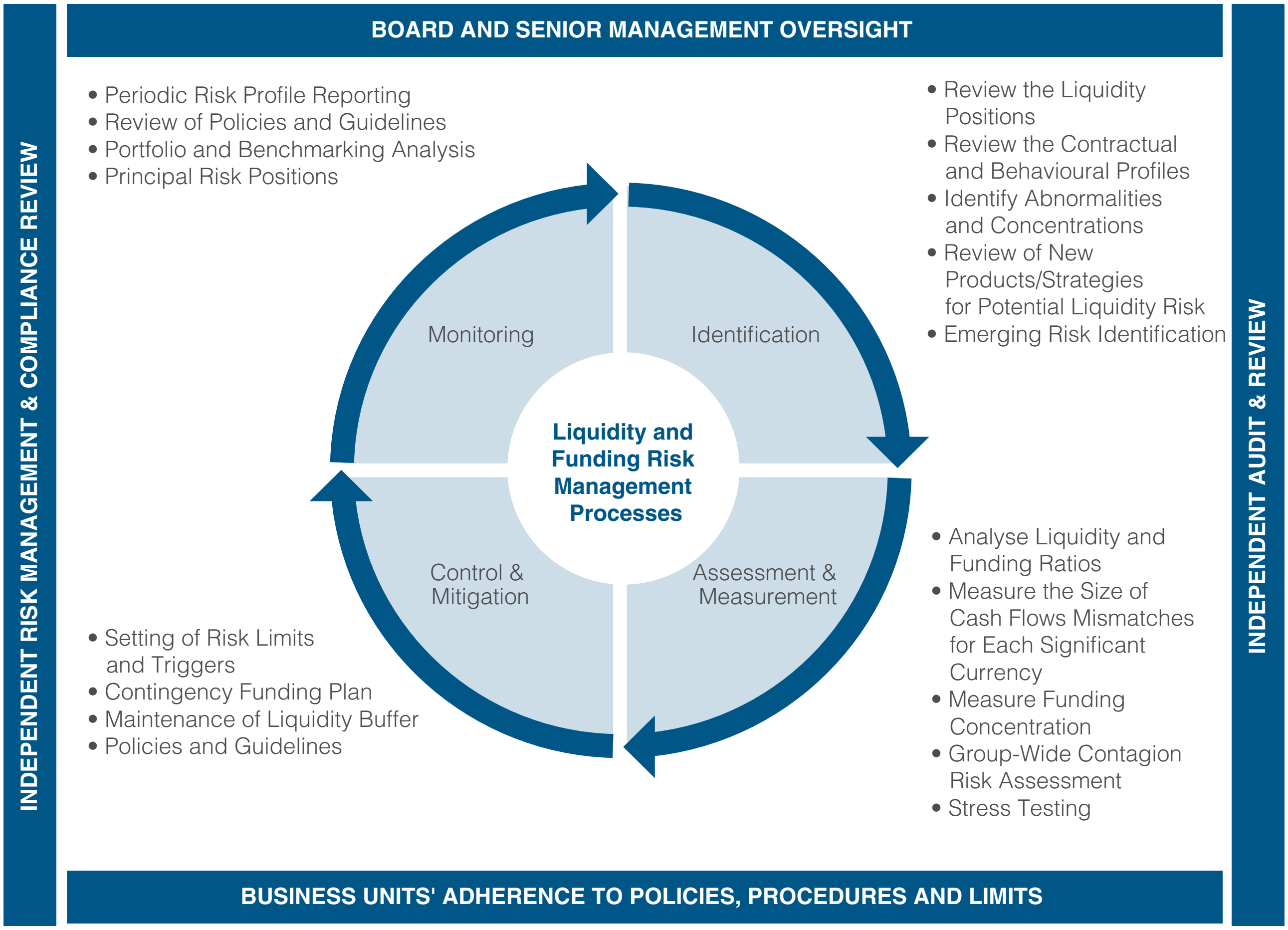
Group	2019 RM'000	2018 RM'000
Realised loss recognised in profit or loss		
– Investments in unit trust funds	**(11)**	–
Realised gain recognised in other comprehensive income		
– Privately held equity investments	**5**	–
Unrealised revaluation gain recognised in profit or loss		
– Privately held equity investments	**21,479**	8,049
Unrealised revaluation gain/(loss) recognised in other comprehensive income		
– Privately held equity investments	**6,993**	28,165
– Publicly traded equity investments	**(652)**	(1,236)
– Investments in unit trust funds	**(3)**	(6)
	6,338	26,923

PILLAR 3 DISCLOSURE
AS AT 31 DECEMBER 2019

8. LIQUIDITY AND FUNDING RISK

Liquidity risk is the risk that the Group 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 Group does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient.

The following diagram presents the risk management processes over liquidity and funding risk.

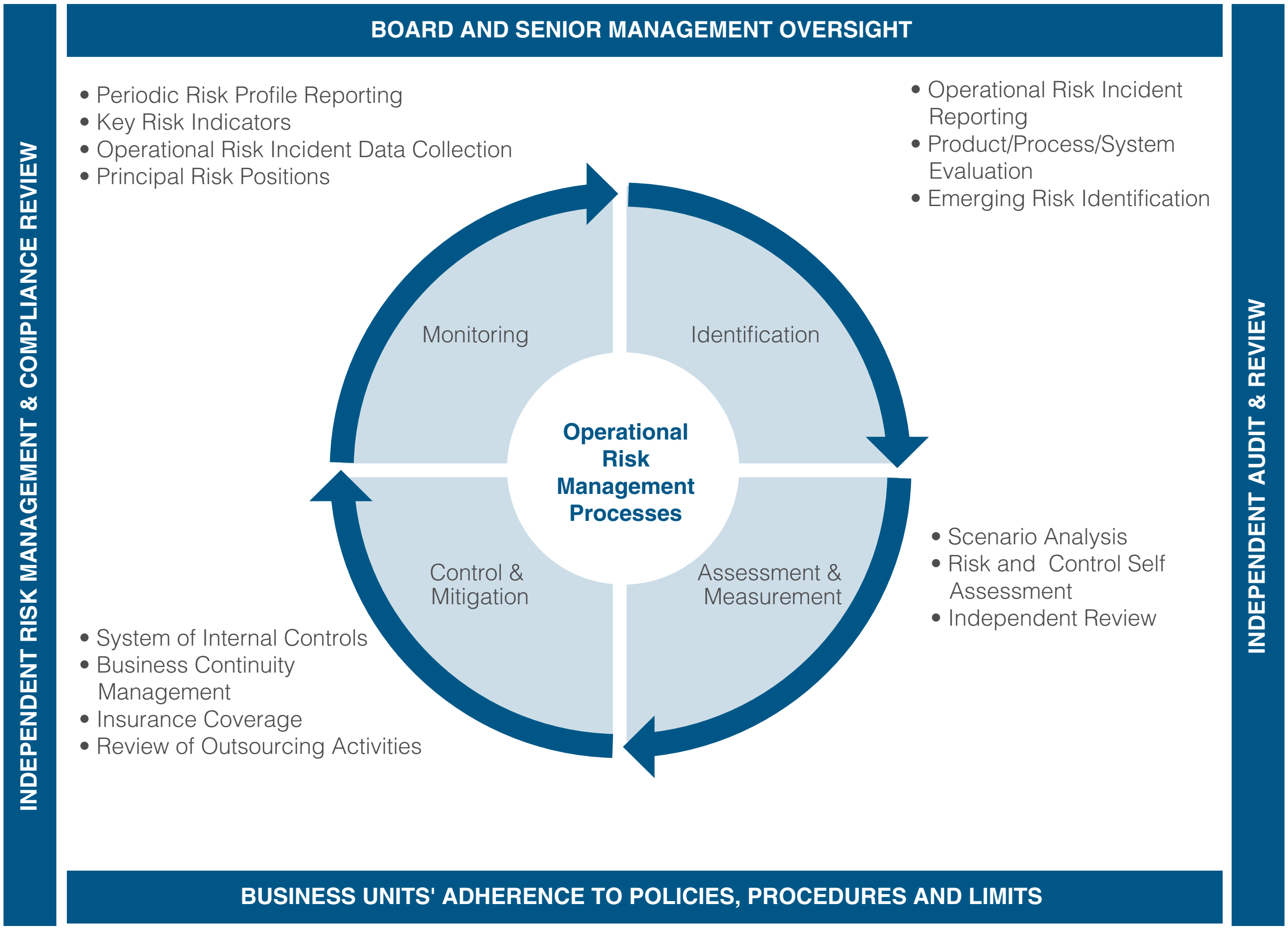


The risk governance and risk management approach for liquidity and funding risk are set out in the liquidity and funding risk section of Note 46 to the financial statements.

9. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is unavoidable as it is inherent in all banking businesses. The objective of the operational risk management of the Group is to manage its operational risk within an acceptable level.

The following diagram presents the risk management processes over operational risk.



The risk governance and risk management approach for operational risk are set out in the operational risk section of Note 46 to the financial statements.

9. OPERATIONAL RISK (CONTINUED)

Minimum Regulatory Capital Requirements for Operational Risk

The following table presents the minimum regulatory capital requirements for operational risk of the Group and of the Bank, computed using the Basic Indicator Approach.

	2019		2018	
	Risk-Weighted Assets RM'000	**Minimum Capital Requirement at 8% RM'000**	**Risk-Weighted Assets RM'000**	**Minimum Capital Requirement at 8% RM'000**
Group	**20,139,900**	**1,611,192**	19,472,018	1,557,761
Bank	**14,036,638**	**1,122,931**	13,517,986	1,081,439

10. SHARIAH NON-COMPLIANCE RISK

Shariah non-compliance risk is the risk of failure to comply with the Shariah rules and principles as determined by the respective entities' Shariah Committee/Adviser or the relevant bodies, such as the Shariah Advisory Council ("SAC") of BNM and the SAC of Securities Commission ("SACSC").

Shariah non-compliance risk of the Group may emanate from the Islamic banking operations of Public Islamic Bank, the management of Shariah-based funds by Public Mutual Berhad and the Islamic capital market activities by Public Investment Bank.

Islamic Banking Operations

Shariah non-compliance risk emanating from Islamic banking operations is managed through the Shariah Governance Framework ("the Framework") which was endorsed by the Shariah Committee and approved by the Board of Directors of Public Islamic ("the Board of Public Islamic"). The Framework is drawn up in accordance with the Shariah Governance Framework for Islamic Financial Institutions issued by BNM on 22 October 2010. The Framework, amongst others, sets out the Shariah governance structure, as well as the adoption of a systematic approach in reviewing Shariah compliance and the reporting process on Shariah matters. The Board of Public Islamic is ultimately responsible for Shariah compliance. In this regard, the Board of Public Islamic, in consultation with the Shariah Committee, approves all policies relating to Shariah matters. The Shariah Committee is presided by qualified members who deliberate and endorse all Shariah matters which are subsequently noted and/or approved by the Board of Public Islamic. The roles and responsibilities of the Shariah Committee includes performing an oversight role through Shariah Audit and Shariah Review functions to identify issues that require its attention and where appropriate, to propose corrective measures.

The Shariah Compliance Division, which comprises Shariah Review and Shariah Research & Secretariat functions, is responsible for the continuous assessment on Shariah compliance for all activities and business operations of Public Islamic. The role of Shariah Review is to examine and evaluate Public Islamic's level of compliance with the Shariah rules and principles through an end-to-end process from product development to operational review including the review of the uses of the financing extended to detect application of financing in Shariah non-compliance activities. Shariah Research & Secretariat is responsible for conducting research on Shariah and Islamic banking contemporary issues and providing Shariah advisory support to branches and business units, as well as coordinating meetings, compiling proposal papers, disseminating Shariah decisions to relevant stakeholders and engaging with relevant parties who wish to seek further deliberations of issues with the Shariah Committee.

The main role of Shariah risk management function is to facilitate the process of identifying, measuring, controlling and monitoring Shariah non-compliance risks inherent in Islamic banking operations. Shariah risk management function forms part of the Group's Risk Management Framework.

10. SHARIAH NON-COMPLIANCE RISK (CONTINUED)

Islamic Banking Operations (Continued)

Compliance Function is responsible on the management of compliance risk, which among others include performing periodic compliance review to assess Public Islamic's compliance with regulatory requirements including Shariah requirements. Any identified non-compliances are escalated to both the Shariah Committee and the Public Islamic's Risk Management Committee on Compliance Function.

Internal audits are performed periodically to verify that the Islamic operations conducted at branches or business units to ensure they are in accordance with the decisions endorsed by the Shariah Committee. Any incidences of Shariah non-compliance are reported to both the Shariah Committee and the Public Islamic's Audit Committee.

Remedial action including but not limited to the immediate termination of the Shariah non-compliant products or services and the treatment of the consequential Shariah non-compliant income or activities are proposed for endorsement by the Shariah Committee and the approval from the Board of Public Islamic is obtained prior to implementation.

For the financial year ended 2019, there were seven (7) Shariah Non-Compliance events detected. The amount of RM1,901,000 (2018: Nil) has been identified as Shariah Non-Compliance income which will be disposed in accordance with the method as determined by the Shariah Committee.

Management of Shariah-Based Funds

Shariah non-compliance risk emanating from investments and operations of Shariah-based funds is managed through Shariah non-compliance risk management processes. An independent third party approved by the Securities Commission ("SC") is appointed as the Shariah Adviser of the Shariah-based funds managed by Public Mutual. The role of the Shariah Adviser is to ensure the investments and operations of the Shariah-based funds are in compliance with Shariah requirements. The Shariah Adviser reviews the funds' investments and meets with the investment management team to advise on the funds' compliance with Shariah requirements.

The Compliance Division of Public Mutual is responsible for assessing, monitoring and reporting on the company's compliance with the applicable Shariah rules and regulations in managing its Shariah-based funds. The Compliance Division conducts regular reviews and works closely with the Shariah Adviser to ensure all transactions under the Shariah-based funds comply with the Shariah requirements at all times.

Shariah-compliant securities which are reclassified to be Shariah non-compliant upon review of the securities by the SACSC or the Shariah Adviser will result in the Shariah non-compliant securities being disposed off. For the purpose of purification, any capital gain arising from the disposal of the Shariah non-compliant securities made at a market price/valuation, at the time of the announcement/review day can be kept. However, gains derived from the disposal of the Shariah non-compliant securities after the announcement/review day at a market price/valuation that is above the closing price/valuation on the announcement/review day will be deposited into a separate account which is segregated from the funds' account.

The funds may channel such tainted income to baitumal and/or charitable bodies as may be advised by the Shariah Adviser. As allowed by the SACSC, the funds may also at its discretion distribute the tainted income to the investors. Should such income be distributed to investors, the Manager will inform investors that it is the investors' obligation to purify it in accordance to Shariah principles upon receiving it from the funds.

During the financial year, a tainted income of RM1,284,000 (2018: RM5,507,000) under the Shariah-based funds arising from the disposal of Shariah non-compliant securities has been channelled to charitable bodies and distributed to investors as advised by the Shariah Adviser. The Compliance Division conducts onsite visit to the approved charitable bodies on a yearly basis and tabled the onsite visit report to the Risk and Compliance Committee for noting.

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