FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Directors hereby present their report and the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in the business of banking in export and import by granting credit, issuing guarantees and providing other related services. The Bank is also engaged in the provision of export and domestic credit insurance facilities, takaful facilities and trade related guarantees to Malaysian companies.

The principal activities of the subsidiaries are as disclosed in Note 12 to the financial statements.

There have been no other significant changes in the nature of the Group's and the Bank's principal activities during the financial year.

RESULTS

	Group RM'000	Bank RM'000
Profit for the year	51,150	51,150

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

In the opinion of the Directors, the results of the operations of the Group and of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

The Directors do not recommend any dividend payment for the current financial year.

DIRECTORS

The names of the Directors of the Bank in office since the beginning of the financial year to the date of this report are:

Datuk Bahria binti Mohd Tamil	
Dato' Dr. Amiruddin bin Muhamed	
Datuk Dr. Syed Muhamad Syed Abdul Kadir	(Appointed on 15 July 2020)
Prem Kumar A/L Shambunath Kirparam	(Appointed on 15 July 2020)
Dato' Wong Lee Yun	(Appointed on 15 July 2020)
Wong Yoke Nyen	(Appointed on 15 July 2020)
Dato' Dzulkifli bin Mahmud	(Resigned on 8 March 2020)
Mohammad Fadzlan bin Abdul Samad	(Resigned on 28 April 2020)
Hijah Arifakh binti Othman	(Resigned on 27 October 2020)
Azizan bin Ahmad	(Resigned on 27 October 2020)
Dato' Feizal Mustapha @ Feizal bin Mustapha	(Resigned on 8 March 2021)

DIRECTORS' REPORT

DIRECTORS (CONT'D.)

The names of the Directors of the Bank's subsidiaries in office since the beginning of the financial year to the date of this report are:

Malaysian Export Credit Insurance Berhad

Faidzel Adham bin Sohari	(Appointed on 12 January 2021)
Norlela binti Sulaiman	
Azhar bin Awang Kechil	(Resigned on 12 January 2021)

EXIM Sukuk Malaysia Berhad

Yam Kwai Ying Sharon
Edmund Lee Kwing Mun
Kew Thean Yew

None of the Directors at the end of the financial year held any direct interest in the shares of the Bank or its related companies during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by Directors or the fixed salary of a full time employee of the Bank as shown in Note 30 to the financial statements) by reason of a contract made by the Bank or a related company with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had 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 corporate body.

There was an amount of insurance premium expense of RM59,857 for the Directors of the Group and the Bank in respect of their liability for any act or omission in their capacity as Directors of the Group and the Bank or in respect of costs incurred by them in defending or settling any claim or proceedings relating to any such liability for the financial year ended 31 December 2020.

ISSUE OF SHARES AND DEBENTURES

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

There were no issuance of debentures during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

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

OTHER STATUTORY INFORMATION

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

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

(ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

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

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

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

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

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

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

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

(ii) any contingent liability in respect of the Group and of the Bank which has arisen since the end of the financial year.

(f) In the opinion of the Directors:

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

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Bank for the financial year in which this report is made.

(g) Before the statements of financial position, statements of profit and loss and statement of comprehensive income of the Group and the Bank were made out, the Directors took reasonable steps to ascertain that there was adequate provision for its Insurance and Takaful liabilities in accordance with the valuation method as prescribed by Bank Negara Malaysia.

(h) For the purpose of paragraph (e) and (f) above, contingent and other liabilities do not include liabilities arising from contract of Insurance or certificates of Takaful underwritten in the ordinary course of business of the Group and the Bank.

DIRECTORS' REPORT

SIGNIFICANT AND SUBSEQUENT EVENTS

(a) Rating agencies, Moody's Investors Service, Fitch Ratings and RAM Ratings have reaffirmed the Bank's rating during their annual review as follows:

Rating agencies	***Date***	***Ratings***
Moody's Investors Service	4 February 2021	Long-term Foreign Currency Issuer: A3 Senior Unsecured Rating: A3 Long-term Ratings (Exim Sukuk Malaysia Berhad): A3 Outlook: Stable
Fitch Ratings	15 December 2020	Long-term Foreign Currency Issuer Default Rating: BBB+ Support Rating: 2 Support Rating Floor: BBB+ Senior Unsecured Notes: BBB+ Outlook: Stable
RAM Ratings	November 2020	National Ratings (Long-term) : AAA, (Short-term) : P1 ASEAN Ratings (Long-term) : seaAAA, (Short-term) : seaP1 Global Ratings (Long-term) : gA2, (Short-term) : gP1 Long-term Global Scale Rating (Exim Sukuk Malaysia Berhad): gA2(s) Outlook: Stable

There have been no significant adjusting events subsequent to the financial year ended 31 December 2020.

AUDITORS AND AUDITORS' REMUNERATION

The auditors, Ernst & Young PLT, have expressed their willingness to continue in office.

Auditors' remuneration are disclosed in Note 29 to the financial statements.

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

Dato' Wong Lee Yun
28 May 2021

Datuk Dr. Syed Muhamad Syed Abdul Kadir

SHARIAH COMMITTEE'S REPORT

IN THE NAME OF ALLAH , THE BENEFICENT, THE MOST MERCIFUL

بسم الله الرحمن الرحيم

All Praise is due to Allah, the Cherisher of the World, and the Peace and Blessing be upon the Prophet of Allah, on his Family and all his Companions.

السلام عليكم ورحمة الله وبركاته and "Salam Sejahtera"

To the shareholders, customers and stakeholders of Export-Import Bank of Malaysia Berhad ("EXIM Bank or the Bank"):

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

Management's Responsibility

The Management of the Bank shall at all times be responsible for ensuring that the Bank's aims and operations, business affairs and activities in relation to its Islamic banking and takaful businesses are conducted in accordance with Shariah.

The Committee's Responsibility

The Committee shall be responsible to form an independent opinion, based on our review of the aims and operations, business, affairs and activities in relation to the Islamic financial business of the Bank and to produce this report. Our responsibility is to express an opinion on the state of Shariah compliance of the Bank based on our deliberation of the evidences information obtained from the Board and the Management during the reporting period.

1. The Committee had conducted twelve (12) meetings during the financial year to review and approve various new and enhancement to the Bank's Islamic banking and takaful products and its operational processes as well as guidelines and manuals relating to Shariah compliant transactions. We confirmed that we have reviewed the applicability and appropriateness of Shariah principles and the Shariah contracts adopted relating to the new and enhanced products, transactions and operational processes of Islamic banking and takaful activities of EXIM Bank for the period from 1 January 2020 until 31 December 2020.

2. The Committee has provided appropriate advice on various aspects of the Bank's Islamic business operations in order to ensure compliance with applicable Shariah principles as well as the relevant resolutions and rulings made by the Shariah Advisory Council of Bank Negara Malaysia.

3. In performing our roles and responsibilities, we had obtained the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has complied with Shariah guidelines and rulings issued by the Shariah Advisory of Bank Negara Malaysia.

4. The Committee has assessed the work carried out by Shariah review. The report has been presented and deliberated in the Committee meeting, which the findings be the basis for the Committee to form an opinion on its compliance with Shariah rules and principles, Shariah guidelines and rulings issued by the Shariah Advisory Council of Bank Negara Malaysia as well as Shariah decisions and resolutions made by the Committee.

5. The Committee has played a pivotal role in supporting the implementation of the Bank's strategic plan to be an Islamic financial institution.

SHARIAH COMMITTEE'S REPORT

Zakat on Islamic Business

6. For financial year ended 31 December 2020, zakat is calculated based on the growth method with appropriate adjustment. The Committee has reviewed and affirmed that the Bank is not eligible to pay zakat as the Bank is in net liabilities.

7. The Committee has reviewed the financial statements of the Bank, including the calculation of Zakat and confirmed that the financial statements prepared are in compliance with the Shariah rules and principles as well as the minimum disclosure requirements as stipulated by Bank Negara Malaysia.

Disclosure on Shariah Non-Compliant Event

8. During the financial year, the overall operations, business, affairs and activities of the Bank are in compliance with Shariah but it has come to the Shariah Committee's attention that a material Shariah non-compliance ("SNC") event has occurred and has been rectified accordingly.

9. During the period of which between 21 August 2020 until 31 October 2020, the ta'widh was still not charged based on the actual cost mechanism as endorsed by the Committee 18 March 2020 and approved by the Board of Directors on 30 June 2020.

As such, the Committee during its third Special Shariah Committee Meeting dated 22 December 2020 has decided that the overcharged ta'widh amounting to RM662.97 on the two accounts as actual SNC event. The following measures were undertaken by the Bank to rectify the issue:

i. The overcharged ta'widh amount paid by the customer to be deducted or set-off from customer's outstanding balance (total principal or cost and accrued profit).

ii. For those affected accounts (i.e. ta'widh overcharged) without any payment by the customers, the computation of ta'widh in the ledger position need to be adjusted or rectified by the affected departments in order to comply with the requirements.

SHARIAH OPINION

We, as EXIM Bank's Shariah Committee, to the best of our knowledge, have obtained sufficient and appropriate evidence to form Shariah compliant opinion with regards to EXIM Bank's Islamic business operations. Hence to the best of our knowledge based on the information provided to us and decisions made during the Shariah Committee meeting, we are of the opinion that:

i. The Islamic banking and takaful business operations of EXIM Bank for the financial year ended 31 December 2020 have been conducted in conformity with the Shariah rules and principles.

ii. The contracts, transactions and dealings entered into by the Bank in relation to its Islamic financial business during the financial year ended 31 December 2020 that were reviewed by us, are in compliance with Shariah rules and principles.

iii The computation of zakat is in compliance with Shariah rules and principles.

We beg Allah the Almighty to grant us all the success and straight-forwardness and Allah knows best.

Signed on behalf of the Committee in accordance with a resolution of the Shariah Committee.

Prof. Dr Rusni Hassan
Chairman

Haji Zainal Abidin Mohd Tahir
Member

Kuala Lumpur, Malaysia

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016

We, Dato' Wong Lee Yun and Datuk Dr. Syed Muhamad Syed Abdul Kadir, being two of the Directors of Export-Import Bank of Malaysia Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 92 to 226 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of 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 2020 and of the results and cash flows of the Group and of the Bank for the year then ended.

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

DATO' WONG LEE YUN
28 May 2021

DATUK DR. SYED MUHAMAD SYED ABDUL KADIR

STATUTORY DECLARATION

PURSUANT TO SECTION 251(1)(B) OF THE COMPANIES ACT, 2016 AND SECTION 73(1)(E) OF THE DEVELOPMENT FINANCIAL INSTITUTIONS ACT, 2002

We, Dato' Wong Lee Yun and Dato' Shahrul Nazri bin Abdul Rahim, being the Director and officer primarily responsible for the financial management of Export-Import Bank of Malaysia Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 92 to 226 are in our opinion correct, and we 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 above named Dato' Wong Lee Yun and Dato' Shahrul Nazri bin Abdul Rahim at Kuala Lumpur in the Federal Territory on 28 May 2021.

Before me,

PESURUHJAYA SUMPAH
W806
LT KOL (B) AB MANAF
BIN HAMZAH
01 MAC 2020 -31 DIS 2022
MALAYSIA

Kedai 4, Aras G,
Kompleks KDN, WPKL
Jalan Sri Hartamas 1,
50480 KUALA LUMPUR.

DATO' WONG LEE YUN

DATO' SHAHRUL NAZRI BIN ABDUL RAHIM

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF EXPORT-IMPORT BANK OF MALAYSIA BERHAD
(INCORPORATED IN MALAYSIA)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Export-Import Bank of Malaysia Berhad, which comprise the statements of financial position as at 31 December 2020 of the Group and the Bank, and statements of profit and loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 92 to 226.

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

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our 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 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 judgement, 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.

Key Audit Matters (cont'd.)

Risk area and rationale	***Our response***
Expected credit losses ("ECL") of loans, advances and financing, and financial investments not carried at fair value through profit or loss	
As at 31 December 2020, loans, advances and financing represent 42.60% of the total assets of the Group and of the Bank, respectively, and financial investments not carried at fair value through profit or loss represent approximately 5.64% of the total assets of the Group and of the Bank, respectively. As at 31 December 2020, ECL allowance amounting to approximately RM2.1 billion has been provided for the loans, advances and financing of the Group and of the Bank, respectively. The measurement of ECL requires the use of a forward-looking ECL approach, and the application of significant judgement and increased complexity which include the identification of on and off-balance sheet credit exposures, the determination of the different stages of credit risk of the underlying assets, the assessment of expected future cash flows of the respective assets, available proxies or benchmarks for collective assessment, forward looking macroeconomic factors and probability-weighted multiple scenarios. Management also uses externally available industry and financial data, as appropriate, to supplement internally available credit experiences. Refer to summary of significant accounting policies in Note 2.4(g), significant accounting estimates and judgement in Note 3 and the disclosures of loans, advances and financing and investments in Notes 7 and 6, respectively, to the financial statements.	Our audit procedures included the assessment of controls over the approval, recording and monitoring of loans, advances and financing, and financial investments not carried at fair value, and evaluating the methodologies, inputs and assumptions used by the Group and the Bank in calculating the respective ECL allowances for the respective underlying assets. For measurement of individual ECL allowance for stage 3 impaired loans, advances and financing and financial investments not carried at fair value, we tested a sample of loans, advances and financing and financial investments not carried at fair value 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 in stage 3 which have defaulted, we assessed the Group's and the Bank's specific assumptions on the expected future cash flows for each asset, 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. With respect to the measurement of collective ECL allowances for stage 1 and stage 2 accounts/assets, we verified the reasonableness of the ECL models, including model input, model design and model performance. We challenged whether historic or historical 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 involved our credit modelling specialists in the performance of these procedures where their specific expertise was required. We also assessed whether the financial statements' disclosures appropriately reflect the Group's and the Bank's exposures to credit risk.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF EXPORT-IMPORT BANK OF MALAYSIA BERHAD
(INCORPORATED IN MALAYSIA)

Key Audit Matters (cont'd.)

Risk area and rationale	***Our response***
<u>*Valuation of derivatives and hedge accounting*</u>	
The carrying amount and nature of the Group's and the Bank's derivative financial instruments are as disclosed in Note 9 to the financial statements. Fair valuation of the derivatives involves assessment and assumptions that are affected by expected future market and economic conditions, and the use of observable and unobservable inputs and parameters in the financial markets, and these assessments require the application of significant judgement and estimates. The Group and the Bank also use derivatives to manage exposures to interest rates, profit rates and foreign currencies. Accordingly, the Group and the Bank apply hedge accounting for hedges which meet specified criteria required under MFRS 9 *Financial Instrument*. Refer to summary of significant accounting policies in Note 2.4(f)(vi) and the disclosures of derivatives valuation and hedge accounting application in Note 9 to the financial statements.	We engaged our valuation and financial risk management professionals in accordance with the requirements of International Standard on Auditing 620: Reliance on the Work of an Auditors' Expert to assist us in performing our audit procedures on the review of valuation of derivatives and application of hedge accounting. Our audit focused on the following key areas: (a) reviewed the critical terms of the derivative contracts; (b) tested the reasonableness of the assumptions adopted in the valuation of derivatives, including assessing if the inputs and parameters used were observable in the financial markets; (c) performed independent valuation of selected derivatives and compared our valuation to those performed by management; (d) reviewed the risk management strategies and basis of the economic hedges applied by the management; and (e) reviewed the hedge effectiveness determined and documented by the management for the purpose of applying hedge accounting. We also considered whether the disclosures in relation to derivatives and hedge accounting comply with the relevant disclosure requirements.
<u>*Insurance contract/Takaful certificate and expense liabilities*</u>	
Insurance contract and Takaful certificate liabilities (which comprise premium/contribution liabilities and claims liabilities) and expense liabilities are determined based on previous claims experience, existing knowledge of events, the terms and conditions of the relevant Insurance policies or Takaful certificates. Estimates of insurance contract/Takaful certificate and expense liabilities have to be made for both the expected ultimate cost of claims reported at the reporting date, and for the expected ultimate cost of claims incurred but not yet reported ("IBNR") at the reporting date. The estimation of the provision for these liabilities are sensitive to various factors and uncertainties. Significant management judgement is applied in setting these assumptions. In deriving the provision for these liabilities, the Board of Directors and management have commissioned a third-party independent professional actuary to perform a valuation of such liabilities as at 31 December 2020 based on requirements of MFRS 4 *Insurance Contracts.*	We engaged our Actuarial Services professionals in accordance with the requirements of International Standard on Auditing 620: *Reliance on the Work of an Auditors' Expert* to assist us in performing our audit procedures on the provision for the insurance contract/takaful certificate and expenses liabilities. Our audit focused on the following key areas: (a) understood and documented the qualifications, objectivity and independence of the Appointed Actuary tasked with estimating these liabilities; (b) tested the completeness and sufficiency or accuracy of data used in the actuarial valuation; (c) compared the actuarial valuation methodologies and assumptions against recognised actuarial practices, and with industry data;

Key Audit Matters (cont'd.)

Risk area and rationale	**Our response**
Insurance contract/Takaful certificate and expense liabilities (cont'd.) Reinsurance assets are quantified from claims case estimates, paid claims data and estimates of ultimate claims settlement amount. The Group and the Bank have reinsurance arrangements designed to protect its aggregate exposure to adverse development covers in the form of excess of loss contracts and catastrophic claim events. Refer to summary of significant accounting policies in Note 2.4(m), significant accounting estimates and judgement in Note 3 and the disclosures of these provisions in Note 22 to the financial statements.	(d) reviewed the assumptions used by the Appointed Actuary and rationale for conclusions made thereon; (e) assessed consistency of valuation methodologies applied; (f) assessed whether changes made to the actuarial models are in line with our understanding of business developments, and our expectations derived from market experience; (g) performed independent analysis and re-computation of the provision for these liabilities of selected classes of business. We focused on the largest and most uncertain reserves. We compared our independent analysis to those performed by management; and (h) reviewed management's estimation of the calculated reinsurance assets and thereon, their assessment of the credit quality of the underlying reinsurance counterparties. We also considered whether the disclosures in relation to the provision for these liabilities comply with the relevant disclosure requirements.

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 directors' report and 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, which is expected to be made available to us after the date of this auditors' report.

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 on the other information that we obtained prior to the date of this auditors' report, 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 on the directors' report.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Bank and take appropriate action.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF EXPORT-IMPORT BANK OF MALAYSIA BERHAD
(INCORPORATED IN MALAYSIA)

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 judgement 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.
- 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.

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

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, actions taken to eliminate threats or safeguards applied.

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

Yeo Beng Yean
No. 03013/10/2022 J
Chartered Accountant

Kuala Lumpur, Malaysia
28 May 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	Group 2020 RM'000	Group 2019 RM'000
Assets			
Cash and bank balances	4	122,399	62,593
Deposits and placements with banks and other financial institutions	5	3,364,099	3,047,168
Financial investments	6	1,165,551	1,204,442
Loans, advances and financing	7	3,679,083	4,768,642
Insurance receivables	8	588	89
Derivative financial instruments	9	141,749	61,218
Other assets	10	92,117	289,512
Deferred tax assets	11	-	-
Investment properties	13	832	850
Intangible assets	14	2,013	2,350
Property and equipment	15	67,563	64,533
Right-of-use assets	16	222	506
Total assets		8,636,216	9,501,903
Liabilities			
Borrowings	17	6,591,282	7,438,434
Lease liabilities	18	250	584
Other payables and accruals	19	285,519	333,550
Provision for commitments and contingencies	20	83,605	81,353
Derivative financial instruments	9	-	18,531
Deferred tax liabilities	11	-	-
Deferred income	21	21,725	22,338
Provision for guarantee and claims	22	51,701	48,863
Total liabilities		7,034,082	7,943,653
Financed by:			
Share capital	23 (a)	2,708,665	2,708,665
Redeemable convertible cumulative preference shares ("RCCPS")	23 (b)	250,000	250,000
Fair value adjustment reserve		2,976	(7,932)
Accumulated losses		(1,348,024)	(1,382,809)
Shareholders' funds		1,613,617	1,567,924
Takaful participants fund	44	(11,483)	(9,674)
Total liabilities, shareholders' fund and Takaful participants fund		8,636,216	9,501,903
Commitments and contingencies	39	3,109,585	3,034,206

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	Bank 2020 RM'000	Bank 2019 RM'000
Assets			
Cash and bank balances	4	122,399	62,593
Deposits and placements with banks and other financial institutions	5	3,364,099	3,047,168
Financial investments	6	1,165,551	1,204,442
Loans, advances and financing	7	3,679,083	4,768,642
Insurance receivables	8	588	89
Derivative financial instruments	9	141,749	61,218
Other assets	10	92,117	289,512
Deferred tax assets	11	-	-
Investment in subsidiaries	12	64,129	64,129
Investment properties	13	832	850
Intangible assets	14	2,013	2,350
Property and equipment	15	67,563	64,533
Right-of-use assets	16	222	506
Total assets		8,700,345	9,566,032
Liabilities			
Borrowings	17	6,591,282	7,438,434
Lease liabilities	18	250	584
Other payables and accruals	19	285,533	333,561
Provision for commitments and contingencies	20	83,605	81,353
Derivative financial instruments	9	-	18,531
Deferred tax liabilities	11	-	-
Deferred income	21	21,725	22,338
Provision for guarantee and claims	22	51,701	48,863
Amount due to subsidiaries	40	64,120	64,123
Total liabilities		7,098,216	8,007,787
Financed by:			
Share capital	23 (a)	2,708,665	2,708,665
RCCPS	23 (b)	250,000	250,000
Fair value adjustment reserve		2,976	(7,932)
Accumulated losses		(1,348,029)	(1,382,814)
Shareholders' funds		1,613,612	1,567,919
Takaful participants fund	44	(11,483)	(9,674)
Total liabilities, shareholders' fund and Takaful participants fund		8,700,345	9,566,032
Commitments and contingencies	39	3,109,585	3,034,206

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

STATEMENT OF PROFIT AND LOSS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Group 2020 RM'000	Group 2019 RM'000	Bank 2020 RM'000	Bank 2019 RM'000
Operating revenue	24	181,487	381,131	181,487	381,131
Interest income	25	133,662	219,910	133,662	219,910
Interest expense	26	(115,473)	(142,323)	(115,473)	(142,323)
Net interest income		18,189	77,587	18,189	77,587
Underwriting results	27	1,975	(21,965)	1,975	(21,965)
Income from Islamic business	44	112,202	122,265	112,202	122,265
Other income	28	106,659	46,653	106,659	46,653
Net income		239,025	224,540	239,025	224,540
Overhead expenses	29	(88,191)	(82,029)	(88,191)	(82,029)
Operating profit		150,834	142,511	150,834	142,511
Allowances for expected credit losses ("ECL") on loans, advances and financing	32	(53,643)	(566,135)	(53,643)	(566,135)
Allowances for ECL on commitment and contingencies	33	(2,833)	(64,947)	(2,833)	(64,947)
(Allowances)/writeback for ECL on financial investments	34	(42,584)	10,321	(42,584)	10,321
Allowances for ECL on other assets	35	(624)	-	(624)	-
Profit/(loss) before taxation		51,150	(478,250)	51,150	(478,250)
Taxation	36	-	993	-	(1,323)
Zakat		-	-	-	-
Net profit/(loss) for the year		51,150	(477,257)	51,150	(479,573)
Basic/diluted earnings/(loss) per share (sen)	37	1.89	(17.62)	1.89	(17.71)

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

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Group 2020 RM'000	Group 2019 RM'000	Bank 2020 RM'000	Bank 2019 RM'000
Net profit/(loss) for the year		51,150	(477,257)	51,150	(479,573)
Other comprehensive income					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Fair value changes of financial investments at FVOCI		10,908	13,666	10,908	13,666
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		10,908	13,666	10,908	13,666
Total comprehensive income/(loss) for the year, net of tax		62,058	(463,591)	62,058	(465,907)

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital RM'000	(Accumulated losses) RM'000	Non-distributable fair value adjustment reserve RM'000	Total RM'000
Group				
At 1 January 2019	2,958,665	(891,144)	(21,598)	2,045,923
Dividends on RCCPS (Note 38)	-	(14,408)	-	(14,408)
Total comprehensive (loss)/income for the year	-	(477,257)	13,666	(463,591)
At 31 December 2019	2,958,665	(1,382,809)	(7,932)	1,567,924
At 1 January 2020	2,958,665	(1,382,809)	(7,932)	1,567,924
Dividends on RCCPS (Note 38)	-	(16,365)	-	(16,365)
Total comprehensive income for the year	-	51,150	10,908	62,058
At 31 December 2020	2,958,665	(1,348,024)	2,976	1,613,617
Bank				
At 1 January 2019	2,958,665	(888,833)	(21,598)	2,048,234
Dividends on RCCPS (Note 38)	-	(14,408)	-	(14,408)
Total comprehensive (loss)/income for the year	-	(479,573)	13,666	(465,907)
At 31 December 2019	2,958,665	(1,382,814)	(7,932)	1,567,919
At 1 January 2020	2,958,665	(1,382,814)	(7,932)	1,567,919
Dividends on RCCPS (Note 38)	-	(16,365)	-	(16,365)
Total comprehensive income for the year	-	51,150	10,908	62,058
At 31 December 2020	2,958,665	(1,348,029)	2,976	1,613,612

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

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Group		Bank	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Cash flows from operating activities				
Profit/(loss) before taxation	51,150	(478,250)	51,150	(478,250)
Adjustments for:				
ECL Stage 3 loans, advances and financing (Note 32)				
- Charged for the year	178,706	896,040	178,706	896,040
- Written back during the year	(520,790)	(313,174)	(520,790)	(313,174)
ECL Stage 1 and 2 loans, advances and financing (Note 32)				
- Allowances/(written back) during the year	175,654	(16,732)	175,654	(16,732)
Allowance on financial investments (Note 34)	42,584	(10,321)	42,584	(10,321)
Allowance on commitment and contingencies (Note 33)	2,833	64,947	2,833	64,947
Allowances for other assets (Note 35)	624	-	624	-
Claim and guarantee				
- Charged for the year	4,023	37,899	4,023	37,899
- Written back during the year	(925)	378	(925)	378
Depreciation				
- Property and equipment	4,445	4,616	4,445	4,616
- Investment properties	18	18	18	18
- Right of use assets	247	237	247	237
Amortisation of intangible assets	1,643	2,333	1,643	2,333
Gain on disposal of equipment	(39)	(27)	(39)	(27)
Gain on termination of lease contracts	8	-	8	-
Asset written-off	-	(3,353)	-	(3,353)
Unrealised foreign exchange gain	(5,576)	(444,964)	(5,576)	(444,964)
Unrealised gain on derivatives	(104,350)	(107,809)	(104,350)	(107,809)
Unrealised loss on MTN/Sukuk	40,429	88,628	40,429	88,628
Additional doubtful debt for insurance	122	197	122	197
Amortisation of premium less accretion of discount	(1,527)	(1,478)	(1,527)	(1,478)
Premium liabilities	(3,680)	3,009	(3,680)	3,009
Operating loss before changes in working capital	(134,401)	(277,806)	(134,401)	(277,806)

STATEMENTS OF CASH FLOWS (cont'd.)
FOR THE YEAR ENDED 31 DECEMBER 2020

	Group		Bank	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Cash flows from operating activities (cont'd.)				
Changes in working capital:				
Deposits and placements with banks and other financial institutions	193,535	1,487,668	193,535	1,487,668
Loans, advances and financing	885,053	2,631,407	885,053	2,631,407
Insurance receivables	(621)	235	(621)	235
Other assets	196,646	(179,806)	196,646	(179,806)
Derivative financial instruments	107	2,481	107	2,481
Other payables and accruals	(66,878)	(57,075)	(66,875)	(57,072)
Provision for commitments and contingencies	(581)	(700)	(581)	(700)
Deferred income	3,067	(18,222)	3,067	(18,222)
Net claims paid for bank guarantee and insurance claims	(260)	(8,346)	(260)	(8,346)
Takaful participants fund	(1,809)	(1,537)	(1,809)	(1,537)
Amount due to subsidiary	-	-	(3)	(3)
Cash generated from operations	1,073,857	3,578,299	1,073,857	3,578,299
Income tax refund	-	10,083	-	10,083
Net cash generated from operating activities	1,073,857	3,588,382	1,073,857	3,588,382
Cash flows from investing activities				
Proceeds from disposals of property and equipment	24	9	24	9
Purchases of property and equipment	(8,796)	(762)	(8,796)	(762)
Purchases of intangible assets	(1,306)	(1,308)	(1,306)	(1,308)
Proceed from disposal of investment	3,054	34,686	3,054	34,686
Net cash (used in)/generated from investing activities	(7,024)	32,625	(7,024)	32,625

STATEMENTS OF CASH FLOWS (cont'd.)
FOR THE YEAR ENDED 31 DECEMBER 2020

	Group		Bank	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Cash flows from financing activities				
Net repayment of borrowings	(813,187)	(2,200,527)	(813,187)	(2,200,527)
Net repayment of lease liabilities	(305)	(301)	(305)	(301)
Net cash used in financing activities	(813,492)	(2,200,828)	(813,492)	(2,200,828)
Net increase in cash and cash equivalents	253,341	1,420,179	253,341	1,420,179
Cash and cash equivalents at beginning of the year	2,954,587	1,534,408	2,954,587	1,534,408
Cash and cash equivalents at end of the year	3,207,928	2,954,587	3,207,928	2,954,587
Cash and cash equivalents comprise the following balances:				
Cash and bank balances	122,399	62,593	122,399	62,593
Deposits and placements with banks and other financial institutions	3,364,099	3,047,168	3,364,099	3,047,168
Less : Deposits and placements on behalf of customers and government (Note 5)	(130,369)	(130,174)	(130,369)	(130,174)
Less : Deposits and placements more than three months	(148,201)	(25,000)	(148,201)	(25,000)
Cash and cash equivalents	3,207,928	2,954,587	3,207,928	2,954,587

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

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Export-Import Bank of Malaysia Berhad is a public limited company, incorporated and domiciled in Malaysia. The registered office and principal place of business of the Bank is located at Level 16, EXIM Bank, Jalan Sultan Ismail, 50250 Kuala Lumpur.

The Bank is principally engaged in the business of conventional and Islamic banking in the promotion and support of export, import and investment for the country's development by granting credit, issuing guarantees and providing other related services. The Bank is also engaged in the provision of export and domestic credit insurance and takaful facilities and trade related guarantees to Malaysian companies.

The principal activities of the subsidiaries are as stated in Note 12.

There have been no significant changes in the nature of the Group's and Bank's principal activities during the year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 30 March 2021.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

The financial statements of the Group and the Bank have been prepared under the historical cost convention, unless otherwise stated in the accounting policies. The financial statements are presented in Ringgit Malaysia ("RM"), which is the Group's and the Bank's functional currency, and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

Measures announced by BNM to assist individuals, small-medium enterprises ("SMEs") and corporates affected by COVID-19

During the financial year ended 31 December 2020, Bank Negara Malaysia ("BNM") had announced various COVID-19 assistance programmes which aimed to support the economy at large and provide relief to affected individuals, SMEs and corporations. The support measures include the following:

<u>Automatic six-month moratorium</u>

The automatic moratorium applies to ringgit-denominated loans/financing that are not in arrears exceeding 90 days as of 1 April 2020 and eligible for individuals or Small Medium Enterprise ("SME").

The moratorium should not automatically result in stage transfer under MFRS 9 *Financial Instruments* in the absence of other factors relevant to the assessment. The financial impact of the moratorium is reflected at the interest/profit income of the Group and the Bank.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.1 Basis of preparation (cont'd.)

Measures announced by BNM to assist individuals, small-medium enterprises ("SMEs") and corporates affected by COVID-19 (cont'd.)

Repayment assistance and classification in the Central Credit Reference Information System ("CCRIS")

Recognising the challenging environment, financial institutions have granted additional repayment assistance for individuals and SMEs whose income have been affected by the pandemic, to support economic recovery and safeguard livelihood of Malaysians.

The repayment assistance does not automatically result in a stage transfer under MFRS 9 in the absence of other factors indication evidence of significant increase in credit risk ("SICR"). Judgement and more holistic assessment of all relevant indicators and information, such as historical repayment and delinquency trend pre-COVID-19 pandemic, are applied in determining SICR. In addition, the loan/financing that is approved under repayment assistance is exempted to be reported as rescheduling and restructuring ("R&R") and credit impaired in CCRIS.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2020, the Group and the Bank adopted the following new and amended MFRS mandatory for annual financial periods on or after 1 January 2020.

- MFRS 3 *Definition of business (Amendments to MFRS 3)*
- MFRS 4 *Extension of the temporary exemption from applying MFRS 9 (Amendments to MFRS 4 Insurance Contracts)*
- Interest Rate Benchmark Reform - Amendments to MFRS 7 *Financial Instruments: Disclosure, MFRS 9 Financial Instruments and MFRS 139 Financial Instruments: Recognition and Measurement*
- MFRS 16 *Leases on Covid-19 related rent concessions (amendments to MFRS 16 Leases)*
- MFRS 101 *Definition of Material (Amendments to MFRS 101)*
- MFRS 108 *Definition of Material (Amendments to MFRS 108)*

The adoption of the above pronouncements did not have any impact on the financial statements of the Group and the Bank.

2.3 Standards issued but not yet effective

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

Effective for financial periods beginning on or after 1 January 2021

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

The Group and the Bank expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application except for Interest Rate Benchmark Reform - Phase 2 (Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16).

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Standards issued but not yet effective (cont'd.)

Effective for financial periods beginning on or after 1 January 2021 (cont'd.)

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

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

Effective for financial periods beginning on or after 1 January 2022

- MFRS 101 *Annual improvements to MFRS Standards 2018-2020*
- MFRS 3 *Reference to the Conceptual Framework (amendments to MFRS 3 Business Combinations)*
- MFRS 9 *Annual Improvements to MFRS Standards 2018-2020*
- MFRS 101 *Classification of liabilities as current or non-current (amendments to MFRS 101)*
- MFSR 116 *Amendment on Property, plant and equipment - proceeds before intended use*

Effective for financial periods beginning on or after 1 January 2023

- MFRS 17 *Insurance Contracts*

The Group and the Bank expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application except for MFRS 17 *Insurance Contracts*.

MFRS 17 Insurance Contracts

In August 2017, MFRS 17 was issued, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces MFRS 4.

The Group and the Bank plan to adopt the new standard on the required effective date and the Board is likely to oversee the implementation of MFRS 17. The Group and the Bank expect that the new standard will result in an important change to the accounting policies for insurance contract and takaful liabilities of the Group and the Bank and it is likely to have a significant impact on profit and total equity together with the Group's and the Bank's financial statements' presentation and disclosures.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies

(a) Subsidiaries and basis of consolidation

(i) Subsidiaries

A subsidiary is an entity over which the Group has power to govern the financial and operating policies so as to obtain benefits from its activities.

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

(ii) Basis of consolidation

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

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group and the Bank re-assess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Acquisitions of subsidiaries are accounted for by applying the purchase method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(a) Subsidiaries and basis of consolidation (cont'd.)

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

Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in other comprehensive income. The cost of a business combination is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the business combination.

Any excess of the cost of business combination over the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill on the statements of financial position. Any excess of the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised as income in statement of profit and loss on the date of acquisition.

When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases.

(iii) Consolidation of EXIM Sukuk Malaysia Berhad

EXIM Sukuk Malaysia Berhad ("EXIM Sukuk") is a Special Purpose Vehicle ("SPV") entity established by the Bank as part of its Multi-currency Sukuk Issuance Programme. The share capital of the SPV is currently held in trust by TMF Trustee Malaysia Berhad for EXIM Bank pursuant to the Declaration of Trust in relation to the Multi-currency Sukuk Issuance Programme. The SPV shall act as issuer, trustee and purchaser/seller of tangible/non-tangible assets. Management had concluded that control over EXIM Sukuk exist and, hence, EXIM Sukuk is deemed to be a subsidiary.

(b) Property and equipment and right-of-use assets

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

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

The depreciation of right-of-use assets is provided on a straight-line basis over the shorter of its estimated useful life and the lease term.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(b) Property and equipment and right-of-use assets (cont'd.)

Freehold land has an unlimited useful life and therefore is not depreciated. Depreciation of other property and equipment is provided for on a straight-line basis over the estimated useful lives of the assets as follows:

Building	50 - 99 years
Renovation and improvement	10 years
Furniture, electrical fittings and equipment	10 years
Motor vehicles	5 years
Office equipment	5 years
Computers	3 years
Right-of-use assets	Tenure of the agreement

Assets under construction/work-in-progress included in property and equipment are not depreciated as these assets are not yet available for use.

The carrying values of property and equipment and right-of-use assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The policy for the recognition and measurement of impairment is in accordance with Note 2.4(e).

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

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

(c) Intangible assets: Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring the specific software to use. The costs are amortised over their useful lives of three (3) years and are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Computer software is assessed for impairment whenever there is an indication that it may be impaired. The amortisation period and amortisation method are reviewed at least at each reporting date.

The policy for the recognition and measurement of impairment is in accordance with Note 2.4(e).

Costs associated with maintaining computer software programmes are recognised as expenses when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. These costs include software development, employee costs and appropriate portion of relevant overheads.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(d) Investment properties

Investment properties are properties which are owned to earn rental income or for capital appreciation or for both.

Investment properties are stated at cost less accumulated depreciation and impairment losses, consistent with the accounting policy for property and equipment as stated in accounting policy Note 2.4(b).

Depreciation is charged to the statement of profit and loss on a straight-line basis over the estimated useful lives of fifty to ninety nine (50 - 99) years for building. Freehold land is not depreciated.

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 benefits are expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in statement of profit and loss in the year of retirement or disposal.

(e) Impairment of non-financial assets

The carrying amount of the assets, other than deferred tax assets, non-current assets held for sales and financial assets (other than investments in subsidiaries), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated to determine the amount of impairment loss.

An impairment loss is recognised in the statement of profit and loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in the statement of profit and loss unless the asset is measured at revalued amount, in which case reversal is treated as revaluation increase.

(f) Financial assets

Financial asset are recognised in the statements of financial position when, and only when, the Group and the Bank become a party to the contractual provisions of the financial instrument.

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, Fair Value through Other Comprehensive Income ("FVOCI") and Fair Value through Profit or Loss ("FVTPL").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's and the Bank's business model for managing them. With the exception of loans, advances and financing that do not contain a significant financing component or for which the Group and the Bank have applied the practical expedient, the Group and the Bank initially measure a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(f) Financial assets (cont'd.)

Initial recognition and measurement (cont'd.)

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interests ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Business Model assessments

The Group and the Bank determine its business model at the level that best reflect how it manages groups of financial assets to achieve its business objective.

The Group and the Bank holds financial asset to generate returns and provide a capital base to provide for settlement of claims as they arise. The Group and the Bank considers the timing, amount and volatility of cash flow requirements to support insurance liability portfolios in determining the business model for the assets as well as the potential to maximise return for shareholders and future business development.

The Group and the Bank business model is not assessed on an instrument-by-instrument basis, but a higher level of aggregated portfolios that is based on observable factors and is determined by the key management personnel on the basis of both:

– The way that assets are managed and their performance is reported to them; and

– The contractual cash flow characteristics of the financial asset.

The expected frequency, value and timing of asset sales are also important aspects of the Group's and the Bank's assessment. The Group and the Bank assess its business models at each reporting period in order to determine whether the models have changed since the preceding period.

The business model assessments are based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is difference from the Group's and the Bank's original expectations, the Group and the Bank do not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Change in business model is not expected to be frequent, but should such event take place, it must be:

– Determined by the Group's and the Bank's senior management as a result of external on internal changes;

– Significant to the Group's and the Bank's operations; and

– Demonstrable to external parties.

A change in the business model will occur only when the Group and the Bank begin or cease to perform an activity that is significant to its operations. Change in the objective of the business model must be effected before the reclassification date.

The SPPI test

As a second step of its classification process, the Group and the Bank assesses the contractual terms to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(f) Financial assets (cont'd.)

The most significant elements if interest within a debt arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group and the Bank apply judgement and considers relevant factors such as the currency in which the financial assets is denominated, and the period for which the interest rate is set.

(i) Financial assets at amortised cost

Financial assets at amortised cost are subsequently measured using the Effective Interest Rate ("EIR") or the Effective Profit Rate ("EPR") method and are subject to impairment. Gains and losses are recognised in profit and loss when the asset is derecognised, modified or impaired.

(ii) Financial assets at FVOCI

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit and loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income ("OCI"). Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

(iii) Financial assets designated at FVOCI

Upon initial recognition, the Group and the Bank can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under MFRS 9.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit and loss when the right of payment has been established, except when the Group and the Bank benefit from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

(iv) Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the statements of financial position at fair value with net changes in fair value recognised in the statement of profit and loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(f) Financial assets (cont'd.)

(v) Financing and receivables

Financing and receivables consist of Murabahah, Tawarruq, Ijarah, Istisna', Bai' Al Dayn and Kafalah. These contracts are recognised at amortised cost (except for Kafalah contracts), including direct and incremental transaction costs using the effective profit method. These contracts are stated net of unearned income and any amounts written off and/or impaired.

<u>Definition of Shariah concept:</u>

(a) Murabahah: Sale of an asset by the Bank to the customer at cost plus a mark-up in which the profit rate has to be disclosed to the customer. The Sale Price is payable by the customer on deferred terms.

(b) Tawarruq: An arrangement that involves sale of commodity by the Bank to the customer in which the Sale Price is payable on a deferred basis and subsequent sale of the commodity to a third party on a cash basis to obtain cash.

(c) Ijarah: A lease contract to transfer the usufruct (benefits) of a particular property of the Bank to the customer in exchange for a rental payment for a specified period.

(d) Istisna': An agreement to sell to the customer a non-existent asset that is to be manufactured or built according to the agreed specifications and delivered on a specified future date at a predetermined selling price.

(e) Bai' Al Dayn: Sale of debt in which the customer sells his payable right to the Bank at discount price or at cost price on the spot payment basis.

(f) Kafalah: Conjoining the guarantor's liability to the guaranteed party's liability such that the obligation of the guaranteed party is established as a joint liability of the guarantor and the guaranteed party.

(vi) Derivative instruments and hedge accounting

(a) Derivative instruments

The Group and the Bank enters into derivative contracts such as interest/profit rate swaps, cross currency interest/profit rate swaps and forward contracts. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and subsequently re-measured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the statement of profit and loss.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(f) Financial assets (cont'd.)

(vi) Derivative instruments and hedge accounting (cont'd.)

(b) Hedge accounting

The Group and the Bank use derivative instruments to manage their exposures to interest/profit rate and foreign currency risks. In order to manage particular risk, the Group and the Bank apply hedge accounting for transactions which meet specified criteria.

At the inception of each hedge relationship, the Group and the Bank formally designate and document the relationship between the hedged item and the hedging instruments, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and ongoing basis.

At each hedge effectiveness assessment date, a hedge relationship must demonstrate that it is highly effective on prospective and retrospective basis for the designated period in order to qualify for hedge accounting. Hedge ineffectiveness is recognised in the statement of profit and loss.

The Group and the Bank only account for hedge that meets the strict criteria for hedge accounting, as described below:

Fair value hedge

For designating and qualifying fair value hedges, the cumulative changes in the fair value of a hedge derivative is recognised in the statement of profit and loss. Meanwhile the cumulative changes in the fair value of the hedge item attributable to the risk hedged are recorded as part of the carrying value of the hedge item in the statements of financial position and the statement of profit and loss.

If the hedging instruments expire or are sold, terminated or exercised or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the EIR/EPR method. EIR and EPR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the statement of profit and loss.

The Bank enters into interest/profit rate swaps and cross currency interest/profit rate swaps that are used as hedge for the exposure of changes in the fair value of some of its Medium Term Notes/Sukuk. See Note 9 for more details.

The Bank has incorporated credit risk of counterparties and the Bank's own credit risk in the fair valuation of derivatives. These risks on derivative transactions are taken into account when reporting the fair values through credit value adjustment ("CVA") and debit value adjustment ("DVA").

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(g) Impairment of financial assets

The Group and the Bank assess at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. The Group and the Bank recognise an allowance for expected credit losses ("ECLs") for all financial assets carried at amortised cost and debt instruments not classified at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group and the Bank expect to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For debt instruments at FVOCI, the Group and the Bank apply the low credit risk simplification. At every reporting date, the Group and the Bank evaluate whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group and the Bank reassess the internal credit rating of the debt instrument. In addition, the Group and the Bank consider that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group and the Bank consider a financial asset in default when contractual payments are more than 90 days past due. However, in certain cases, the Group and the Bank may also consider a financial asset to be in default when internal or external information indicates that the Group and the Bank is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group and Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(h) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as either at amortised cost or as financial liabilities at FVTPL.

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(h) Financial liabilities (cont'd.)

Subsequent measurement

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

(i) Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

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

Gains or losses on liabilities held for trading are recognised in the statement of profit and loss.

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

(ii) Loans and borrowings and trade and other payables

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

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

Derecognition

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

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, deposits and placements with banks and other financial institutions, with original maturity of 3 months or less.

For the purpose of the cash flow statements, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(j) Provisions

Provisions are recognised when the Group and the Bank have a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

When the Group and the Bank expect some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit and loss net of any reimbursement.

Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. Any increase in the provision which due to the passage of time is recognised in the statement of profit and loss.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimates.

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 nonoccurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(k) Financial guarantee contracts

Financial guarantees are contracts that require the Group and the Bank to make specified payment to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when it is due in accordance with the contractual terms. In the ordinary course of business, the Group and the Bank give financial guarantees, consisting of letters of credit, guarantees and acceptances. Where the Group and the Bank enter into such contracts, the guarantee contract is treated as a contingent liability until such time as it becomes probable that the Group and the Bank will be required to make a payment under the guarantee.

Financial guarantees premium are initially recognised at fair value on the date the guarantee was issued, and presented as 'deferred income' in the statements of financial position. Subsequent to initial recognition, the received premium is amortised over the life of the financial guarantee on a straight line basis.

(l) Employee benefits

Short-term employee benefits obligation in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group and the Bank have a present legal or constructive obligation to pay this amount as a result of past service provided by the employees and the obligation can be estimated reliably.

The Group's and the Bank's contribution to statutory pension funds is charged to the statement of profit and loss in the year to which they relate. Once the contributions have been paid, the Group and the Bank have no further payment obligations.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(m) Insurance Contract/Takaful Certificate Liabilities

These liabilities comprise premium/contribution liabilities and claims liabilities.

(i) Premium/Contribution liabilities

For the purpose of disclosure in the financial statements, premium/contribution liabilities are classified as deferred income.

Provision for premium/contribution liabilities is the higher of the aggregate of the Unearned Premium/Contribution Reserves ("UPR"/"UCR") for all lines of business and the best estimate value of the Unexpired Risk Reserves ("URR"), and a liability adequacy test with a provision of risk margin for adverse deviation.

Unearned premium/contribution reserves

UPR/UCR represents the portion of the premiums of insurance policies written that relate to the unexpired periods of policies at the end of the financial year. In determining the UPR/UCR as at the reporting date, the method that most accurately reflects the actual unearned premium is used as follows:

– all classes of business, except treaty, using time apportionment basis over the period of the risks, after deducting commissions, not exceeding limits specified by Bank Negara Malaysia ("BNM"), that relate to the unexpired periods of policies at the end of the financial year; and

– all classes of treaty business with a deduction of commission; at the following bases:

(i) 1/8th method for quarterly statement

(ii) 1/24th method for monthly statement

UPR/UCR at the reporting date for both short-term policies and medium and long term policies are recognised over the period of risk on a straight-line basis.

The movement in premium/contribution liabilities is released over the term of the policies and is recognised in underwriting results as premium/contribution income.

Unexpired risk reserves

URR is the prospective estimate of the expected future payments arising from future events insured under policies in force as at the valuation date and also includes allowance for the insurer's expenses, including overheads and cost of reinsurance/retakaful, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and expected future premium/contribution refunds. At each reporting date, the Group and the Bank review the unexpired risk and a liability adequacy test is performed by an independent actuarial firm.

(ii) Claims liabilities

Claims liabilities are recognised when a claimable event occurs and/or the Group and the Bank are notified. The amount of outstanding claims provision are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs less other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the end of reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(m) Insurance Contract/Takaful Certificate Liabilities (cont'd.)

These liabilities comprise premium/contribution liabilities and claims liabilities. (cont'd.)

(ii) Claims liabilities (cont'd.)

The liability is calculated at the reporting date by an independent actuarial firm using projection techniques that included risk margin for adverse deviation. The liabilities are derecognised when the contract expires, is discharged or cancelled.

Claim liabilities are not discounted.

(n) Government Fund - Malaysian Kitchen Financing Facility ("MKFF" or "the Fund")

The primary objective of the Fund is to encourage Malaysian companies involved in the food and beverages industry to venture abroad. In this respect, the Bank received funds from the Government of Malaysia ("the Government") to be disbursed as loans and financing.

The total placement amount and the interest income/profit shall be refunded to the Government upon expiry of the agreement. The interest income/profit earned on the loans financed by the Government funds and from the investment of the unutilised fund are recognised as amount payable to the Government in accordance with the placement agreement and are classified under other payables.

The Bank received in return, a management fee of 1.5% of the total placement amount. The fee income is recognised in the statement of profit and loss in accordance with Note 2.4(o)(iii). Credit losses or charges as a result of loan default are shared based on agreed ratio between the Bank and the Government of Malaysia. The portion of allowance for losses on loans and financing borne by the Bank is recognised in the statement of profit and loss in accordance with Note 2.4(g).

(o) Revenue recognition

Revenue is recognised at an amount that reflects the consideration to which the Group and the Bank expect to entitled when a performance obligation is satisfied. Revenue is recognised either over time or at a point in time. Revenue is measured at the fair value of consideration received or receivable.

(i) Interest/profit and similar income and expense

For all financial instruments measured at amortised cost and interest bearing financial assets at FVOCI, interest income or expense is recorded using the effective interest rate or effective profit rate, which is the rate that exactly discounts 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 financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, repayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

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

(ii) Dividend income

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

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(o) Revenue recognition (cont'd.)

(iii) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include upfront, guarantee fees and facility fees.

(iv) Premium income

Premium income is recognised as income in the financial year in respect of risks assumed during that particular financial year. The method of deferral of premium income is as stated in Note 2.4(m).

Premium income from reinsurance or retakaful is recognised based on periodic advices received from ceding insurers.

Outward reinsurance premiums or retakaful contribution are recognised in the same financial year as the original policies to which the reinsurance or retakaful relates.

(v) Islamic income recognition

Income from financing and receivables is recognised in the statement of profit and loss using the effective profit method. The effective profit rate is the rate that discounts the estimated future cash payment and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. The calculation of the effective profit rate includes all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate.

Murabahah, Tawarruq and Istisna'

Murabahah/Tawarruq and Istisna' income are accrued on monthly basis on the cost outstanding at the prevailing effective profit rate over the duration of the financing.

Ijarah

Ijarah income is recognised on the effective profit rate of the cost of the leased asset over the leased period.

Bai' Al Dayn

Bai' Al Dayn income is recognised monthly on the effective discount rate on the purchase price of the invoice over the duration of the financing.

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include upfront, facility and Kafalah contract fees.

Takaful income

The source of Takaful income is derived from Takaful contributions. Income is recognised based on specific percentage of the contribution amount from participants. The remaining amount is placed in Risk Fund which is pooled for underwriting purposes.

Takaful income from retakaful is recognised based on periodic advices received from ceding takaful operators.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(p) Income tax

Income tax on the profit or loss for the year comprises current and deferred taxes. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rate that has been enacted at the reporting date.

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rate that is expected to apply in the year when the asset is realised or the liability enacted or substantively enacted at the balance sheet date. Deferred tax is recognised as income or an expense and included in the statement of profit and loss for the year, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

In determining the Group's and the Bank's tax charge for the year it involves estimation and judgement, which includes an interpretation of local tax law and an assessment of whether the tax authority will accept the position taken. The Group and the Bank provides for current tax liabilities at the estimate based on all available evidence and the amount that is expected to be paid to the tax authority where and outflow is probable.

The recoverability of the Group's and the Bank's deferred tax assets is based on management's judgement of the availability of future taxable profits against which the deferred tax will be utilised.

(q) Zakat

Zakat is payable by the Group and the Bank in compliance with the principle of Shariah and in line with National Fatwa Committee regulations.

(i) Method applied

Zakat is calculated using the growth method which is based on the adjusted net asset of the Group and the Bank, i.e. net asset excludes any items that do not meet the condition for zakat assets and liabilities.

(ii) Beneficiaries of zakat fund

The method of zakat distribution, as being practised by the Group and the Bank, is as follows:

- Zakat is paid to Pusat Pungutan Zakat ("PPZ") based on certain percentage of the adjusted net asset of the Bank and the Group;
- PPZ will determine a certain percentage of the zakat for the Bank's own distribution; and
- The distribution of zakat will be allocated by the Bank to three (3) groups of people who are eligible to receive zakat (asnaf) :

  a. The destitute (*fakir*);

  b. The poor (*miskin*); and

  c. Those in the cause of Allah (*fi sabilillah*).

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(r) Foreign currencies

The Group's consolidated financial statements are presented in Malaysian Ringgit, currency which is also the Bank's (i.e. parent company's) functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions in foreign currencies are translated to the functional currencies of the Group's entities at their respective functional currency spot rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in statement of profit and loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or statement of profit and loss are also recognised in other comprehensive income or statement of profit and loss, respectively).

(s) 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.

(t) Sales and Service Tax

The Bank is subject to Sales and Service Tax ("SST") Act 2019 and charges service tax on its taxable supply of services made to customers such as domestic credit insurance premium / takaful contribution. Service tax is based on payment basis, hence, the Bank is required to account and make payment on service tax every bi-monthly.

(u) Equity instruments

Ordinary shares are classified as equity. Dividend on ordinary shares is recognised and accounted for in equity in the year in which they are declared.

RCCPS are classified as equity. Dividend on RCCPS is recognised at a fixed coupon rate of 4.7% per annum and accounted for in equity in the year in which the Bank accrued.

(v) Leases

Right-of-use assets are classified as assets and measured at cost, less any accumulated depreciation and impairment losses disclosed in Note 16.

Lease liabilities are classified as liabilities and measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) disclosed in Note 18.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(w) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at fair value. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective yield method.

If there is objective evidence that an insurance receivable is impaired. The Group and the Bank reduce the carrying amount of the insurance receivable accordingly and recognised that impairment loss in profit and loss. Objective evidence of impairment for insurance receivables and the determination of consequential impairment losses.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.4(f), have been met.

(x) Insurance payables

Insurance payables are recognised when due and measured on initial recognition at fair value of the consideration payable less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective yield method.

(y) Claims expenses and commission expenses

General Insurance/Takaful Business

Claim expenses represent compensation paid or payable on behalf of the insured in relation to a specific loss event that has occurred. They include claims, handling costs and settlement costs and arise from events that have occurred up to the end of the reporting date even if they had not been reported to the Group and the Bank.

Commission Expenses and Acquisition Costs

(i) General Insurance/Takaful Business

The gross cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premiums is recognised as incurred and properly allocated to the periods on which it is probable they give rise to income.

(z) Expense liabilities

The expense liabilities of the shareholder's find consist of expense liabilities of the general takaful fund which are based on estimations performed by a qualified actuary. The expense liabilities are released over the term of the takaful certificates and recognised in statement of profit and loss.

(i) Expense liabilities of general takaful fund

Expenses liabilities in relation to the Group's and the Bank's general takaful business are reported as the higher of the aggregate of the provision for unearned wakalah fees ("UWF") and the unexpired expense reserves ("UER") and a Provision of Risk Margin for Adverse Deviation ("PRAD"), as prescribed by BNM.

(ii) Provision for unearned wakalah fees

The UWF represents the portion of wakalah fee income allocated for expenses to be incurred in managing general takaful certificated that relate to the unexpired periods of certificates at the end of reporting period. The method used in computing UWF is consistent with method used to reflect the actual unearned contribution reserves ("UCR").

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(z) Expense liabilities (cont'd.)

(iii) Unexpired expense reserves

UER consists of the best estimate value of the unexpired expense reserves at the valuation date and a PRAD as prescribed by BNM. The best estimate UER is determined based on the expected claims handling expenses to be incurred as well as the expected expenses in maintaining certificated with unexpired risks. The method used in computing UER is consistent with the calculation of unexpired risk reserves ("URR").

(aa) Wakalah Fees

Wakalah fees represent fees charged by the shareholder's fund to manage takaful certificates issued by the general takaful fund under the principle of Wakalah and are recognised at a point of time as soon as the contributions to which they relate can be reliably measured in accordance with the principles of Shariah.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENT

The preparation of the financial statements involved making certain estimates, assumptions and judgements that affects the accounting policies applied and 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 statement in the period in which the estimate is revised and in any future periods affected. Significant areas of estimation, uncertainty and critical judgements used in applying accounting policies that have significant effect on the amount recognised in the financial statements include the following:

In the process of applying the Group's and the Bank's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

3.1 Judgements

(a) Expected credit losses on loans, advances and financing and commitments and contingencies

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

The Group's and the Bank's ECL calculation under MFRS 9 are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

(i) Internal credit grading model, which assigns PDs to the individual grades;

(ii) Criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime-ECL basis and the qualitative assessment;

(iii) The segmentation of financial assets when their ECL is assessed on a collective basis;

(iv) Development of ECL models, including the various formulas and the choice of inputs;

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENT (CONT'D.)

3.1 Judgements (cont'd.)

(a) Expected credit losses on loans, advances and financing and commitments and contingencies (cont'd.)

(v) Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and

(vi) Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The allowance for expected credit losses on loans, advances and financing is disclosed in Note 7(ix) and commitments and contingencies is disclosed in Note 20.

(b) Valuation of derivatives and hedge accounting

The Group and the Bank value the derivative instruments and apply the hedge accounting to manage the exposures to interest/profit rate and foreign currency risks. In order to manage particular risk, the Group and the Bank apply hedge accounting for transactions which meet specified criteria. At the inception of each hedge relationship, the Group and the Bank formally designate and document the relationship between the hedged item and the hedging instruments, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and ongoing basis.

3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group and the Bank based its assumption and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group and the Bank. Such changes will be reflected in the assumptions when they occur.

(a) Uncertainty in accounting estimates for credit insurance/Takaful business

The principal uncertainty in the credit insurance/Takaful business arises from the technical provisions which include the premium/contribution liabilities, claims liabilities and expense liabilities. The premium/contribution liabilities comprise unearned premium reserves and unexpired risk reserves while claim liabilities comprise provision for outstanding claims. The estimation bases for unearned premium/contribution reserves and unexpired risk reserves are explained in the related accounting policy statement.

Generally, claim liabilities are determined based upon previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Particularly relevant is past experience with similar cases, historical claims development trends, legislative changes, judicial decisions and economic conditions. It is certain that actual future premiums/contribution and claims liabilities will not exactly develop as projected and may vary from the projections.

The estimates of premiums/contribution and claims liabilities are therefore sensitive to various factors and uncertainties. The establishment of technical provisions in an inherently uncertain process and, as a consequence of this uncertainty, the eventual settlement of premiums/contribution and claims liabilities may vary from the initial estimates.

There may be significant reporting lags between the occurrence of an insured event and the time it is actually reported. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude of the claim. There are many factors that will determine the level of uncertainty such as inflation, inconsistent judicial interpretations, legislative changes and claims handling procedures.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENT (CONT'D.)

3.3 Basis for expected credit losses ("ECL") management overlays due to COVID-19

With the recent and rapid development of the coronavirus outbreak in Malaysia, the Government of Malaysia had initially declared a Movement Control Order ("MCO") from 18 March 2020 to 14 April 2020. This was then extended through the Conditional MCO and Recovery MCO throughout 2020.

The MCO involved limitation and/or suspension of business operations, travel restrictions, and quarantine measures. Similar measures have also been introduced in various countries, some of which the Group and the Bank have exposure in. Whilst these measures may not have an immediate and pronounced impact on the banking industry, it is expected to have some effect, impacting, for example the Group's and the Bank's allowance for ECL on loans, advances and financing, liabilities in respect of certain insurance/Takaful products and the valuation of financial investments.

As the outbreak continues to progress and evolve, it is challenging at this juncture, to predict the full extent and duration of its business and economic impact. The Group and the Bank will continue to monitor the progress of the outbreak and measure and report the impact, if any, of the outbreak on their financial statements as they occur subsequent to the reporting date. As the current MFRS 9 models may not fully reflect the ECL impact arising from the unprecedented ongoing COVID-19 pandemic, management overlays have been applied to determine a sufficient overall level of ECL for the financial year ended 31 December 2020. The management overlay on ECL for financial investment and loans, advances and financing for the Group and the Bank as at 31 December 2020 are RM54,259,225 (2019: Nil) and RM150,431,032 (2019: Nil) respectively.

4. CASH AND BANK BALANCES

	Group and Bank	
	2020 RM'000	2019 RM'000
Cash and bank balances	122,399	62,593

5. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2020 RM'000	2019 RM'000
Deposits and placements with:		
Licensed banks	2,343,070	1,973,870
Other financial institutions	1,021,029	1,073,298
	3,364,099	3,047,168
Further breakdown to deposits and placements are as follows:		
For EXIM Bank	3,233,730	2,916,994
On behalf of customers and government **	130,369	130,174
	3,364,099	3,047,168

** Included in deposits and placements with licensed banks and other financial institutions are placements of the unutilised fund from the Government of Malaysia under the MKFF Scheme amounting to RM27,387,487 (2019: RM26,119,486).

6. FINANCIAL INVESTMENTS

	Group and Bank 2020 RM'000	Group and Bank 2019 RM'000
Investments at FVOCI:		
Unquoted debt securities	779,295	769,696
Less: Allowance for expected credit losses	(101,110)	(101,192)
	678,185	668,504
Investments at amortised costs:		
Unquoted debt securities	601,274	607,180
Less: Allowance for expected credit losses	(113,908)	(71,242)
	487,366	535,938
Total financial investments	1,165,551	1,204,442

Included in financial investments at FVOCI are investments in to meet the requirement of Sukuk Programme of the Group amounting to RM139,719,294 (2019: RM160,036,300).

Movements in the expected credit losses on financial investments at FVOCI are as follows:

	Stage 1 12- months ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total ECL RM'000
At 1 January 2019	15	-	100,000	100,015
Allowance during the year	1,177	-	-	1,177
At 31 December 2019/1 January 2020	1,192	-	100,000	101,192
Written back during the year	(82)	-	-	(82)
At 31 December 2020	1,110	-	100,000	101,110

NOTES TO THE FINANCIAL STATEMENTS

6. FINANCIAL INVESTMENTS (CONT'D.)

Movements in the expected credit losses on financial investments at amortised cost are as follows:

	Stage 1 12-months ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total ECL RM'000
At 1 January 2019	2	82,738	-	82,740
Allowance/(writeback) during the year	1	(11,499)	-	(11,498)
At 31 December 2019/1 January 2020	3	71,239	-	71,242
Allowance during the year	1	42,665	-	42,666
At 31 December 2020	4	113,904	-	113,908

As the current MFRS 9 models are not expected to generate levels of ECL with sufficient reliability in view of the unprecedented and on-going COVID-19 pandemic, overlays and post-model adjustments have been applied to determine a sufficient overall level of ECLs for the financial year ended and as at 31 December 2020. The total additional management overlay on Stage 2 ECL of RM54,259,225 (2019: Nil) was provided for a non-rated financial investment.

7. LOANS, ADVANCES AND FINANCING

	Group and Bank 2020 RM'000	2019 RM'000
At amortised cost		
Loans, advances and financing	5,695,247	6,769,144
Loans under MKFF scheme	8,976	9,776
Amount due from Export Credit Refinancing ("ECR")* debtors	34,589	231,136
Staff loans	752	977
Gross loans, advances and financing	5,739,564	7,011,033
Less: Allowance for impaired loans, advances and financing:		
- 12 month ECL - Stage 1	(31,569)	(83,810)
- Lifetime not impaired ECL - Stage 2	(418,195)	(190,300)
- Lifetime ECL credit impaired - Stage 3	(1,610,717)	(1,968,281)
Net loans, advances and financing	3,679,083	4,768,642

* The amount represents block discounting of bills facility provided to participating banks in Malaysia granted under ECR Scheme. The primary objective of the Scheme is for the promotion of Malaysian export by offering competitive rates to banks participating in the ECR Scheme for on-lending to exporters.

7. LOANS, ADVANCES AND FINANCING (CONT'D.)

(i) Gross loans, advances and financing analysed by facility are as follows:

	Group and Bank	
	2020 RM'000	2019 RM'000
Buyer Credit	890,257	837,608
Overseas Contract Financing	34,472	106,980
Overseas Investment Financing	526,845	576,613
Term Financing	85,500	15,468
Overseas Project Financing	1,221,569	1,749,273
Supplier Credit	103,748	224,389
Export Finance	-	8,108
Buyer Credit-i	-	(1,178)
Export Finance-i	8,236	-
Supplier Financing-i	1,242,791	1,439,805
Term Financing-i	861,189	953,588
Overseas Investment Financing-i	114,292	174,088
Overseas Contract Financing-i	84,189	98,494
Overseas Project Financing-i	456,067	474,044
Malaysian Kitchen Financing Facility ("MKFF")	6,772	7,216
Malaysian Kitchen Financing Facility-i ("MKFF-i")	2,204	2,560
ECR	34,589	231,136
Vendor Financing	8,776	13,449
Vendor Financing-i	57,316	98,415
Staff loans and advances	752	977
	5,739,564	7,011,033

Included in Term Financing-i are amounts to meet the requirement of Sukuk Programme of the Group amounting to Nil (2019 :RM51,907,426).

(ii) Gross loans, advances and financing analysed by contractual maturity are as follows:

	Group and Bank	
	2020 RM'000	2019 RM'000
Within one year	2,518,994	2,270,245
One year to three years	1,638,613	600,245
Three years to five years	977,353	1,789,856
Over five years	604,604	2,350,687
	5,739,564	7,011,033

NOTES TO THE FINANCIAL STATEMENTS

7. LOANS, ADVANCES AND FINANCING (CONT'D.)

(iii) Gross loans, advances and financing analysed by interest/profit rate sensitivity are as follows:

	Group and Bank 2020 RM'000	Group and Bank 2019 RM'000
Conventional		
Fixed rate	77,557	28,528
Variable rate	2,835,723	3,734,582
Islamic		
Fixed rate	2,204	2,755
Variable rate	2,824,080	3,245,168
	5,739,564	7,011,033

(iv) Gross loans, advances and financing analysed by geographical area are as follows:

	Group and Bank 2020 RM'000	Group and Bank 2019 RM'000
Malaysia	2,658,855	3,704,633
East Asia	1,481,694	1,960,047
South Asia	71,510	74,425
Central Asia	333,958	347,513
Middle East	343,070	145,188
Africa	196,536	254,619
Europe	463,324	365,393
America	79,358	80,053
Oceania	111,259	79,162
	5,739,564	7,011,033

(v) Gross loans, advances and financing analysed by industry are as follows:

	Group and Bank 2020 RM'000	Group and Bank 2019 RM'000
Primary agriculture	40,560	134,471
Manufacturing	1,467,564	1,455,686
Transport, storage and communication	1,127,575	1,325,258
Construction	1,317,073	1,353,630
Wholesale and retail trade, and restaurants and hotels	764,369	1,157,852
Others	1,022,423	1,584,136
	5,739,564	7,011,033

7. LOANS, ADVANCES AND FINANCING (CONT'D.)

(vi) Movements of gross impaired loans, advances and financing ("impaired loans") are as follows:

	Group and Bank 2020 RM'000	Group and Bank 2019 RM'000
At 1 January	2,643,617	2,676,982
Impaired during the year	326,057	705,467
Recoveries	(361,894)	(565,492)
Amount written off	(220,073)	(170,113)
Exchange differences	(5,230)	(3,227)
At 31 December	2,382,477	2,643,617
Gross impaired loans as a percentage of gross loans, advances and financing		
- with ECR debtors	41.51%	37.71%
- without ECR debtors	41.76%	38.99%
Net impaired loans as a percentage of gross loans, advances and financing		
- with ECR debtors	13.45%	9.63%
- without ECR debtors	13.53%	9.96%

(vii) Gross impaired loans, advances and financing analysed by geographical area are as follows:

	Group and Bank 2020 RM'000	Group and Bank 2019 RM'000
Malaysia	902,464	886,310
East Asia	761,435	1,151,210
South Asia	48,805	50,092
Central Asia	333,958	347,513
Middle East	26,998	23,623
Africa	103,948	97,090
Europe	121,974	4,289
America	79,358	80,053
Oceania	3,537	3,437
	2,382,477	2,643,617

NOTES TO THE FINANCIAL STATEMENTS

7. LOANS, ADVANCES AND FINANCING (CONT'D.)

(viii) Gross impaired loans, advances and financing analysed by industry are as follows:

	Group and Bank 2020 RM'000	2019 RM'000
Primary agriculture	12,410	83,227
Manufacturing	481,896	488,919
Transport, storage and communication	730,175	639,331
Construction	737,309	775,478
Wholesale and retail trade, and restaurants and hotels	226,573	328,094
Others	194,114	328,568
	2,382,477	2,643,617

(ix) Movements in the allowance for ECL for loans, advances and financing are as follows:

	Stage 1 12-months ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total ECL RM'000
Group and Bank				
2020				
At 1 January	83,810	190,300	1,968,281	2,242,391
Transferred from Stage 1	(244)	-	244	-
Transferred from Stage 2	(89)	89	-	-
Transferred to Stage 3	-	(65,561)	65,561	-
(Written back)/allowance recognised in profit and loss	5,477	(6,252)	(187,816)	(188,591)
Financial assets derecognised	(11,984)	(140)	-	(12,124)
Changes due to change in credit risk	(10,769)	102,835	-	92,066
Modification to contractual cash flows of financial assets	(34,632)	196,924	-	162,292
Total amount charged to profit and loss during the period	(52,241)	227,895	(122,011)	53,643
Other movement with no profit and loss impact				
Write offs	-	-	(220,073)	(220,073)
Exchange differences	-	-	(15,480)	(15,480)
At 31 December	31,569	418,195	1,610,717	2,060,481

7. LOANS, ADVANCES AND FINANCING (CONT'D.)

(ix) Movements in the allowance for ECL for loans, advances and financing are as follows: (cont'd.)

	Stage 1 12-months ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total ECL RM'000
Group and Bank				
2019				
At 1 January 2019	140,324	150,518	1,572,701	1,863,543
Transferred to Stage 1	(23,653)	-	-	(23,653)
Transferred to Stage 2	-	75,976	-	75,976
Transferred to Stage 3	-	-	500,464	500,464
(Written back)/allowance recognised in profit and loss	(6,079)	(28,833)	82,403	47,491
Financial assets derecognised	(30,941)	(2,455)	-	(33,396)
Changes due to change in credit risk	2,295	1,227	-	3,522
Modification to contractual cash flows of financial assets	1,864	(6,133)	-	(4,269)
Total amount charged to profit and loss during the period	(56,514)	39,782	582,867	566,135
Other movement with no profit and loss impact				
Write offs	-	-	(170,113)	(170,113)
Exchange differences	-	-	(17,174)	(17,174)
At 31 December 2019	83,810	190,300	1,968,281	2,242,391

	Group and Bank 2020 RM'000	2019 RM'000
Breakdown of ECL Stage 1 and 2:		
From non-impaired loans, advances and financing	449,764	274,110
	449,764	274,110
As % of net loans, advances and financing	13.40%	6.28%

NOTES TO THE FINANCIAL STATEMENTS

7. LOANS, ADVANCES AND FINANCING (CONT'D.)

(x) Overlays and adjustments for ECL amid COVID-19 environment

As the current MFRS 9 models are not expected to generate levels of ECL with sufficient reliability in view of the unprecedented and on-going COVID-19 pandemic, overlays and post-model adjustments have been applied to determine a sufficient overall level of ECLs for the year ended and as at 31 December 2020.

The overlays involved significant level of judgement and reflect the management's views of possible severities of the pandemic and paths of recovery in the forward looking assessment for ECL estimation purposes.

The adjusted downside scenario assumes a continuous restrictive economic environment due to COVID-19, the impact of these adjustments were estimated at portfolio level and the Bank for loans, advances and financing as at 31 December 2020 amounted to RM1,172,904,000. Total additional management overlays for ECL provided by the Group and the Bank as at 31 December 2020 are RM150,431,032 (2019: Nil).

ECL (inclusive of overlays) analysed by geographical area are as follows:

	Group and Bank			
	Outstanding Balance 2020 RM'000	Modelled ECL 2020 RM'000	Management Overlay 2020 RM'000	Total ECL 2020 RM'000
Malaysia	739,583	93,134	114,215	207,349
East Asia	170,912	6,158	7,152	13,310
South Asia	22,705	7,134	-	7,134
Middle East	192,546	43,874	26,102	69,976
Africa	45,305	916	2,500	3,416
Oceania	1,853	287	462	749
	1,172,904	151,503	150,431	301,934

(xi) ECL (inclusive of overlays) analysed by industry are as follows:

	Group and Bank			
	Outstanding Balance 2020 RM'000	ECL Stage 1 2020 RM'000	Management Overlay 2020 RM'000	2020 RM'000
Primary agriculture	13,132	1,227	91	1,318
Manufacturing	600,265	95,943	80,159	176,102
Transport, storage and communication	192,546	43,874	26,102	69,976
Construction	205,164	6,999	9,542	16,541
Wholesale and retail trade, and restaurants and hotels	87,305	2,651	6,874	9,525
Others	74,492	809	27,663	28,472
	1,172,904	151,503	150,431	301,934

8. INSURANCE RECEIVABLES

	Group and Bank 2020 RM'000	2019 RM'000
Amount due from agents, brokers and co-insurers	1,228	607
Less: Allowance for expected credit losses	(640)	(518)
	588	89

Movements in the allowance for expected credit losses for insurance receivables are as follows:

	Group and Bank 2020 RM'000	2019 RM'000
Expected credit losses		
At 1 January	518	498
Allowance made during the year	469	217
Amount written back	(347)	(197)
At 31 December	640	518

9. DERIVATIVE FINANCIAL INSTRUMENTS

The notional amounts, recorded at gross, is the amount of derivatives' underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the market risk nor the credit risk.

The following table shows the fair value of derivative financial instruments recorded as assets or liabilities together with their notional amounts. Derivative assets and derivative liabilities are disclosed on a gross basis as it is the Bank's practice to settle those derivative on a gross basis.

As at 31 December 2020, the Bank has entered into the following derivative financial instruments:

	Group and Bank					
	2020			2019		
	Fair Value		Notional	Fair Value		Notional
	Assets RM'000	Liabilities RM'000	Amount RM'000	Assets RM'000	Liabilities RM'000	Amount RM'000
Derivatives used in fair value hedges						
Interest/profit rate swaps	106,016	-	2,813,105	42,587	18,531	2,866,328
Cross currency interest/profit rate swap	35,733	-	464,342	18,631	-	470,947
Total	141,749	-	3,277,447	61,218	18,531	3,337,275

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D.)

At their inception, derivatives often involve only mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group and the Bank.

Over-the-counter derivative may expose the Group and the Bank to the risks associated with absence of an exchange market on which to close out an open position.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over-time based on specified notional amounts, in relation to movements in a specified underlying index such an interest/profit rate, foreign currency rate or equity index.

Interest/profit rate swaps relate to contracts taken out by the Group and the Bank with other financial institution in which the Group and the Bank either receive or pay a floating rate of interest/profit, respectively, in return for paying or receiving a fixed rate of interest/profit. The payment flows are usually netted against each other with the difference being paid by one party to the other.

In a cross currency interest/profit rate swap, the Group and the Bank swap their fixed coupon interest rate into a floating rate coupon in different currencies.

Forwards

The Group and the Bank enter into Forward Exchange Contract to sell or buy a specific amount of currency at a specified exchange rate for settlement in the future. The contract is entered for the Group's and the Bank's own requirement or on behalf of customer based on approved foreign exchange line.

Fair values

Disclosure concerning the fair value of derivatives are provided in Note 42.

Fair value hedge

The financial instruments hedged for interest/profit rate risk and foreign currency risk consist of the Medium Term Notes ("MTN") and Multi-currency Sukuk Programme ("Sukuk") issued by the Bank and the Group respectively.

9. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D.)

Fair value hedge (cont'd.)

Full details of hedging as follows:

Group and Bank

2020

Notional amount	Hedging instrument: Interest/Profit Rate Swap	Hedged item: MTN/SUKUK	Hedging relationship	Nature of risk
USD63 million	Floating rate of 3 months Libor + 1.85% p.a. (receive fixed USD semi-annually/pay float USD quarterly)	Fixed 3.509% per annum (payable semi-annually)	Fair value hedge	Interest rate
USD100 million	Floating rate of 3 months Libor + 1.40% p.a. (receive fixed USD annually/pay float USD quarterly)	Fixed 4.25% per annum (payable annually)	Fair value hedge	Interest rate
USD37.3 million	Floating rate of 3 months Libor + 1.70% p.a. (receive fixed USD half yearly/pay float USD quarterly)	Fixed 3.01% per annum (payable semi-annually)	Fair value hedge	Profit rate
USD150 million	Floating rate of 3 months Libor + 1.16% p.a. (receive fixed USD semi-annually/pay float USD quarterly)	Fixed 2.48% per annum (payable semi-annually)	Fair value hedge	Interest rate
USD150 million	Floating rate of 3 months Libor + 1.21% p.a. (receive fixed USD semi-annually/pay float USD quarterly)	Fixed 2.48% per annum (payable semi-annually)	Fair value hedge	Interest rate
USD150 million	Floating rate of 3 months Libor + 1.214% p.a. (receive fixed USD semi-annually/pay float USD quarterly)	Fixed 2.48% per annum (payable semi-annually)	Fair value hedge	Interest rate
USD50 million	Floating rate of 3 months Libor + 1.165% p.a. (receive fixed USD semi-annually/pay float USD quarterly)	Fixed 2.48% per annum (payable semi-annually)	Fair value hedge	Interest rate
HKD596 million	USD76.83 million at floating rate of 3 months USD Libor + 1.24% p.a. (receive fixed HKD annually/pay USD quarterly)	Fixed 2.95% per annum (payable annually)	Fair value hedge	Interest rate & foreign currency
HKD300 million	SGD47.89 million at floating rate of 6 months SGD SOR + 1.00% p.a. (receive fixed HKD annually/pay float SGD semi annually)	Fixed 2.95% per annum (payable annually)	Fair value hedge	Interest rate & foreign currency

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D.)

Fair value hedge (cont'd.)

Full details of hedging as follows: (cont'd.)

Group and Bank

2019

Notional amount	Hedging instrument: Interest/Profit Rate Swap	Hedged item: MTN/SUKUK	Hedging relationship	Nature of risk
USD63 million	Floating rate of 3 months Libor + 1.85% p.a. (receive fixed USD semi-annually/pay float USD quarterly)	Fixed 3.509% per annum (payable semi-annually)	Fair value hedge	Interest rate
USD75 million	Floating rate of 6 months Libor + 1.264% p.a. (receive fixed USD semi-annually/pay float USD semi-annually)	Fixed 2.874% per annum (payable semi-annually)	Fair value hedge	Profit rate
USD75 million	Floating rate of 6 months Libor + 1.2615% p.a. (receive fixed USD semi-annually/pay float USD semi-annually)	Fixed 2.874% per annum (payable semi-annually)	Fair value hedge	Profit rate
USD75 million	Floating rate of 6 months Libor + 1.26% p.a. (receive fixed USD semi-annually/pay float USD semi-annually)	Fixed 2.874% per annum (payable semi-annually)	Fair value hedge	Profit rate
USD75 million	Floating rate of 6 months Libor + 1.264% p.a. (receive fixed USD semi-annually/pay float USD semi-annually)	Fixed 2.874% per annum (payable semi-annually)	Fair value hedge	Profit rate
USD50 million	Floating rate of 3 months Libor + 1.01% p.a. (receive fixed USD semi-annually/pay float USD quarterly)	Fixed 2.85% per annum (payable semi-annually)	Fair value hedge	Interest rate
USD50 million	Floating rate of 3 months Libor + 1.00% pa (receive fixed USD semi-annually/pay float USD quarterly)	Fixed 2.66% per annum (payable semi-annually)	Fair value hedge	Interest rate
USD100 million	Floating rate of 3 months Libor + 1.40% p.a. (receive fixed USD annually/pay float USD quarterly)	Fixed 4.25% per annum (payable annually)	Fair value hedge	Interest rate
USD37.3 million	Floating rate of 3 months Libor + 1.70% p.a. (receive fixed USD half yearly/pay float USD quarterly)	Fixed 3.01% per annum (payable semi-annually)	Fair value hedge	Profit rate
USD150 million	Floating rate of 3 months Libor + 1.16% p.a. (receive fixed USD semi-annually/pay float USD quarterly)	Fixed 2.48% per annum (payable semi-annually)	Fair value hedge	Interest rate

9. **DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D.)**

Fair value hedge (cont'd.)

Full details of hedging as follows: (cont'd.)

Group and Bank

2019 (cont'd.)

Notional amount	Hedging instrument: Interest/Profit Rate Swap	Hedged item: MTN/SUKUK	Hedging relationship	Nature of risk
USD150 million	Floating rate of 3 months Libor + 1.21% p.a. (receive fixed USD semi-annually/pay float USD quarterly)	Fixed 2.48% per annum (payable semi-annually)	Fair value hedge	Interest rate
USD150 million	Floating rate of 3 months Libor + 1.214% p.a. (receive fixed USD semi-annually/pay float USD quarterly)	Fixed 2.48% per annum (payable semi-annually)	Fair value hedge	Interest rate
USD50 million	Floating rate of 3 months Libor + 1.165% p.a. (receive fixed USD semi-annually/pay float USD quarterly)	Fixed 2.48% per annum (payable semi-annually)	Fair value hedge	Interest rate
HKD596 million	USD76.83 million at floating rate of 3 months USD Libor + 1.24% p.a. (receive fixed HKD annually/pay USD quarterly)	Fixed 2.95% per annum (payable annually)	Fair value hedge	Interest rate & foreign currency
HKD300 million	SGD47.89 million at floating rate of 6 months SGD SOR + 1.00% p.a. (receive fixed HKD annually/pay float SGD semi annually)	Fixed 2.95% per annum (payable annually)	Fair value hedge	Interest rate & foreign currency
Notional amount	**Hedging instrument: Cross Currency Interest/Profit Rate Swap**	**Hedged item: MTN/SUKUK**	**Hedging relationship**	**Nature of risk**
JPY3 billion	USD29.34 million at floating rate of 3 months Libor + 0.94% p.a. (receive fixed JPY semi-annually/pay float USD quarterly)	Fixed 0.65% per annum (payable semi-annually)	Fair value hedge	Interest rate & foreign currency
USD40 million	GBP 25.99 million at fixed rate of 2.43% p.a. (receive fixed GBP semi-annually/pay USD semi-annually)	Fixed 2.45% per annum (payable semi-annually)	Fair value hedge	Profit rate & foreign currency
HKD400 million	USD 51.57 million at floating rate of 3 months USD Libor + 1.18% p.a. (receive fixed HKD annually/pay USD quarterly)	Fixed 2.10% per annum (payable annually)	Fair value hedge	Profit rate & foreign currency

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D.)

Fair value hedge (cont'd.)

The gain arising from the fair value hedges are as follows:

	Group and Bank	
	2020	**2019**
	RM'000	**RM'000**
Gain arising from fair value hedges:		
Hedging instruments	104,350	107,809
Hedged items	(40,429)	(88,628)
	63,921	19,181

10. OTHER ASSETS

	Group and Bank	
	2020	**2019**
	RM'000	**RM'000**
Interest/profit receivables (excluding interest/profit on loans, advances and financing)	46,649	47,425
Other receivables, deposits and prepayments*	34,069	230,688
Tax prepayment	11,399	11,399
	92,117	289,512

* Included in other receivables, deposits and prepayments as at 31 December 2020 and 31 December 2019 is an amount related to a Bank Guarantee called in 2019 of RM31,991,623. Also included in other receivables, deposits and prepayment as at 31 December 2019 was an amount of RM181,469,859 for which the underlying financing was subsequently written off during the financial year ended 31 December 2020.

11. DEFERRED TAX (LIABILITIES)/ASSETS

	Group		Bank	
	2020	**2019**	**2020**	**2019**
	RM'000	**RM'000**	**RM'000**	**RM'000**
At 1 January	-	(2,316)	-	-
Recognised in profit and loss (Note 36)	-	2,316	-	-
At 31 December	-	-	-	-

11. DEFERRED TAX (LIABILITIES)/ASSETS (CONT'D.)

Deferred tax assets

	Allowance for diminution in value of investment in a subsidiary RM'000	Provision for expenses RM'000	Unutilised business losses RM'000	Unabsorbed capital allowances RM'000	Total deductible temporary differences RM'000
Group					
At 1 January 2019	-	4,101	7,568	-	11,669
Recognised in statement profit and loss	-	(4,101)	(1,593)	-	(5,694)
At 31 December 2019	-	-	5,975	-	5,975
Recognised in statement profit and loss	-	-	(1,513)	-	(1,513)
At 31 December 2020	-	-	4,462	-	4,462
Bank					
At 1 January 2019	2,229	4,188	7,568	-	13,985
Recognised in statement profit and loss	(2,229)	(4,188)	(1,593)	-	(8,010)
At 31 December 2019	-	-	5,975	-	5,975
Recognised in statement profit and loss	-	-	(1,513)	-	(1,513)
At 31 December 2020	-	-	4,462	-	4,462

Deferred tax liabilities

	Other temporary differences RM'000	Unrealised gain on foreign exchange RM'000	ROU assets and accelerated capital allowance on property and equipment RM'000	Total taxable temporary differences RM'000
Group				
At 1 January 2019	(22,259)	12,123	(3,849)	(13,985)
Recognised in profit and loss	20,356	(12,123)	(223)	8,010
At 31 December 2019	(1,903)	-	(4,072)	(5,975)
Recognised in profit and loss	1,903	-	(390)	1,513
At 31 December 2020	-	-	(4,462)	(4,462)

NOTES TO THE FINANCIAL STATEMENTS

11. DEFERRED TAX (LIABILITIES)/ASSETS (CONT'D.)

Deferred tax liabilities (cont'd.)

	Other temporary differences RM'000	Unrealised gain on foreign exchange RM'000	ROU assets and accelerated capital allowance on property and equipment RM'000	Total taxable temporary differences RM'000
Bank				
At 1 January 2019	(22,259)	12,123	(3,849)	(13,985)
Recognised in profit and loss	20,356	(12,123)	(223)	8,010
At 31 December 2019	(1,903)	-	(4,072)	(5,975)
Recognised in profit and loss	1,903	-	(390)	1,513
At 31 December 2020	-	-	(4,462)	(4,462)

Presented after appropriate offsetting as follows:

	Group 2020 RM'000	Group 2019 RM'000	Bank 2020 RM'000	Bank 2019 RM'000
Deferred tax assets	4,462	5,975	4,462	5,975
Deferred tax liabilities	(4,462)	(5,975)	(4,462)	(5,975)
	-	-	-	-

Deferred tax assets and liabilities are offset when there is a legally enforceable right to setoff current tax assets against current tax liabilities and when the deferred taxes relate to the same taxation authority.

At the reporting date, the Group and the Bank have recognised deferred tax assets for the following items:

	Group 2020 RM'000	Group 2019 RM'000	Bank 2020 RM'000	Bank 2019 RM'000
Unutilised tax losses	18,595	24,900	18,595	24,900
Tax rate	24%	24%	24%	24%
	4,463	5,976	4,463	5,976

The deferred tax assets have been recognised as at 31 December 2020 to the extent that the Group and the Bank have sufficient taxable temporary differences to utilise.

11. DEFERRED TAX (LIABILITIES)/ASSETS (CONT'D.)

At the reporting date, the Group and the Bank have not recognised deferred tax assets for the following items:

	Group		Bank	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Unutilised business losses	1,247,906	1,468,758	1,247,906	1,468,758
Other deductible temporary differences	455,473	308,130	455,473	308,130
	1,703,379	1,776,888	1,703,379	1,776,888
Tax rate	24%	24%	24%	24%
	408,811	426,453	408,811	426,453

The unutilised tax losses above are available for offset against future taxable profits at the Group and the Bank. The unabsorbed business tax losses will only be allowed to be carried forward consecutively seven years effective Year of Assessment 2019.

The deductible temporary differences do not expire under current tax legislation unless there is a substantial change in shareholders (more than 50%).

12. INVESTMENT IN SUBSIDIARIES AND JOINTLY CONTROLLED ENTITY

(a) Investment in subsidiaries

	Bank	
	2020 RM'000	2019 RM'000
Unquoted shares - at cost	73,419	73,419
Less: Allowance for impairment	(9,290)	(9,290)
	64,129	64,129

The subsidiaries are as follows:

Name of company	Principal activities	Country of incorporation	Effective ownership interest (%)	
			2020	2019
Malaysia Export Credit Insurance Berhad	Dormant	Malaysia	100	100
EXIM Sukuk Malaysia Berhad	Special Purpose Vehicle for Sukuk issuance	Malaysia	100	100

Malaysia Export Credit Insurance Berhad, a wholly owned subsidiary of the Bank was formerly engaged in the provision of export and domestic credit insurance facilities and guarantees. The Company is currently dormant.

NOTES TO THE FINANCIAL STATEMENTS

13. INVESTMENT PROPERTIES

	Group and Bank 2020 RM'000	Group and Bank 2019 RM'000
Cost		
At 1 January	1,300	1,300
Accumulated depreciation		
At 1 January	450	432
Charged for the year (Note 29)	18	18
At 31 December	468	450
Carrying amount	832	850
Included in the carrying amount of investment properties are:		
Freehold land	400	400
Buildings	432	450
	832	850
Fair value of investment properties	1,140	1,140

The investment properties were mainly valued by Raine & Horne International Zaki & Partners Sdn. Bhd., an independent professional valuer, on 11 February 2021. The fair value is determined based on the comparison method of valuation.

This method of valuation seeks to determine the value of the properties being valued by comparing and adopting as a yardstick recent transactions and sale evidences involving similar properties in the vicinity.

14. INTANGIBLE ASSETS

	Group and Bank 2020 RM'000	Group and Bank 2019 RM'000
Computer software		
Cost		
At 1 January	25,721	24,413
Transfer from property and equipment	1,306	1,308
At 31 December	27,027	25,721
Accumulated depreciation		
At 1 January	23,371	21,038
Charged for the year (Note 29)	1,643	2,333
At 31 December	25,014	23,371
Carrying amount	2,013	2,350

15. PROPERTY AND EQUIPMENT

	Freehold land RM'000	Building RM'000	Office equipment RM'000	Renovation and improvements RM'000	Motor vehicles RM'000	Furniture, electrical, fittings and equipment RM'000	Computers RM'000	Work-in-progress RM'000	Total RM'000
Group and Bank									
Cost									
At 1 January 2020	30,000	33,000	1,524	28,544	905	5,538	15,240	268	115,019
Additions	-	-	62	461	-	275	1,492	6,506	8,796
Transfer to intangible assets	-	-	-	-	-	-	(1,306)	-	(1,306
Disposals	-	-	-	-	(310)	-	(145)	-	(455)
At 31 December 2020	30,000	33,000	1,586	29,005	595	5,813	15,281	6,774	122,054
Accumulated depreciation									
At 1 January 2020	-	6,930	1,354	21,860	782	5,015	14,545	-	50,486
Charged for the year	-	660	70	2,672	74	455	514	-	4,445
Disposals	-	-	-	-	(310)	-	(130)	-	(440)
At 31 December 2020	-	7,590	1,424	24,532	546	5,470	14,929	-	54,491
Carrying amount									
At 31 December 2020	30,000	25,410	162	4,473	49	343	352	6,774	67,563

NOTES TO THE FINANCIAL STATEMENTS

15. PROPERTY AND EQUIPMENT (CONT'D.)

	Freehold land RM'000	Building RM'000	Office equipment RM'000	Renovation and improvements RM'000	Motor vehicles RM'000	Furniture, electrical, fittings and equipment RM'000	Computers RM'000	Work-in-progress RM'000	Total RM'000
Group and Bank									
Cost									
At 1 January 2019	30,000	33,000	1,404	28,508	1,043	5,417	15,769	1,082	116,223
Additions	-	-	120	36	-	121	304	181	762
Transfer to intangible assets	-	-	-	-	-	-	(313)	(995)	(1,308)
Disposals	-	-	-	-	(138)	-	(520)	-	(658)
At 31 December 2019	30,000	33,000	1,524	28,544	905	5,538	15,240	268	115,019
Accumulated depreciation									
At 1 January 2019	-	6,270	1,273	19,026	843	4,754	14,353	-	46,519
Charged for the year	-	660	81	2,834	77	261	703	-	4,616
Disposals	-	-	-	-	(138)	-	(511)	-	(649)
At 31 December 2019	-	6,930	1,354	21,860	782	5,015	14,545	-	50,486
Carrying amount									
At 31 December 2019	30,000	26,070	170	6,684	123	523	695	268	64,533

16. RIGHT-OF-USE ASSETS

	Group and Bank	
	2020 RM'000	2019 RM'000
Cost		
At 1 January/ At 31 December	1,697	1,697
Additions	82	-
Termination of lease contracts	(791)	-
	988	1,697
Accumulated depreciation		
At 1 January	1,191	954
Charged for the year (Note 29)	247	237
Termination of lease contracts	(672)	-
At 31 December	766	1,191
Carrying amount	222	506

17. BORROWINGS

	Group and Bank	
	2020 RM'000	2019 RM'000
Term loans/Revolving credits - unsecured	649,430	1,244,832
Medium Term Notes/Sukuk	4,747,071	4,979,143
Syndication financing	1,194,781	1,214,459
	6,591,282	7,438,434

	Group and Bank	
	2020 RM'000	2019 RM'000
(i) Term loans/Revolving credits - unsecured		
Repayable within one year	633,966	1,183,322
One year to three years	15,064	61,510
Three years to five years	400	-
	649,430	1,244,832

NOTES TO THE FINANCIAL STATEMENTS

17. BORROWINGS (CONT'D.)

	Group and Bank 2020 RM'000	Group and Bank 2019 RM'000
(ii) Medium Term Notes/Sukuk		
Repayable within one year	2,178,170	360,160
One year to three years	2,032,415	3,346,908
Three years to five years	80,235	752,795
Over five years	456,251	519,280
	4,747,071	4,979,143
(iii) Syndication financing		
Three years to five years	1,194,781	1,214,459
	1,194,781	1,214,459
	6,591,282	7,438,434

Repayment based on the currencies of the borrowings are as follows:

	Carrying amount RM'000	Within 1 year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	Over 5 years RM'000
2020					
- USD	5,357,121	2,256,501	2,564,134	80,235	456,251
- RM	36,328	35,928	-	400	-
- EUR	359,135	161,581	197,554	-	-
- GBP	274,520	274,520	-	-	-
- SGD	-	-	-	-	-
- AUD	83,606	83,606	-	-	-
- HKD	480,572	-	480,572	-	-
	6,591,282	2,812,136	3,242,260	80,635	456,251
2019					
- USD	6,023,717	2,037,127	3,189,007	278,303	519,280
- RM	35,928	-	35,928	-	-
- EUR	395,573	212,090	183,483	-	-
- GBP	268,860	268,860	-	-	-
- SGD	168,179	168,179	-	-	-
- AUD	71,685	71,685	-	-	-
- HKD	474,492	-	-	474,492	-
	7,438,434	2,757,941	3,408,418	752,795	519,280

17. BORROWINGS (CONT'D.)

Borrowings of the Group and the Bank comprise the followings:

Term loans/Revolving credits

(a) Term loan of USD35,000,000 (approximately RM140,595,000) (2019: USD35,000,000 (approximately RM143,255,000)). The loan is repayable semi-annually within twenty eight (28) semi-annual instalments from 12 August 2008 to 12 February 2022.

The loan was obtained on 25 April 2006. Interest on the loan is charged at 0.395% (2019: 0.395%) per annum above LIBOR.

(b) Revolving multi-currency loan up to an aggregate of USD150,000,000 (approximately RM602,550,000) (2019: USD150,000,000 (approximately RM613,950,000)). This facility is available for utilisation in USD, GBP, SGD and EUR.

The loan was obtained on 25 June 2009. The principal and interest of the loan was revised to USD100,000,000 and 0.80% respectively on March 2014 and further revised to USD150,000,000 on July 2014. Interest on the loan is charged at the rate of 0.80% (2019: 0.80%) per annum above LIBOR or USD and 0.80% above COF for GBP, SGD and EUR.

(c) Multi-Currency Commodity Murabahah Revolving Credit-i up to an aggregate of USD50,000,000 (approximately RM200,850,000) (2019: USD100,000,000 (approximately RM409,300,000)) renewable after one (1) year. This Facility is available for utilisation in USD, GBP, SGD, AUD and MYR.

The financing was obtained on 10 November 2010 for USD30,000,000, renewed on 14 December 2011, 21 March 2014 and 2 March 2015 with additional amounts of USD10,000,000, USD30,000,000 and USD30,000,000 respectively. On 21 November 2020, the amount was reduced to USD50,000,000. Profit rate on the financing was charged at the rate of 0.80% and has been subsequently revised to 0.50% (2019:0.50%) per annum above the Islamic Cost of Fund since March 2014. In 2020, the Bank has outstanding amount of AUD27,000,000 million (approximately RM83,605,500) under the facility.

(d) Revolving Euro loan of one (1) year up to an aggregate of EUR30,000,000 (approximately RM148,239,000) (2019: EUR30,000,000 (approximately RM137,721,000)).

The loan was obtained on 12 March 2012. Interest rate on the loan is charged at the rate of 0.80% (2019: 0.80%) per annum above Euro Interbank Offer Rate ("EURIBOR").

(e) Multi-Currency Commodity Murabahah Revolving Credit-i up to an aggregate of USD85,000,000 (approximately RM341,445,000) (2019: USD85,000,000 (approximately RM347,905,000)) renewable after one (1) year.

The financing was obtained on 14 June 2013 for USD25,000,000. The limit was revised to USD85,000,000 on 12 August 2013 and profit rate was reduced to 0.80% per annum on 4 August 2014. Profit rate on the financing is charged at the rate of 0.80% (2019: 0.80%) per annum above the Islamic Cost of Fund. This financing was terminated effective 7 September 2020.

(f) Commodity Murabahah Revolving Credit-i up to an aggregate of USD25,000,000 (approximately RM100,425,000) (2019: USD25,000,000 (approximately RM102,325,000)) renewable after one (1) year.

The financing was obtained on 13 May 2013. Profit rate on the financing is charged at the rate of 0.50% (2019: 0.50%) per annum above the Islamic Cost of Fund.

(g) Commodity Murabahah Revolving Credit-i up to an aggregate of USD20,000,000 (approximately RM80,340,000) (2019:USD40,000,000 (approximately RM163,720,000)) renewable after one (1) year.

The financing was obtained on 15 August 2013. Profit rate on the financing is charged at the rate of 0.75% (2019 : 0.75%) per annum above the Islamic Cost of Fund. On 27 July 2020, the financing amount was reduced to USD20,000,000 (approximately RM80,340,000).

NOTES TO THE FINANCIAL STATEMENTS

17. BORROWINGS (CONT'D.)

Borrowings of the Group and the Bank comprise the followings: (cont'd.)

Term loans/Revolving credits **(cont'd.)**

(h) Multi-Currency Murabahah Revolving Credit-i up to an aggregate of EUR120,000,000 (approximately RM592,956,000) (2019: EUR120,000,000 (approximately RM550,884,000)). This facility is available for utilisation in EUR, USD, and GBP.

The financing was obtained on 18 September 2013. Profit rate on the financing is charged at the rate of 0.80% (2019: 0.80%) per annum above EURIBOR for EUR and 0.80% above COF for USD and GBP. As at year end 2020, the Bank has outstanding amount of EUR10,700,000 (approximately RM52,871,910) and GBP50,000,000 (approximately RM274,520,000) under the facility.

(i) Revolving multi currency loan up to an aggregate of USD50,000,000 (approximately RM200,850,000) (2019 : USD50,000,000 (approximately RM204,650,000)).

The loan was obtained on 17 February 2014 and renewable yearly. Interest on loan is charged at the rate of 0.80% (2019 : 0.80%) per annum over cost of fund. The loan was cancelled on 17 August 2020.

(j) Commodity Murabahah Revolving Credit-i up to an aggregate of USD20,000,000 (approximately RM80,340,000) (2019 : USD40,000,000 (approximately RM163,720,000)).

The financing was obtained on 29 October 2015 and renewable yearly. Profit rate on the financing is charged at the rate of 0.93% (2019 : 0.93%) per annum above LIBOR. On 8 May 2020, the amount was reduced to USD20,000,000.

(k) Multi-currency commodity Murabahah Revolving Credit-i up to an aggregate of USD75,000,000 (approximately RM301,275,000) (2019 : USD75,000,000 (approximately RM306,975,000)). This facility is available for utilisation in USD, EUR and JPY.

The financing was obtained on 26 February 2016 and renewable yearly. Profit rate on the financing was revised to 0.75% (2019: 1.00%) per annum above the LIBOR for USD and 0.75% per annum above COF for EUR and JPY on 31 December 2020. In 2020, the Bank has not drawn down any amount in currency other than USD.

(l) Commodity Murabahah Revolving Credit-i up to an aggregate of USD25,000,000 (approximately RM100,425,000) (2019 : USD25,000,000 (approximately RM102,325,000)).

The financing was obtained on 28 January 2016. Profit rate on the financing is charged at the rate of 0.45% (2019 : 0.45%) per annum above the Islamic Cost of Fund.

(m) The term loan placement from the Government of Malaysia for Malaysian Kitchen Financing Facility Scheme amounting to RM170,100,000 for the purpose of providing loans to qualified applicants under the Malaysia The Truly Asian Kitchen or Malaysia Kitchen Program.

The placement is interest-free and repayable after a period of fifteen (15) years from dates of disbursement of 14 December 2007 and 15 January 2009.

In June 2016, the Bank has partially repaid to Government of Malaysia amounting to RM134,171,653. The remaining amount available for utilisation under this Scheme is RM35,928,347.

(n) Commodity Murabahah Revolving Credit-i up to an aggregate of USD50,000,000 (approximately RM200,850,000) (2019 : USD50,000,000 (approximately RM204,650,000)) renewable after one (1) year.

The financing was obtained on 14 November 2020. Profit rate on the financing is charged at the rate of 0.75% per annum above LIBOR.

17. BORROWINGS (CONT'D.)

Borrowings of the Group and the Bank comprise the followings: (cont'd.)

Term loans/Revolving credits **(cont'd.)**

(o) Revolving US Dollar loan up to a maximum facility of USD60,000,000 (approximately RM241,020,000). (2019 : USD60,000,000 (approximately RM245,580,000)).

The loan was obtained on 9 January 2017. Interest on loan is charged at the rate of 0.80% (2019 : 0.80%) per annum above LIBOR.

(p) Syndicated Term Financing Facility of USD300,000,000 (approximately RM1,205,100,000 (2019 : USD300,000,000 (approximately RM1,227,900,000)).

The loan was obtained on 5 November 2020 and repayable after a period of 4.5 years. Profit on the financing is charged at 0.90% per annum above LIBOR.

(q) Revolving US Dollar loan up to a maximum facility of USD20,000,000 (approximately RM80,340,000).

The loan was obtained on 20 October 2020. Interest on loan is charged at the rate of 0.75% (2019 : 0.80%) per annum above Cost of Fund.

(r) The fund from Bank Negara Malaysia ("BNM") amounting to RM400,000 for the purpose to provide financing to SME customers.

The placement is interest-free and commence from 6 March 2020 and expire on the repayment date.

Medium Term Notes

In June 2012, the Bank established multicurrency Medium Term Notes ("MTN") programme. The maximum principal of notes that may be issued under the programme was USD1,500,000,000, which was subsequently upsized to USD3,000,000,000 in October 2016. Under the programme, the Bank may from time to time issue notes in series or tranches, which may be denominated in USD or any other currency deemed appropriate at the time. Each series or tranche of notes may be issued in various amounts and tenures, and may bear fixed or floating rate of interest.

Issuances made as at year end are as follows:

Date of issuance	Nominal value	Tenure	Coupon rate	Fixed/Floating
11 July 2012	USD63 mil (equivalent to RM253 mil)	10 years	3.509%	Fixed
12 March 2013	HKD896 mil (equivalent to RM464 mil)	10 years	2.950%	Fixed
6 June 2014	USD100 mil (equivalent to RM402 mil)	15 years	4.250%	Fixed
20 October 2016	USD500 mil (equivalent to RM2,009 mil)	5 years	2.480%	Fixed
21 August 2017	EUR40 mil (equivalent to RM198 mil)	5 years	3m Euribor + 0.75%	Floating
7 November 2017	USD20 mil (equivalent to RM80 mil)	5 years	3m Libor + 0.85%	Floating
8 November 2017	USD100 mil (equivalent to RM402 mil)	5 years	3m Libor + 0.85%	Floating
10 November 2017	USD15 mil (equivalent to RM60 mil)	5 years	3m Libor + 0.85%	Floating
10 November 2017	USD25 mil (equivalent to RM100 mil)	5 years	3m Libor + 0.85%	Floating
28 February 2018	USD23 mil (equivalent to RM93 mil)	5 years	3m Libor + 0.85%	Floating
4 May 2018	USD45 mil (equivalent to RM181 mil)	5 years	3m Libor + 0.85%	Floating

NOTES TO THE FINANCIAL STATEMENTS

17. BORROWINGS (CONT'D.)

Multi-currency Sukuk Programme

In September 2013, the Bank launched its USD1.0 billion unsecured multicurrency Sukuk programme through Special Purpose Vehicle ("SPV") company. Under the programme, the Bank may from time to time issue notes in series or tranches, which may be denominated in USD or any other currency deemed appropriate at the time. Each series or tranche of notes may be issued in various amounts and tenures, and may bear fixed or floating of interest.

The Bank established a SPV entity, EXIM Sukuk Malaysia Berhad, to issue the abovementioned Multi-currency Sukuk Programme. Correspondingly, the borrowings from Sukuk are transacted with the SPV at the Bank level. In the contrary, at the Group level, the borrowings from Sukuk are transacted with third parties who subscribed to and invested in the Sukuk.

Issuances made as at year end are as follows:

Date of issuance	Nominal value	Tenure	Coupon rate	Fixed/Floating
8 June 2015*	USD50 mil (equivalent to RM201 mil)	5 years	2.700%	Fixed
28 January 2016	USD37.3 mil (equivalent to RM150 mil)	5 years	3.010%	Fixed
28 July 2016*	USD17 mil (equivalent to RM68 mil)	3 years	3m Libor + 1.20%	Floating
5 August 2016*	HKD400 mil (equivalent to RM207 mil)	3 years	2.100%	Fixed
4 May 2017	USD45 mil (equivalent to RM181 mil)	5 years	3.00%	Fixed

* The Sukuk of USD50 million has matured on 8 June 2020.

18. LEASE LIABILITIES

	Group and Bank	
	2020	**2019**
	RM'000	**RM'000**
Repayable within one year	123	309
One year to three years	127	261
Three years to five years	-	14
	250	584

19. OTHER PAYABLES AND ACCRUALS

	Group		Bank	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Sinking fund and debt services reserve accounts	86,116	111,664	86,116	111,664
Interest payable	50,720	69,046	50,720	69,046
Amount due to the Government of Malaysia for MKFF scheme	2,264	1,481	2,264	1,481
Amount due to Teraju*	52,712	52,364	52,712	52,364
RCCPS dividend payables	42,877	26,512	42,877	26,512
Others	50,830	72,483	50,844	72,494
	285,519	333,550	285,533	333,561

* This fund represents advances received from Teraju as collateral for loan to be disbursed to Bumiputera Exporters. Withdrawal of the fund is upon the borrower turning impaired up to a maximum of RM5,000,000 per borrower.

20. PROVISION FOR COMMITMENTS AND CONTINGENCIES

	Group and Bank	
	2020 RM'000	2019 RM'000
Provision for commitments and contingencies	83,605	81,353

Movements in the provisions for commitments and contingencies are as follows:

	Stage 1 12-months ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total ECL RM'000
At 1 January 2019	15,013	2,093	-	17,106
Changes due to changes in credit risk (Note 33)	10,028	(850)	44,935	54,113
Allowance during the year (Note 33)	6,129	4,705	-	10,834
Exchange differences	-	-	(700)	(700)
At 31 December 2019/1 January 2020	31,170	5,948	44,235	81,353
Transferred to Stage 2 (Note 33)	(7,193)	7,193	-	-
Transferred to Stage 3 (Note 33)	-	(407)	407	-
Changes due to changes in credit risk (Note 33)	(2,094)	445	-	(1,649)
Modification to contractual cash flows of financial assets (Note 33)	2,398	1,444	-	3,842
Allowance/(written back) during the year (Note 33)	(349)	9,192	(8,203)	640
Exchange differences	-	-	(581)	(581)
At 31 December 2020	23,932	23,815	35,858	83,605

NOTES TO THE FINANCIAL STATEMENTS

21. DEFERRED INCOME

	Group and Bank		
	Gross RM'000	Reinsurance RM'000	Net RM'000
2020			
Arising from:			
(i) Guarantee and other fees from conventional banking activities			
At 1 January	8,620	-	8,620
Addition during the year	10,357	-	10,357
Recognised in profit and loss	(9,032)	-	(9,032)
At 31 December	9,945	-	9,945
(ii) Guarantee and other fees from Islamic banking activities			
At 1 January	6,944	-	6,944
Addition during the year	37	-	37
Recognised in profit and loss	(5,069)	-	(5,069)
At 31 December	1,912	-	1,912
(iii) Premium liabilities			
At 1 January	(3,217)	4,062	845
Increase in reserve	2,902	778	3,680
At 31 December	(315)	4,840	4,525
(iv) Takaful contribution liabilities			
At 1 January	4,015	1,914	5,929
Decrease in reserve	(1,543)	957	(586)
At 31 December	2,472	2,871	5,343
	14,014	7,711	21,725

21. DEFERRED INCOME (CONT'D.)

	Group and Bank Gross RM'000	Reinsurance RM'000	Net RM'000
2019			
Arising from:			
(i) Guarantee and fee from conventional banking activities			
At 1 January	13,046	-	13,046
Addition during the year	4,400	-	4,400
Recognised in profit and loss	(8,826)	-	(8,826)
At 31 December	8,620	-	8,620
(ii) Guarantee and fee from Islamic banking activities			
At 1 January	8,527	-	8,527
Addition during the year	2,116	-	2,116
Recognised in profit and loss	(3,699)	-	(3,699)
At 31 December	6,944	-	6,944
(iii) Premium liabilities			
At 1 January	39	4,348	4,387
Decrease in reserve	(3,256)	(286)	(3,542)
At 31 December	(3,217)	4,062	845
(iv) Takaful contribution liabilities			
At 1 January	10,634	957	11,591
Decrease in reserve	(6,619)	957	(5,662)
At 31 December	4,015	1,914	5,929
	16,362	5,976	22,338

NOTES TO THE FINANCIAL STATEMENTS

22. PROVISION FOR GUARANTEE AND CLAIMS

	Group and Bank Gross RM'000	Group and Bank Net RM'000
2020		
Arising from:		
(i) Insurance claims		
At 1 January	31,962	31,962
Reversal during the year (Note 27(ii))	(925)	(925)
Paid during the year (Note 27(ii))	(314)	(314)
At 31 December	30,723	30,723
(ii) Takaful claims		
At 1 January	16,240	16,240
Addition during the year (Note 44)	4,023	4,023
Paid during the year	(70)	(70)
At 31 December	20,193	20,193
(iii) Expenses liabilities		
At 1 January	661	661
Addition during the year	124	124
At 31 December	785	785
	51,701	51,701
2019		
Arising from:		
(i) Insurance claims		
At 1 January	11,980	11,980
Addition during the year	28,328	28,328
Paid during the year (Note 27(ii))	(8,346)	(8,346)
At 31 December	31,962	31,962
(ii) Takaful claims		
At 1 January	6,669	6,669
Addition during the year (Note 44)	9,571	9,571
At 31 December	16,240	16,240
(iii) Expenses liabilities		
At 1 January	283	283
Paid during the year	(15)	(15)
Addition during the year	393	393
At 31 December	661	661
	48,863	48,863

23. SHARE CAPITAL AND REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES

(a) Share capital

	Group and Bank			
	2020		2019	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Issued and fully paid-up				
Ordinary shares	2,708,665	2,708,665	2,708,665	2,708,665
Special rights	**	**	**	**
At 31 December	2,708,665	2,708,665	2,708,665	2,708,665

** Special right of 1 unit at RM1.

The Special Rights Redeemable Share ("Special Rights") may be held or transferred only to the Ministry of Finance (Incorporated) or its successors or any Ministry, representative or any person acting on behalf of the Government of Malaysia.

The Special Rights shareholder shall have the right from time to time to appoint any person to be an appointed Director ("Government Appointed Director"), so that there shall not be more than four Government appointed Directors at any time.

The Special Rights shareholder or any person acting on its behalf shall be entitled to receive notice of and to attend and speak at all general meetings of any meeting of any class of shareholders of the Bank, but the Special Share shall carry neither right to vote nor any other rights at any such meeting.

In a distribution of capital in a winding up of the Bank, the Special Rights shareholder shall be entitled to repayment of the capital paid up on the Special Share in priority to any repayment of capital to any other member. The Special Share shall confer no other right to participate in the capital or profits of the Bank.

The Special Rights shareholder may, subject to the provision of the Companies Act 2016, require the Bank to redeem the Special Share at par at any time by serving written notice upon the Bank and delivering the relevant share certificate.

The Special Rights shareholder shall determine on general guidelines pertaining to lending, investments and divestment by the Bank from time to time as deemed appropriate.

(b) Redeemable convertible cumulative preference shares

On 21 December 2017, the Bank received an advance from MoF, Inc of RM250 million. This advance carries a financing cost of 4.7%. This advance is to be capitalised as Redeemable Convertible Cumulative Preference Shares ("RCCPS") via a Subscription Agreement based on the terms that was approved by BNM on 21 November 2017 and 30 January 2018. The Bank has obtained the shareholder's approval on the proposed RCCPS issuance via Extraordinary General Meeting held on 8 March 2018.

The key terms are as follows:

Tenure : Based on perpetual from 8 March 2018.

Dividend rate : 4.7% per annum, payable semi-annually in arrears.

Conversion right : Shall not constitute a cancellation, redemption or termination of a RCCPS but will be by way of variation the status of, and rights attaching to, the RCCPS so that it becomes an ordinary shares. The conversion is at the option of the Ministry of Finance (on behalf of the Government of Malaysia).

NOTES TO THE FINANCIAL STATEMENTS

24. OPERATING REVENUE

Operating revenue of the Group and the Bank comprises gross interest income, fee and commission income, income from insurance operation and income from Islamic banking and Takaful businesses.

	Group and Bank 2020 RM'000	2019 RM'000
Banking	158,112	338,836
Insurance and takaful	(1,272)	7,702
Recoveries from impaired loans	23,467	34,593
Treasury	1,180	-
	181,487	381,131

The timing of revenue recognition by the Group and the Bank are as follows:

	Group and Bank 2020 RM'000	2019 RM'000
At a point in time	28,954	53,553
Over a period of time	152,533	327,578
	181,487	381,131

25. INTEREST INCOME

	Group and Bank 2020 RM'000	2019 RM'000
Financial assets at amortised cost		
Loans, advances and financing		
- Interest income from non-impaired loans	90,456	172,316
- Recoveries from impaired loans	12,317	24,835
- Effects on modification loss, to contractual cash flows of financial assets	(31,073)	-
Money at call and deposit placements with banks and other financial institutions	27,577	39,740
Financial investment at FVOCI and at amortised cost	12,340	12,237
Amortisation of premium, net	(218)	(209)
Financial assets at FVTPL		
Net interest on derivatives	22,263	(29,009)
	133,662	219,910

26. INTEREST EXPENSE

	Group and Bank 2020 RM'000	Group and Bank 2019 RM'000
Financial liabilities at amortised cost		
Borrowings :		
Term loans/Revolving credits	1,400	4,243
Medium Term Notes	114,073	138,080
	115,473	142,323

27. UNDERWRITING RESULTS

	Group and Bank 2020 RM'000	Group and Bank 2019 RM'000
Gross premium	1,046	10,948
Reinsurance	(876)	(8,636)
Net premium	170	2,312
Decrease in premium liabilities reserves	(3,680)	3,009
Net earned premium (Note 27(i))	(3,510)	5,321
Other fee income	525	845
Write-back of allowance for doubtful debts	4	197
	(2,981)	6,363
Net claims recovered/(incurred) (Note 27(ii))	4,956	(28,328)
Underwriting results	1,975	(21,965)

(i) Net earned premium

	Group and Bank 2020 RM'000	Group and Bank 2019 RM'000
Gross premium	1,046	10,948
Change in premium liabilities reserves (Note 21)	(3,680)	3,009
	(2,634)	13,957
Net premium ceded	(876)	(8,636)
Net earned premium	(3,510)	5,321

NOTES TO THE FINANCIAL STATEMENTS

27. UNDERWRITING RESULTS (CONT'D.)

(ii) Net claims recovered/(incurred)

	Group and Bank 2020 RM'000	2019 RM'000
Gross claims paid less salvage (Note 22)	(314)	(8,346)
Recoveries	4,031	-
Claims recovered/(paid)	3,717	(8,346)
Change to insurance claims (Note 22)	1,239	(19,982)
Net claims recovered/(incurred)	4,956	(28,328)

28. OTHER INCOME

	Group and Bank 2020 RM'000	2019 RM'000
Fee income from loans, advances and financing	21,483	22,023
Unrealised foreign exchange gain	5,576	444,964
Realised foreign exchange gain/(loss)		
- Financial assets at amortised cost	44,163	(190,915)
- Financial liabilities at FVTPL	(28,714)	(249,797)
Gain on disposal of equipment	39	27
Rental of income	14	25
Unrealised gain on derivatives	104,350	107,809
Loss on MTN/Sukuk		
- Unrealised	(40,429)	(88,628)
Others	177	1,145
	106,659	46,653

29. OVERHEAD EXPENSES

	Note	Group and Bank 2020 RM'000	2019 RM'000
Personnel costs	(i)	55,918	46,984
Establishment related expenses	(ii)	10,676	11,779
Promotion and marketing expenses	(iii)	558	2,225
General administrative expenses	(iv)	21,039	21,041
		88,191	82,029

29. OVERHEAD EXPENSES (CONT'D.)

(i) Personnel costs

	Group and Bank	
	2020 RM'000	2019 RM'000
Salaries, allowances and bonuses	43,605	33,692
Defined contribution plan	6,529	6,316
Other staff related expenses	5,784	6,976
	55,918	46,984

(ii) Establishment related expenses

	Group and Bank	
	2020 RM'000	2019 RM'000
Depreciation:		
- Property and equipment (Note 15)	4,445	4,616
- Investment properties (Note 13)	18	18
- Right-of-use assets (Note 16)	247	237
Amortisation of intangible assets (Note 14)	1,643	2,333
Rental of equipment	200	246
Interest expense - lease liabilities	33	27
Repairs and maintenance of property and equipment	4,090	4,302
	10,676	11,779

(iii) Promotion and marketing expenses

	Group and Bank	
	2020 RM'000	2019 RM'000
Advertisement and publicity	558	2,225

NOTES TO THE FINANCIAL STATEMENTS

29. OVERHEAD EXPENSES (CONT'D.)

(iv) General administrative expenses

	Group and Bank 2020 RM'000	2019 RM'000
Administrative expenses	1,952	2,755
Auditors' remuneration		
- statutory audit	433	533
- regulatory related services	3	3
- other services	179	199
Property and equipment written off	-	3,353
General expenses	8,438	8,848
Non-Executive directors remuneration (Note 30)	1,059	1,601
Professional fees	8,367	2,655
Charge of brokerage fees	6	19
Others	602	1,075
	21,039	21,041

30. DIRECTORS' FEES AND REMUNERATION

	Salary RM'000	Fees RM'000	Bonus RM'000	Other Emoluments RM'000	Total RM'000
Group and Bank					
2020					
Executive Director:					
Dato' Shahrul Nazri bin Abdul Rahim	876	-	-	131	1,007
	876	-	-	131	1,007
Non-Executive Directors: (Note 29)					
Dato' Feizal Mustapha @ Feizal bin Mustapha	-	216	-	36	252
Dato' Dr. Amiruddin bin Muhamed	-	129	-	-	129
Datuk Bahria binti Mohd Tamil	-	118	-	-	118
Datuk Dr. Syed Muhamad Syed Abdul Kadir	-	63	-	-	63
Dato' Wong Lee Yun	-	61	-	-	61
Wong Yoke Nyen	-	73	-	-	73
Prem Kumar A/L Shambunath Kirparam	-	71	-	-	71
Mohammad Fadzlan bin Abdul Samad	-	47	-	-	47
Hijah Arifakh binti Othman	-	103	-	-	103
Dato' Dzulkifli bin Mahmud	-	24	-	-	24
Azizan bin Ahmad	-	118	-	-	118
	-	1,023	-	36	1,059
Total Directors' remuneration (excluding benefits in-kind)	876	1,023	-	167	2,066

30. DIRECTORS' FEES AND REMUNERATION (CONT'D.)

	Salary RM'000	Fees RM'000	Bonus RM'000	Other Emoluments RM'000	Total RM'000
Group and Bank					
2019					
Executive Director:					
Norzilah binti Mohammed	107	-	-	87	194
Dato' Shahrul Nazri bin Abdul Rahim	486	-	-	18	504
	593	-	-	105	698
Non-Executive Directors:					
Dato' Feizal Mustapha @ Feizal bin Mustapha	-	173	-	27	200
Mohammad Fadzlan bin Abdul Samad	-	256	-	-	256
Hijah Arifakh binti Othman	-	213	-	-	213
Dato' Dzulkifli bin Mahmud	-	210	-	-	210
Dato' Dr. Amiruddin bin Muhamed	-	161	-	-	161
Azizan bin Ahmad	-	123	-	-	123
Datuk Bahria binti Mohd Tamil	-	29	-	-	29
Ismail bin Mahbob	-	147	-	-	147
YM Tunku Afwida binti Tunku A. Malek	-	149	-	-	149
Datuk Syed Ahmad Helmy bin Syed Ahmad	-	113	-	-	113
	-	1,574	-	27	1,601
Total Directors' remuneration (excluding benefits in-kind)	593	1,574	-	132	2,299

31. KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel comprise person having authority and responsibility for planning, directing and controlling the activities of the entity either directly or indirectly. It comprises the President/Chief Executive Officer and senior management of the Group and of the Bank.

The key management personnel compensation is as follows:

	Group and Bank 2020 RM'000	Group and Bank 2019 RM'000
Salaries and other short-term benefits	3,584	593
Defined contribution plan ("EPF")	531	-
Benefits-in-kind	66	105
	4,181	698
Included in the total key management personnel is:		
Executive Director's remuneration (Note 30)	1,007	698

NOTES TO THE FINANCIAL STATEMENTS

32. ALLOWANCES FOR EXPECTED CREDIT LOSSES ON LOANS, ADVANCES AND FINANCING

	Group and Bank 2020 RM'000	2019 RM'000
Allowances for losses on loans, advances and financing		
- 12-month ECL - Stage 1, net	(52,241)	(56,514)
- Lifetime not credit impaired ECL - Stage 2, net	227,895	39,782
- Lifetime ECL credit impaired - Stage 3, charged for the year	178,706	725,928
- Lifetime ECL credit impaired - Stage 3, written back during the year	(520,790)	(313,174)
- Bad debts written off	220,073	170,113
	53,643	566,135

33. ALLOWANCES FOR ECL ON COMMITMENTS AND CONTINGENCIES

	Group and Bank 2020 RM'000	2019 RM'000
Allowances for commitments and contingencies		
- 12-month ECL - Stage 1, net	(7,238)	16,157
- Lifetime not impaired ECL - Stage 2, net	17,867	3,855
- Lifetime ECL credit impaired - Stage 3, net	(7,796)	44,935
	2,833	64,947

34. ALLOWANCES FOR/(WRITEBACK) ECL ON FINANCIAL INVESTMENTS

	Group and Bank 2020 RM'000	2019 RM'000
Financial investments at FVOCI (Note 6)	(82)	1,177
Financial investments at amortised costs (Note 6)	42,666	(11,498)
Total allowances on financial investments	42,584	(10,321)

35. ALLOWANCES FOR ECL ON OTHER ASSETS

	Group and Bank	
	2020 RM'000	2019 RM'000
Allowances for other assets	624	-

36. TAXATION

	Group		Bank	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Income tax expense:				
- Overprovision of income tax in prior year	-	1,323	-	1,323
Deferred tax expense (Note 11):				
- Origination and reversal of temporary differences	2,676	3,550	2,676	3,550
- Benefits from previously unutilised business losses	(2,676)	(3,550)	(2,676)	(3,550)
- Underprovision of income tax in prior year	-	(2,316)	-	-
	-	(993)	-	1,323

Income tax is calculated at the Malaysian statutory tax rate of 24% (2019: 24%) of the estimated assessable profit for the year.

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

	Group		Bank	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Profit/(Loss) before taxation	51,150	(478,250)	51,150	(478,250)
Income tax using Malaysian statutory tax rate of 24% (2019: 24%)	12,276	(114,780)	12,276	(114,780)
Non-deductible expenses	5,366	4,823	5,366	4,823
Deferred tax assets not recognised on unutilised business losses	(17,642)	109,957	(17,642)	109,957
Underprovision of deferred tax in prior year	-	(2,316)	-	-
Overprovision of income tax in prior year	-	1,323	-	1,323
	-	(993)	-	1,323

NOTES TO THE FINANCIAL STATEMENTS

37. BASIC/DILUTED EARNINGS/(LOSS) PER SHARE

	Group		Bank	
	2020	2019	2020	2019
Issued ordinary shares as at 31 December ('000)	2,708,665	2,708,665	2,708,665	2,708,665
Profit/(Loss) after taxation (RM'000)	51,150	(477,257)	51,150	(479,573)
Basic/(diluted) loss per share (sen)	1.89	(17.62)	1.89	(17.71)

The basic/diluted loss per ordinary share has been calculated based on the loss after taxation and the weighted average number of ordinary shares during the year.

38. DIVIDENDS

The holders of redeemable convertible cumulative preference shares are entitled to receive dividends at a fixed rate of 4.7% per annum as and when declared by the Bank.

39. COMMITMENTS AND CONTINGENCIES

	Group and Bank	
	2020 RM'000	2019 RM'000
Banking operation commitments		
Contracted but not provided for:		
Guarantee facility	124,039	336,306
Letter of credit	3,281	5,598
Undrawn loans and financing	2,148,512	1,464,482
	2,275,832	1,806,386
Insurance operation commitments		
Contracted but not provided for:		
Within one year	454,725	739,232
One year or later and no later than five years	366,635	483,275
	821,360	1,222,507
Operational commitments		
Approved but not contracted for:		
Within one year	12,393	5,313
Total commitments and contingencies	3,109,585	3,034,206

40. SIGNIFICANT RELATED PARTIES TRANSACTION AND BALANCES

For the purposes of these financial statements, parties are considered to be related to the Group and the Bank, if the Group or the Bank has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Bank and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Group has related party transactions and balances with the following parties:

(a) Compensation of key management personnel

Key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel consists of the President/Chief Executive Officer and senior management of the Group and the Bank. The key management personnel compensation is disclosed in Note 31.

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

	Bank	
	2020 RM'000	**2019 RM'000**
Amount due to subsidiaries	64,120	64,123

(c) Government related parties

Included in the financial position of the Group and the Bank are the amounts due from The Government of Malaysia relating to management fee represented by the following:

	Group and Bank	
	2020 RM'000	**2019 RM'000**
Amount due from The Government of Malaysia	2,699	2,114

The transaction of management fee represented by the following:

	Group and Bank	
	2020 RM'000	**2019 RM'000**
Transaction during the year		
Other income: Management fee	539	539

NOTES TO THE FINANCIAL STATEMENTS

40. SIGNIFICANT RELATED PARTIES TRANSACTION AND BALANCES (CONT'D.)

The Group has related party transactions and balances with the following parties: (cont'd.)

(c) Government related parties (cont'd.)

The Government of Malaysia

At the end of the tenure, the Bank shall repay the fund received under the MKFF scheme together with all interest earned, less the allowance for impaired loans and return all proceeds derived from investment of the unutilised funds to the Government. The net amount repayable to the Government as at the financial year is represented as follows:

	Group and Bank	
	2020 RM'000	2019 RM'000
Fund under MKFF Scheme	170,100	170,100
Less:		
Loans repayment	(134,172)	(134,172)
	35,928	35,928
Less:		
Loans and financing (Note 7)	(8,976)	(9,776)
Allowance for ECL for loans and financing	(5,605)	(4,473)
Add:		
Interest earned from financing	1,504	1,401
Interest income on investment	7,201	6,511
Net repayable	30,052	29,591

(d) Licensed banks and other financial institutions

	Group and Bank	
	2020 RM'000	2019 RM'000
Unutilised funds under the MKFF Scheme included in deposits and placements (Note 5)	27,387	26,119

41. CREDIT EXPOSURE ARISING FROM FINANCING FACILITIES WITH CONNECTED PARTIES

The Group's and the Bank's credit exposure arising from financing facilities with connected parties are as disclosed below:

	Group and Bank 2020 RM'000	2019 RM'000
Aggregate value of outstanding exposure with connected parties	551,146	556,167
Equities and PDS held	600,000	600,000
	1,151,146	1,156,167
Total exposure to connected parties as % of total capital	73.40%	56.44%
Total exposure to connected parties as % of total outstanding exposures	10.00%	8.50%

The credit exposures disclosed below are based on the requirement of Paragraph 14.1 of Bank Negara Malaysia's Policy Document on Financing Facilities with Connected Parties ("Policy Document").

42. FINANCIAL RISK MANAGEMENT POLICIES

The Group's and the Bank's financial risk management policies seek to enhance shareholder's value. The Group and the Bank focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the financial performance of the Bank.

The Risk Management Division ("RMD") of the Group and the Bank is responsible for formulating policies and the oversight of credit, market liquidity and operational risks.

Financial risk management is carried out through risk assessment and reviews, internal control systems and adherence to Group's and Bank's financial risk management policies, which are reported to and approved by the Board of Directors of the Bank ("the Board"). The Board also approves the treasury practices which cover the management of these risks.

The main areas of financial risks faced by the Group and the Bank and the policies are set out as follows:

a. Capital management

Capital management refers to continuous, proactive and systematic process to ensure the Group and the Bank have sufficient capital in accordance to its risk profile and regulator's requirements.

b. Market risk

The Group's and the Bank's market risk arise due to changes foreign currency value which would lead to a decline in the valuation of the Group's and the Bank's foreign currency base investment securities, derivatives and borrowings.

c. Asset liability management risk

Asset Liability Management ("ALM") risk comprises:

(i) Interest rate risks

This refers to the exposure of the Group's and the Bank's financial conditions due to adverse movements in interest rates to the banking book.

(ii) Liquidity risks

Defined as the risk of not being able to obtain sufficient funds in a timely manner at a reasonable cost to meet financial commitments when due.

NOTES TO THE FINANCIAL STATEMENTS

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

The main areas of financial risks faced by the Group and the Bank and the policies are set out as follows (cont'd.):

d. Credit risk

Credit risk is defined as risk due to uncertainty in the customers or the counterparties ability to meet its obligations or failure to perform according to the terms and conditions of the credit-related contract.

Oversight and organisation

A stable enterprise-level organisational structure for risk management is necessary to ensure a uniform view of risk across the Group and the Bank. It is also important to have clear roles and responsibilities defined for each functions.

The Board has the overall responsibility for understanding the risks undertaken by the Group and the Bank and ensuring that the risks are properly managed.

While the Board is ultimately responsible for risk management of the Group and the Bank, it has entrusted the Board Risk Committee ("BRC") to carry out its functions. Although the responsibilities have been delegated, the Board still remains accountable. BRC, which is chaired by an independent Director of the Board, oversees the overall management of all risks covering credit risk management, country risk management, market risk management, asset liability management and operational risk management.

Executions of the Board's risk strategies and policies are the responsibilities of the Group's and the Bank's management and the conduct of these functions are being exercised under a committee structure, namely Management Risk Committee ("MRC"). The President/Chief Executive Officer chairs MRC. The Committee focuses on the overall business strategies and daily business operations of the Group and the Bank in respect of risk management.

To carry out the day-to-day risk management function, a dedicated RMD that is independent of profit and volume targets supports the Committee. RMD reports functionally to the BRC and administratively to the President/Chief Executive Officer.

Capital management

Capital policy

The overall objective of capital management is to maintain a strong capital position in order to provide opportunities for business growth and able to provide cushion for any potential losses. In line with this objective, the Group and the Bank view capital position as an important key barometer of financial health.

In order to support its mandated roles, the Group and the Bank must have strong and adequate capital to support its business activities on an on-going basis. BNM has imposed several regulatory capital requirements whereby, the Bank must have an absolute minimum capital funds of RM300,000,000 and a minimum Risk Weighted Capital Ratio ("RWCR") of 8% at all times. The minimum capital funds refers to paid-up capital and reserves as defined in Section 3 of Development Financial Institution Act 2002.

In order to further strengthen the capital position of the Group and the Bank through a progressive and systematic building up of the reserve fund, the Group and the Bank are required to maintain a reserve fund and transfer a certain percentage of its net profits to the reserve fund once the RWCR falls below the threshold of 16%. As at the reporting date, the reserve fund is not yet required as at the reporting date as the Group's and the Bank's capital is currently above the threshold of 16%.

The Bank has adopted BNM's transitional arrangements to add back a portion of the Stage 1 and Stage 2 allowance for ECL to Tier 1 Capital over a four-year period from financial year beginning 2020. The transitional arrangements are consistent with the guidance issued by the Basel Committee of Banking Supervision on "Regulatory treatment of accounting provisions – interim approach and transitional arrangement" (March 2017) and "Measures to reflect the impact of Covid-19" dated April 2020.

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Regulatory capital

The following table set forth capital resources and capital adequacy for the Bank as at 31 December:

	Without Transitional Arrangement 2020 RM'000	With Transitional Arrangement 2020 RM'000	2019 RM'000
Ordinary share capital	2,708,665	2,708,665	2,708,665
Accumulated losses	(1,382,814)	(1,382,814)	(888,833)
Current year profit/(loss)	51,150	51,150	(479,573)
Add: Transitional arrangement	-	228,867	-
Eligible Tier 1 capital	1,377,001	1,605,868	1,340,259
Loss provision and regulatory reserve*	564,782	335,915	346,544
Redeemable convertible cumulative preference shares	250,000	250,000	250,000
Provision for guarantee and claims	41,587	41,587	39,705
Provision for commitment and contingencies	47,747	47,747	37,118
Eligible Tier 2 capital	904,116	675,249	673,367
Investment in subsidiaries	(64,129)	(64,129)	(64,129)
Total capital base	2,216,988	2,216,988	1,949,497
Risk weighted assets	5,667,574	5,667,574	6,674,261
Capital Ratio			
- With proposed RCCPS dividend (Note 38)			
Core capital ratio	24.01%	28.05%	19.87%
RWCR	38.83%	38.83%	28.99%
- Without proposed RCCPS dividend			
Core capital ratio	24.30%	28.33%	20.08%
RWCR	39.12%	39.12%	29.21%

* The loss provision for 2020 is computed based on Para 13.1 (d)(ii) or Capital Adequacy Framework (capital components) issued by BNM on 2 February 2019. The Tier 2 Capital comprise collective allowance on unimpaired loans, advances and financing and regulatory reserve.

The Group and the Bank have elected to apply the transitional arrangements in accordance with BNM's Guidelines on Transitional Arrangements for Regulatory Capital Treatment of Accounting Provisions for Development Financial Institutions.

NOTES TO THE FINANCIAL STATEMENTS

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Capital monitoring

The Group's and the Bank's capital are closely monitored and actively managed. Besides the regulatory capital requirement of 8%, the Group and the Bank have set an internal capital requirement limit that would act as a buffer to the regulatory capital and as an indicator that affords the Group and the Bank a "well capitalised" status. The MRC shall be responsible in managing and monitoring both the internal capital limit and regulatory capital requirement.

Market risk management

Approach and risk strategy

The principal objectives of market risk management are to assume an appropriate balance between the level of risk and the level of return desired in order to maximise the return to shareholders' funds and to ensure prudent management of the Group's and the Bank's resources to support the growth of the Group's and the Bank's economic value.

The Group's and the Bank's market risk management strategies are to identify, measure, monitor and manage the Group's and the Bank's earnings and capital against market risk inherent in all activities of the Group and the Bank and ensure all relevant personnel clearly understand the Group's and the Bank's approach in managing market risk.

Risk identification

The Group's and the Bank's market risk arise due to changes foreign currency which would lead to a decline in the value of the Group's and the Bank's investment securities, derivatives, borrowings, foreign exchange and equity position.

Measurement

The Group's and the Bank's policies are to minimise the exposures to foreign currency risk arising from lending activities by monitoring and obtaining the Board's approval for funding requisitions that involve foreign currencies.

The table below shows the Group's and the Bank's foreign currencies sensitivity based on reasonable possible movements on the increase/(decrease) in foreign exchange ("FX") rates that resulted to the increase/(decrease) in profit and loss:

	Changes in foreign exchange rates (+/-) %	Effect on profit/loss Increase in FX rate RM'000	Effect on profit/loss Decrease in FX rate RM'000	Effect on equity Increase in FX rate RM'000	Effect on equity Decrease in FX rate RM'000
2020					
EUR	5	42	(42)	42	(42)
GBP	5	24	(24)	24	(24)
SGD	5	2,466	(2,466)	2,466	(2,466)
USD	10	1,463	(1,463)	1,463	(1,463)
AUD	10	3,284	(3,284)	3,284	(3,284)
		7,279	(7,279)	7,279	(7,279)

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Market risk management (cont'd.)

Measurement (cont'd.)

The table below shows the Group's and the Bank's foreign currencies sensitivity based on reasonable possible movements on the increase/(decrease) in foreign exchange ("FX") rates that resulted to the increase/(decrease) in profit and loss (cont'd.):

	Changes in foreign exhange rates (+/-)	Effect on profit/loss		Effect on equity	
		Increase in FX rate	Decrease in FX rate	Increase in FX rate	Decrease in FX rate
	%	RM'000	RM'000	RM'000	RM'000
2019					
EUR	5	362	(362)	362	(362)
GBP	5	1,324	(1,324)	1,324	(1,324)
SGD	5	2,266	(2,266)	2,266	(2,266)
USD	10	3,839	(3,839)	3,839	(3,839)
AUD	10	2,182	(2,182)	2,182	(2,182)
HKD	5	-	-	-	-
		9,973	(9,973)	9,973	(9,973)

Asset liability management

Approach and risk strategy

The main objective is to proactively manage the Group's and the Bank's financial position which includes assets, liabilities and capital, in order to maximise earnings and to attain its strategic goal, within the overall risk/return preferences.

The Group's and the Bank's Asset and Liability Management ("ALM") strategies are as follows:

- Ensure that the Group and the Bank achieve its financial objective through strategic business plan which shall be developed within the risk tolerance level;
- Ensure that the Group's and Bank's pricing and funding are adequately maintain to support a sound capital base through strategic management of the balance sheet; and
- Ensure that the Group and the Bank are able to sustain its capital against ALM risk inherent in all activities of the Group and the Bank.

Risk identification

When analysing whether or not an activity introduces a new element of ALM risk exposure, the Group and the Bank should be aware that changes to an instrument's maturity, repricing or repayment terms could materially affect the product's ALM risks characteristics.

Measurement

The Group and the Bank face interest rate risks arising from re-pricing mismatches of assets and liabilities from its banking businesses. These risks are monitored through economic value of equity limit and net interest income changes.

The Group and the Bank perform regular net interest income simulation to better understand the sensitivity to changes in interest rates on the net interest income. In addition, MRC will actively manage the re-pricing mismatches with the aid of monthly repricing gap and Earning-at-Risk ("EAR") reports.

NOTES TO THE FINANCIAL STATEMENTS

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Asset liability management (cont'd.)

Measurement (cont'd.)

The table below shows the Group's and the Bank's interest rate risk exposure based on contractual re-pricing gap:

Group	Less than 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-interest bearing RM'000	Total RM'000
2020						
Assets						
Cash and bank balances	-	-	-	-	122,399	122,399
Deposits and placement with banks and other financial institutions	3,205,749	148,201	10,149	-	-	3,364,099
Financial Investments	-	49,459	1,116,092	-	-	1,165,551
Loans, advances and financing	189,598	932,205	1,112,125	672,411	772,744	3,679,083
Derivative financial instruments	-	-	-	-	141,749	141,749
Other assets	-	-	-	-	163,334	163,334
Total assets	3,395,347	1,129,865	2,238,366	672,411	1,200,226	8,636,215
Liabilities and equity						
Borrowings	748,027	2,064,109	3,322,895	456,251	-	6,591,282
Derivative financial instruments	-	-	-	-	-	-
Other liabilities	-	-	-	-	442,800	442,800
Shareholders' and Takaful participants fund	-	-	-	-	1,602,134	1,602,134
Total liabilities and equity	748,027	2,064,109	3,322,895	456,251	2,044,934	8,636,216
Period gap	2,647,320	(934,244)	(1,084,529)	216,160	(844,707)	-
Cumulative gap	2,647,320	1,713,076	628,547	844,707	-	-

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Asset liability management (cont'd.)

Measurement (cont'd.)

The table below shows the Group's and the Bank's interest rate risk exposure based on contractual re-pricing gap (cont'd.):

Group	Less than 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-interest bearing RM'000	Total RM'000
2019						
Assets						
Cash and bank balances	-	-	-	-	62,593	62,593
Deposits and placement with banks and other financial institutions	3,022,168	25,000	-	-	-	3,047,168
Financial Investments	-	-	1,204,442	-	-	1,204,442
Loans, advances and financing	1,025,259	292,669	1,815,073	959,327	676,314	4,768,642
Derivative financial instruments	-	-	-	-	61,218	61,218
Other assets	-	-	-	-	357,840	357,840
Total assets	4,047,427	317,669	3,019,515	959,327	1,157,965	9,501,903
Liabilities and equity						
Borrowings	2,394,740	363,201	4,161,213	519,280	-	7,438,434
Derivative financial instruments	-	-	-	-	18,531	18,531
Other liabilities	-	-	-	-	486,688	486,688
Shareholders' and Takaful participants fund	-	-	-	-	1,558,250	1,558,2504
Total liabilities and equity	2,394,740	363,201	4,161,213	519,280	2,063,469	9,501,903
Period gap	1,652,687	(45,532)	(1,141,698)	440,047	(905,504)	-
Cumulative gap	1,652,687	1,607,155	465,457	905,504	-	-

NOTES TO THE FINANCIAL STATEMENTS

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Asset liability management (cont'd.)

Measurement (cont'd.)

The table below shows the Group's and the Bank's interest rate risk exposure based on contractual re-pricing gap (cont'd.):

Bank	Less than 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-interest bearing RM'000	Total RM'000
2020						
Assets						
Cash and bank balances	-	-	-	-	122,399	122,399
Deposits and placement with banks and other financial institutions	3,205,749	148,201	10,149	-	-	3,364,099
Financial Investments	-	49,459	1,116,092	-	-	1,165,551
Loans, advances and financing	189,598	932,205	1,112,125	672,411	772,744	3,679,083
Derivative financial instruments	-	-	-	-	141,749	141,749
Other assets	-	-	-	-	227,463	227,463
Total assets	3,395,347	1,129,865	2,238,366	672,411	1,264,355	8,700,344
Liabilities and equity						
Borrowings	748,027	2,064,109	3,322,895	456,251	-	6,591,282
Derivative financial instruments	-	-	-	-	-	-
Other liabilities	-	-	-	-	506,934	506,934
Shareholders' and Takaful participants fund	-	-	-	-	1,602,129	1,602,129
Total liabilities and equity	748,027	2,064,109	3,322,895	456,251	2,109,063	8,700,345
Period gap	2,647,320	(934,244)	(1,084,529)	216,160	(844,707)	-
Cumulative gap	2,647,320	1,713,076	628,547	844,707	-	-

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Asset liability management (cont'd.)

Measurement (cont'd.)

The table below shows the Group's and the Bank's interest rate risk exposure based on contractual re-pricing gap (cont'd.):

Bank	Less than 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-interest bearing RM'000	Total RM'000
2019						
Assets						
Cash and bank balances	-	-	-	-	62,593	62,593
Deposits and placement with banks and other financial institutions	3,022,168	25,000	-	-	-	3,047,168
Financial Investments	-	-	1,204,442	-	-	1,204,442
Loans, advances and financing	1,025,259	292,669	1,815,073	959,327	676,314	4,768,642
Derivative financial instruments	-	-	-	-	61,218	61,218
Other assets	-	-	-	-	421,969	421,969
Total assets	4,047,427	317,669	3,019,515	959,327	1,222,094	9,566,032
Liabilities and equity						
Borrowings	2,394,740	363,201	4,161,213	519,280	-	7,438,434
Derivative financial instruments	-	-	-	-	18,531	18,531
Other liabilities	-	-	-	-	550,822	550,822
Shareholders' and Takaful participants fund	-	-	-	-	1,558,245	1,558,245
Total liabilities and equity	2,394,740	363,201	4,161,213	519,280	2,127,598	9,566,032
Period gap	1,652,687	(45,532)	(1,141,698)	440,047	(905,504)	-
Cumulative gap	1,652,687	1,607,155	465,457	905,504	-	-

NOTES TO THE FINANCIAL STATEMENTS

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Asset liability management (cont'd.)

Analysis of net interest income ("NII") and net profit income ("NPI") sensitivity

The table below shows the Bank's NII and NPI sensitivity based on possible parallel shift in interest rate:

	NII		NPI	
	2020 Impact on profit and loss Increase/ (decrease) RM'000	**2019 Impact on profit and loss Increase/ (decrease) RM'000**	**2020 Impact on profit and loss Increase/ (decrease) RM'000**	**2019 Impact on profit and loss Increase/ (decrease) RM'000**
Interest/Profit rate - parallel shift				
+ 50 basis points	91	388	552	604
- 50 basis points	(91)	(388)	(552)	(604)

Impact to revaluation reserve is assessed by applying up and down 50 basis points rate shock to the yield curve to model on mark-to-market for financial investments at FVOCI portfolio:

	2020 Impact on OCI Increase/ (decrease) RM'000	**2019 Impact on OCI Increase/ (decrease) RM'000**
+ 50 basis points	(55)	68
- 50 basis points	55	(68)

Liquidity risk management

Approach and risk strategy

The inability to create liquidity would cause serious repercussion to the Group and the Bank in terms of its reputation and even its continued existence. In view of this, the Group and the Bank pay particular attention to liquidity risk management approach and strategy.

The objective of liquidity risk management is to ensure the availability of sufficient liquidity to honour all financial obligations and able to meet any stressful events. The Group's and the Bank's liquidity risk management strategies involve:

- Establish appropriate policies to oversee the management of liquidity risk of the Group and the Bank;
- Establish prudent liquidity risk limits to ensure the Group and the Bank maintain a safe level of asset liquidity; and
- Develop contingency funding plans to manage the Group's and the Bank's funding requirement during liquidity crisis.

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Liquidity risk management (cont'd.)

Risk identification

There are two types of liquidity risk i.e. funding liquidity risk and market liquidity risk. Funding liquidity risk refers to the potential inability of the Group and the Bank to meet its funding requirements arising from cash flow mismatches at a reasonable cost. Market liquidity risk refers to the Group's and the Bank's potential inability to liquidate positions quickly and in sufficient volumes, at a reasonable price.

Measurement

Liquidity is measured by the Group's and the Bank's ability to efficiently and economically accommodate decrease in deposits/funding (such as funds obtained from the Government) and other purchased liabilities and to fund increases in assets to ensure continued growth of the Group and the Bank.

The Group and the Bank maintain large capital base, sufficient liquid assets, diversified funding sources, and regularly assesses the long-standing relationship with traditional fund providers. These processes are subject to regular reviews to ensure adequacy and appropriateness.

In addition, the Group's and the Bank's liquidity positions are monitored and managed through structural liquidity indicators, such as loan to purchase funds and offshore revolving funds utilisation rate ratios to maintain an optimal funding mix and asset composition.

Table below analyses assets and liabilities of the Group's and the Bank's according to their contractual maturity:

Group	On demand RM'000	Less than 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2020						
Assets						
Cash and bank balances	122,399	-	-	-	-	122,399
Deposits and placements with banks and other financial institutions	-	3,205,749	148,201	10,149	-	3,364,099
Financial Investment	-	-	49,459	1,116,092	-	1,165,551
Loans, advances and financing	-	189,598	932,205	1,112,235	1,445,045	3,679,083
Derivative financial instruments	141,749	-	-	-	-	141,749
Other assets	163,334	-	-	-	-	163,334
Total assets	427,482	3,395,347	1,129,865	2,238,476	1,445,045	8,636,215
Liabilities						
Borrowings	-	748,027	2,064,109	3,322,895	456,251	6,591,282
Derivative financial instruments	-	-	-	-	-	-
Other liabilities	442,800	-	-	-	-	442,800
Total liabilities	442,800	748,027	2,064,109	3,322,895	456,251	7,034,082
Net maturity mismatch	(15,317)	2,647,320	(934,244)	(1,084,419)	988,794	1,602,134

NOTES TO THE FINANCIAL STATEMENTS

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Liquidity risk management (cont'd.)

Measurement (cont'd.)

Table below analyses assets and liabilities of the Group's and the Bank's according to their contractual maturity (cont'd.):

Group	On demand RM'000	Less than 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2019						
Assets						
Cash and bank balances	62,593	-	-	-	-	62,593
Deposits and placements with banks and other financial institutions	-	3,022,168	25,000	-	-	3,047,168
Financial Investment	-	-	-	1,204,442	-	1,204,442
Loans, advances and financing	676,314	1,025,259	292,669	1,815,073	959,327	4,768,642
Derivative financial instruments	61,218	-	-	-	-	61,218
Other assets	357,840	-	-	-	-	357,840
Total assets	1,157,965	4,047,427	317,669	3,019,515	959,327	9,501,903
Liabilities						
Borrowings	-	2,394,740	363,201	4,161,213	519,280	7,438,434
Derivative financial instruments	18,531	-	-	-	-	18,531
Other liabilities	486,688	-	-	-	-	486,688
Total liabilities	505,219	2,394,740	363,201	4,161,213	519,280	7,943,653
Net maturity mismatch	652,746	1,652,687	(45,532)	(1,141,698)	440,047	1,558,250

42. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

Liquidity risk management (cont'd.)

Measurement (cont'd.)

Table below analyses assets and liabilities of the Group's and the Bank's according to their contractual maturity (cont'd.):

Bank	On demand RM'000	Less than 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2020						
Assets						
Cash and bank balances	122,399	-	-	-	-	122,399
Deposits and placements with banks and other financial institutions	-	3,205,749	148,201	10,149	-	3,364,099
Financial Investment	-	-	49,459	1,116,092	-	1,165,551
Loans, advances and financing	-	189,598	932,205	1,112,125	1,445,155	3,679,083
Derivative financial instruments	141,749	-	-	-	-	141,749
Other assets	227,463	-	-	-	-	227,463
Total assets	491,611	3,395,347	1,129,865	2,238,366	1,445,155	8,700,344
Liabilities						
Borrowings	-	748,027	2,064,109	3,322,895	456,251	6,591,282
Derivative financial instruments	-	-	-	-	-	-
Other liabilities	506,934	-	-	-	-	506,934
Total liabilities	506,934	748,027	2,064,109	3,322,895	456,251	7,098,216
Net maturity mismatch	(15,322)	2,647,320	(934,244)	(1,084,529)	988,904	1,602,129
2019						
Assets						
Cash and bank balances	62,593	-	-	-	-	62,593
Deposits and placements with banks and other financial institutions	-	3,022,168	25,000	-	-	3,047,168
Financial Investment	-	-	-	1,204,442	-	1,204,442
Loans, advances and financing	676,314	1,025,259	292,669	1,815,073	959,327	4,768,642
Derivative financial instruments	61,218	-	-	-	-	61,218
Other assets	421,969	-	-	-	-	421,969
Total assets	1,222,094	4,047,427	317,669	3,019,515	959,327	9,566,032
Liabilities						
Borrowings	-	2,394,740	363,201	4,161,213	519,280	7,438,434
Derivative financial instruments	18,531	-	-	-	-	18,531
Other liabilities	550,822	-	-	-	-	550,822
Total liabilities	569,353	2,394,740	363,201	4,161,213	519,280	8,007,787
Net maturity mismatch	652,741	1,652,687	(45,532)	(1,141,698)	440,047	1,558,245

NOTES TO THE FINANCIAL STATEMENTS

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Liquidity risk management (cont'd.)

The following tables show the contractual undiscounted cash flow payable for non-derivatives financial liabilities. The financial liabilities in the tables below do not agree to the balances in the statement of financial position as the tables incorporate all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments. The maturity profile does not necessarily reflect behavioural cash flows.

Group and Bank	On demand RM'000	Less than 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2020						
Derivative financial instruments	-	-	-	-	-	-
Non-derivative financial liabilities						
Borrowings	-	751,207	2,114,612	3,426,350	603,452	6,895,621
Other liabilities	442,800	-	-	-	-	442,800
Total financial liabilities	442,800	751,207	2,114,612	3,426,350	603,452	7,338,421
Commitments and contingencies						
Banking operation commitments						
Contracted but not provided for:						
Guarantee facility	124,039	-	-	-	-	124,039
Letter of credit	3,281	-	-	-	-	3,281
Undrawn loans and financing	-	612,020	1,163,470	264,584	108,438	2,148,512
	127,320	612,020	1,163,470	264,584	108,438	2,275,832
Insurance operation commitments						
Contracted but not provided for:						
Within one year	-	-	454,725	-	-	454,725
One year or later and no later than five years	-	-	-	366,635	-	366,635
	-	-	454,725	366,635	-	821,360
Total commitments and contingencies	127,320	612,020	1,618,195	631,219	108,438	3,097,192

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Liquidity risk management (cont'd.)

Group and Bank	On demand RM'000	Less than 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2019						
Derivative financial liabilities instruments	-	28,363	80,517	634,629	65,537	809,046
Non-derivative financial liabilities						
Borrowings	-	2,435,288	498,132	4,546,489	600,049	8,079,958
Other liabilities	486,688	-	-	-	-	486,688
Total financial liabilities	486,688	2,435,288	498,132	4,546,489	600,049	8,566,646
Commitments and contingencies						
Banking operation commitments						
Contracted but not provided for:						
Guarantee facility	336,306	-	-	-	-	336,306
Letter of credit	5,598	-	-	-	-	5,598
Undrawn loans and financing	3,662	448,504	610,470	69,844	332,002	1,464,48
	345,566	448,504	610,470	69,844	332,002	1,806,386
Insurance operation commitments						
Contracted but not provided for:						
Within one year	-	-	739,232	-	-	739,232
One year or later and no later than five years	-	-	-	483,275	-	483,275
	-	-	739,232	483,275	-	1,222,507
Total commitments and contingencies	345,566	448,504	1,349,702	553,119	332,002	3,028,893

NOTES TO THE FINANCIAL STATEMENTS

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Credit risk management

Approach and risk strategy

The Group and the Bank recognise that credit risk is inherent in its banking and insurance activities. The main objective of the Group's and the Bank's credit risk management is to ensure that exposure to credit risk is always kept within its capability and financial capacity to withstand potential future losses.

The Group's and the Bank's strategies in credit risk management are:

- Consistent credit approving standards are applied in each of its credit decision process;
- All credit decisions are within credit risk tolerance that the Group and the Bank are willing to take in meeting its mandated role;
- All credit risk inherent in business activities of the Group and the Bank are comprehensively identified, measured and managed;
- Ensure the Group and the Bank hold adequate capital against credit risk and adequately compensated for risks assumed;
- Regular credit review is performed as an effective tool to constantly evaluate the quality of credits given and adherence to the credit process;
- The composition and quality of the Group's and the Bank's credit portfolio are constantly monitored to identify and manage concentrations risk; and
- Conduct stress testing on the Group's and the Bank's credit portfolio to identify possible events or future changes in economic conditions that could have favourable effects to its credit exposures and assess the Groups and the Bank's ability to withstand such changes.

Risk identification

The Group and the Bank take into account the sources of credit risks identified from all lines of business on a bank-wide basis such as direct financing risk, contingent financing risk, issuer risk, pre-settlement risk and settlement risk.

As a development financial institution, the Group and the Bank are expected primarily to fill the gaps in the supply of financial services that are not normally provided by other banking institutions.

Therefore, the Group and the Bank are exposed to credit risk mainly from credit facilities to finance and support exports and imports of goods, services and overseas projects with emphasis on non-traditional markets, provision of export credit insurance services, export financing insurance, overseas investment insurance and guarantee facilities.

The Group and the Bank are also exposed to credit risk from investment in securities and other financial market transactions.

Measurement

The Group and the Bank monitor actual exposures against established limits and have procedures in place for the purpose of monitoring and taking appropriate actions when such limits are breached. If exceeded limits, such occurrences must be reported to the MRC and subsequently, corrective measures are taken to avoid recurrence of such breaches.

Internal credit rating system is an integral part of the Group's and the Bank's credit risk management. It provides a good means of differentiating the degree of credit risk in the different credit exposures of the Group and the Bank. This will allow more accurate determination of the overall characteristics of the credit portfolio, concentrations, problem credits and the adequacy of allowances for losses on loans, advances and financing.

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Credit risk management (cont'd.)

Impairment of financial assets

The Group and the Bank individually assesses its financial assets for any objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition. In determining that there is objective evidence of an impaired loss, the Group and the Bank adopted a systematic mechanism for a prompt trigger of impairment test whereby the triggers are based on obligatory and judgmental event triggers.

When there is objective evidence of impairment of the financial assets, the classification of these assets as impaired shall be endorsed and approved by Management Committee ("MC"). Impairment losses are recorded as charges to the statement of profit and loss. The carrying amount of impaired loans, advances and financing on the statement of financial position is reduced through the use of impairment allowance account. Losses expected from future events are not recognised.

Credit risk exposure

Maximum exposure to credit risk without taking into account of any collateral and other credit enhancements:

Group and Bank	Maximum exposure to credit risk RM'000	Collateral value RM'000	Net exposures RM'000
2020			
Credit exposure for on-balance sheet assets:			
Cash and bank balances	122,399	-	122,399
Deposits and placements with banks and other financial institutions	3,364,099	-	3,364,099
Financial investments	1,165,551	-	1,165,551
Loans, advances and financing	3,679,083	2,560,461	1,118,622
Insurance receivables	588	-	588
Net derivative financial instruments	141,749	-	141,749
Other assets excluding tax prepayment	80,718	-	80,718
	8,554,187	2,560,461	5,993,726
Credit exposure for off-balance sheet assets:			
Banking operations commitments	2,275,832	-	2,275,832
Insurance operations commitments			
Short term	454,725	-	454,725
Medium/Long term	366,635	-	366,635
	3,097,192	-	3,097,192
	11,651,379	2,560,461	9,090,918

NOTES TO THE FINANCIAL STATEMENTS

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Credit risk exposure (cont'd.)

Maximum exposure to credit risk without taking into account of any collateral and other credit enhancements (cont'd.):

Group and Bank	Maximum exposure to credit risk RM'000	Collateral value RM'000	Net exposures RM'000
2019			
Credit exposure for on-balance sheet assets:			
Cash and bank balances	62,593	-	62,593
Deposits and placements with banks and other financial institutions	3,047,168	-	3,047,168
Financial investments	1,204,442	-	1,204,442
Loans, advances and financing	4,768,642	3,012,318	1,756,324
Insurance receivables	89	-	89
Net derivative financial instruments	42,687	-	42,687
Other assets excluding tax prepayment	278,113	-	278,113
	9,403,734	3,012,318	6,391,416
Credit exposure for off-balance sheet assets:			
Banking operations commitments	1,806,386	-	1,806,386
Insurance operations commitments			
Short term	739,232	-	739,232
Medium/Long term	483,275	-	483,275
	3,028,893	-	3,028,893
	12,432,627	3,012,318	9,420,309

Collateral and credit enhancement

Collateral represents the asset pledged by a customer and/or a third party on behalf of the customer, in whole or in part, to secure a credit exposure and/or potential credit exposure with the Group and the Bank, and subject to seizure in the event of default. Collateral provides the Group and the Bank with a secondary source of repayment, i.e. a source of fund to help recover its investment should the customer be unable to repay the facility obtained from the Group and the Bank.

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Credit risk exposure (cont'd.)

Collateral and credit enhancement (cont'd.)

The Group and the Bank shall consider accepting the collateral based on its marketability, measurability, stability, transferability, speed in realising the collateral value, enforceability and free from encumbrances. The collateral types and amounts held by the Group and the Bank are as follows:

	2020 RM'000	2019 RM'000
Collateral type		
Secured by cash	45,718	121,331
Secured by property	1,652,440	1,710,566
Secured by machinery	862,303	1,180,421
	2,560,461	3,012,318

The financial assets that are credit impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross carrying amount RM'000	ECL RM'000	Net carrying amount RM'000	Fair value of collateral held RM'000
2020				
Credit impaired financial assets				
Loans, advances and financing	2,382,477	1,610,717	771,760	1,241,209
Financial investment at FVOCI	100,000	100,000	-	-
Total credit impaired financial assets	2,482,477	1,710,717	771,760	1,241,209
2019				
Credit impaired financial assets				
Loans, advances and financing	2,643,617	1,968,281	675,336	1,630,357
Financial investment at FVOCI	100,000	100,000	-	-
Total credit impaired financial assets	2,743,617	2,068,281	675,336	1,630,357

Collateral and other credit enhancements

The main types of collateral or other credit enhancements held by the Group and the Bank to mitigate credit risk are fixed deposits, securities, commercial and residential properties and machineries.

NOTES TO THE FINANCIAL STATEMENTS

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Credit risk exposure (cont'd.)

Geographical analysis

Exposures to credit risk by geographical region are as follows:

On-balance sheet exposure

Group and Bank	Cash and bank balances RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments RM'000	Gross loans, advances and financing RM'000	Insurance receivables RM'000	Net derivative financial instruments RM'000	Other assets RM'000	Total RM'000
2020								
Malaysia	122,399	3,364,099	1,165,551	2,658,855	588	141,749	80,718	7,533,959
East Asia	-	-	-	46,620	-	-	-	46,620
South Asia	-	-	-	1,517,637	-	-	-	1,517,637
Central Asia	-	-	-	322,905	-	-	-	322,905
Middle East	-	-	-	343,070	-	-	-	343,070
Africa	-	-	-	196,536	-	-	-	196,536
Europe	-	-	-	463,324	-	-	-	463,324
America	-	-	-	79,358	-	-	-	79,358
Oceania	-	-	-	111,259	-	-	-	111,259
	122,399	3,364,099	1,165,551	5,739,564	588	141,749	80,718	10,614,669

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Credit risk exposure (cont'd.)

Geographical analysis (cont'd.)

Exposures to credit risk by geographical region are as follows: (cont'd.)

On-balance sheet exposure (cont'd.)

Group and Bank	Cash and bank balances RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments RM'000	Gross loans, advances and financing RM'000	Insurance receivables RM'000	Net derivative financial instruments RM'000	Other assets RM'000	Total RM'000
2019								
Malaysia	62,593	3,047,168	1,204,442	3,338,293	89	42,687	278,113	7,973,385
East Asia	-	-	-	68,725	-	-	-	68,725
South Asia	-	-	-	1,961,305	-	-	-	1,961,305
Central Asia	-	-	-	335,923	-	-	-	335,923
Middle East	-	-	-	345,562	-	-	-	345,562
Africa	-	-	-	239,604	-	-	-	239,604
Europe	-	-	-	562,406	-	-	-	562,406
America	-	-	-	80,053	-	-	-	80,053
Oceania	-	-	-	79,162	-	-	-	79,162
	62,593	3,047,168	1,204,442	7,011,033	89	42,687	278,113	11,646,125

NOTES TO THE FINANCIAL STATEMENTS

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Credit risk exposure (cont'd.)

Geographical analysis (cont'd.)

Off-balance sheet exposure

Group and Bank	Banking operation commitments RM'000	Insurance operation short term RM'000	Insurance operation medium/ long term RM'000	Total RM'000
2020				
Malaysia	2,138,945	239,092	-	2,378,037
East Asia	-	26,288	-	26,288
Central Asia	-	-	-	-
South Asia	25,242	65,059	273,096	363,397
Middle East	80,340	22,152	-	102,492
Africa	31,305	8,125	93,539	132,969
Europe	-	32,782	-	32,782
America	-	40,936	-	40,936
Oceania	-	20,291	-	20,291
	2,275,832	454,725	366,635	3,097,192
2019				
Malaysia	1,263,490	317,392	-	1,580,882
East Asia	117,915	135,600	296,379	549,894
Central Asia	-	-	-	-
South Asia	-	17,508	24,496	42,004
Middle East	95,741	24,238	-	119,979
Africa	15,390	29,233	162,400	207,023
Europe	-	101,361	-	101,361
America	-	82,648	-	82,648
Oceania	313,850	31,252	-	345,102
	1,806,386	739,232	483,275	3,028,893

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Credit risk exposure (cont'd.)

Industrial analysis

Exposures to credit risk by industry are as follows:

On-balance sheet exposure

Group and Bank	Cash and bank balances RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments RM'000	Gross loans, advances and financing RM'000	Insurance receivables RM'000	Net derivative financial instruments RM'000	Other assets RM'000	Total RM'000
2020								
Primary agriculture	-	-	49,459	232,815	-	-	-	282,274
Mining and quarrying	-	-	-	501,845	-	-	-	501,845
Manufacturing	-	-	-	825,940	-	-	-	825,940
Transport, storage and communication	-	-	320,170	1,651,578	-	-	-	1,971,748
Construction	-	-	-	966,620	-	-	-	966,620
Wholesale and retail trade and restaurants and hotels	-	-	-	436,841	-	-	-	436,841
Finance, insurance, real estate and business activities	122,399	3,364,099	308,556	524,617	-	141,749	-	4,461,420
Electricity, gas and water	-	-	186,684	339,628	-	-	-	526,312
Education, health & others	-	-	-	153,183	-	-	-	153,183
Government	-	-	300,682	-	-	-	-	300,682
Property development	-	-	-	106,497	-	-	-	106,497
Others	-	-	-	-	588	-	80,718	81,306
	122,399	3,364,099	1,165,551	5,739,564	588	141,749	80,718	10,614,668

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Credit risk exposure (cont'd.)

Industrial analysis (cont'd.)

Exposures to credit risk by industry are as follows: (cont'd.)

On-balance sheet exposure (cont'd.)

Group and Bank	Cash and bank balances RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments RM'000	Gross loans, advances and financing RM'000	Insurance receivables RM'000	Net derivative financial instruments RM'000	Other assets RM'000	Total RM'000
2019								
Primary agriculture	-	-	49,040	608,422	-	-	-	657,462
Mining and quarrying	-	-	-	339,975	-	-	-	339,975
Manufacturing	-	-	-	1,298,316	-	-	-	1,298,316
Transport, storage and communication	-	-	313,987	1,505,785	-	-	-	1,819,772
Construction	-	-	-	216,186	-	-	-	216,186
Wholesale and retail trade and restaurants and hotels	-	-	-	858,049	-	-	-	858,049
Finance, insurance, real estate and business activities	62,593	3,047,168	305,478	643,669	-	42,687	-	4,101,595
Electricity, gas and water	-	-	235,035	458,324	-	-	-	693,359
Education, health & others	-	-	-	99,074	-	-	-	99,074
Property development	-	-	-	556,405	-	-	-	556,405
Government	-	-	300,902	426,828	-	-	-	727,730
Others	-	-	-	-	89	-	80,718	80,807
	62,593	3,047,168	1,204,442	7,011,033	89	42,687	80,718	11,448,730

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Credit risk exposure (cont'd.)

Industrial analysis (cont'd.)

Off-balance sheet exposure

Group and Bank	Banking operation commitments RM'000	Insurance operation short term RM'000	Insurance operation medium/ long term RM'000	Total RM'000
2020				
Manufacturing	711,465	436,464	63,492	1,211,421
Transport, storage and communication	813,388	-	-	813,388
Construction	25,327	-	219,730	245,057
Electricity, gas and water supply	21,332	-	-	21,332
Finance, insurance, real estate and business activities	258,341	-	-	258,341
Wholesale and retail trade and restaurants and hotels	108,871	18,261	-	127,132
Government - Mining and quarrying	251,402	-	3,073	254,475
Primary Agriculture	85,706	-	-	85,706
Education, health and others	-	-	80,340	80,340
Property development	-	-	-	-
Others	-	-	-	-
	2,275,832	454,725	366,635	3,097,192
2019				
Manufacturing	794,336	623,456	131,784	1,549,576
Transport, storage and communication	82,612	-	-	82,612
Construction	13,881	-	51,981	65,862
Electricity, gas and water supply	-	-	42,613	42,613
Finance, insurance, real estate and business activities	112,948	-	171,906	284,854
Wholesale and retail trade and restaurants and hotels	450,288	15,014	-	465,302
Government	89,235	-	-	89,235
Mining and quarrying	204,650	-	3,131	207,781
Primary agriculture	-	-	-	-
Education, health and others	7,605	-	81,860	89,465
Property development	50,831	-	-	50,831
Others	-	100,762	-	100,762
	1,806,386	739,232	483,275	3,028,893

NOTES TO THE FINANCIAL STATEMENTS

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Credit risk exposure (cont'd.)

Relief measure baseline by industry breakdown:

Group and Bank	Outstanding Balance RM'000	ECL RM'000	Moratorium RM'000
2020			
Primary agriculture	13,132	1,318	70
Manufacturing	600,265	176,102	3,567
Transport, storage and communication	192,546	69,976	(2,178)
Construction	205,164	16,541	34,544
Wholesale and retail trade, and restaurants and hotels	87,305	9,525	11,403
Others	74,492	28,472	-
	1,172,904	273,462	47,406
As a percentage of total:			
Primary agriculture			0.23%
Manufacturing			10.46%
Transport, storage and communication			3.35%
Construction			3.57%
Wholesale and retail trade, and restaurants and hotels			1.52%
Others			1.30%

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Credit quality by class of financial assets

Credit quality for treasury credit risk exposures

The table below shows treasury credit risk exposure by the current counterparties' rating:

Group and Bank	2020 RM'000	2019 RM'000
Financial investments at FVOCI (Gross):		
AA	50,536	50,210
D	100,000	100,000
Government guarantees	628,759	619,486
	779,295	769,696
Investment securities at amortised cost (Gross):		
Long-term		
BBB	-	306,066
BB	300,588	-
Government guarantees	300,686	301,114
	601,274	607,180
Net derivative financial assets/(liabilities)		
Financial institutions		
AAA	57,180	100
A +	8,565	1,625
AA-	74,470	40,681
AA2	1,534	281
	141,749	42,687

NOTES TO THE FINANCIAL STATEMENTS

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Credit quality by class of financial assets (cont'd.)

Credit quality by loans, advances and financing

For commercial exposures, the Group and the Bank use ten risk grades with rating '1' representing the lowest risk. Meanwhile for Sovereign exposures, the Group and the Bank use five risk grades with rating 'aaa' representing the lowest risk. The exposure under each of these risk grades is as follows:

	ECL Stage 1 RM'000	ECL Stage 2 RM'000	ECL Stage 3 RM'000	Total RM'000
2020				
Commercial customer				
Risk Rating 1	-	-	-	-
Risk Rating 2	274,866	-	-	274,866
Risk Rating 3	529,221	87,764	-	616,985
Risk Rating 4	154,336	428,834	-	583,170
Risk Rating 5	193,089	668,280	-	861,369
Risk Rating 6	1,229	315,544	-	316,773
Risk Rating 7	17	236,702	-	236,719
Risk Rating 8	-	67,279	-	67,279
Risk Rating 9	-	2,898	-	2,898
Impaired	-	-	2,382,477	2,382,477
	1,152,758	1,807,301	2,382,477	5,342,536
Sovereign				
Risk Rating b-	-	2,347	-	2,347
Risk Rating b+	-	19,712	-	19,712
Risk Rating ccc	-	339,628	-	339,628
	-	361,687	-	361,687
	1,152,758	2,168,988	2,382,477	5,704,223

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Credit quality by class of financial assets (cont'd.)

Credit quality by loans, advances and financing (cont'd.)

For commercial exposures, the Group and the Bank use ten risk grades with rating '1' representing the lowest risk. Meanwhile for Sovereign exposures, the Group and the Bank use five risk grades with rating 'aaa' representing the lowest risk. The exposure under each of these risk grades is as follows (cont'd.):

	ECL Stage 1 RM'000	ECL Stage 2 RM'000	ECL Stage 3 RM'000	Total RM'000
2019				
Commercial customer				
Risk Rating 1	-	-	-	-
Risk Rating 2	534,608	-	-	534,608
Risk Rating 3	544,420	14,919	-	559,339
Risk Rating 4	163,040	766,548	-	929,588
Risk Rating 5	734,248	82,147	-	816,395
Risk Rating 6	196,583	163,123	-	359,706
Risk Rating 7	-	571,397	-	571,397
Risk Rating 8	-	32,993	-	32,993
Risk Rating 9	-	1,508	-	1,508
Impaired	-	-	2,643,617	2,643,617
	2,172,899	1,632,635	2,643,617	6,449,151
Sovereign				
Risk Rating b+	2,710	-	-	2,710
Risk Rating bb	305,363	-	-	305,363
Risk Rating bb+	21,696	-	-	21,696
	329,769	-	-	329,769
	2,502,668	1,632,635	2,643,617	6,778,920

Restructured items

Restructured loans refer to the financial assets that would otherwise be past due or impaired where there is fundamental revision in the principal terms and conditions of the facility. Restructuring shall be considered when the customer's business is still viable and is expected to remain viable after the restructuring. There were impaired loans restructured by the Group and the Bank during the year of RM109,434,295.48 (2019: RM127,682,059.70).

NOTES TO THE FINANCIAL STATEMENTS

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Fair values

(i) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Valuation method for which all significant inputs are, or are based on, observable market data.

Level 3 - Valuation method for which significant inputs are not based on observable data.

For financial instruments classified as Level 1, the valuations are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices are readily available, and the prices represent actual and regularly occurring market transactions at arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

For financial instruments classified as Level 2, their values are based on quoted prices in inactive markets, or whose values are based on models whereby the inputs to those models are observable either directly or indirectly for substantially the full term of the asset or liability. These would include certain bonds, corporate debt securities and issued notes.

The following table represents financial assets and liabilities measured at fair value and classified by level with the following fair value measurement hierarchy:

Group and Bank	Carrying value RM'000	Fair value Level 2 RM'000	Fair value Level 3 RM'000
2020			
Financial assets			
Assets measured at fair value			
Financial investments at FVOCI			
- Unquoted debt securities	678,185	678,185	-
Derivative financial instruments	141,749	141,749	-
Total financial assets carried at fair value	819,934	819,934	-
Assets not measured at fair value			
Investment properties	832	-	1,140
Investment securities at amortised cost			
- Unquoted debt securities	487,366	540,348	-
Loans, advances and financing	3,679,083	-	3,678,630
Financial liabilities			
Liabilities not measured at fair value			
Borrowings	6,591,282	6,595,733	-

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Fair values (cont'd.)

(i) Fair value hierarchy (cont'd.)

The following table represents financial assets and liabilities measured at fair value and classified by level with the following fair value measurement hierarchy (cont'd.):

Group and Bank	Carrying value RM'000	Fair value Level 2 RM'000	Fair value Level 3 RM'000
2019			
Financial assets			
Assets measured at fair value			
Financial investments at FVOCI			
- Unquoted debt securities	668,504	668,504	-
Derivative financial instruments	61,218	61,218	-
Total financial assets carried at fair value	729,722	729,722	-
Assets not measured at fair value			
Investment properties	850	-	1,140
Investment securities at amortised cost			
- Unquoted debt securities	535,938	558,361	-
Loans, advances and financing	4,768,642	-	4,766,632
Financial liabilities			
Liabilities measured at fair value			
Derivative financial instruments	18,531	18,531	-
Total financial liabilities carried at fair value	18,531	18,531	-
Liabilities not measured at fair value			
Borrowings	7,438,434	7,443,665	-

There were no transfer between Level 1, Level 2 and Level 3 of the fair value hierarchy during the financial year.

(ii) Financial assets and liabilities carried at fair value

The carrying amounts of cash and cash equivalents, other receivables and other payables approximate fair values due to the relatively short term nature of these financial instruments.

Financial investments at FVOCI

The fair value of quoted financial investments is derived from market bid prices as at the reporting date. For unquoted financial investments, the fair value is determined based on quotes from independent dealers or using valuation techniques such as the discounted cash flows method.

NOTES TO THE FINANCIAL STATEMENTS

42. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Fair values (cont'd.)

(ii) Financial assets and liabilities carried at fair value (cont'd.)

Derivative financial assets/liabilities

The fair value is based on quoted market price or marked to model valuation.

Borrowings (Hedged items)

The fair value is based on marked to model valuation.

(iii) Financial assets and liabilities not carried at fair value

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Financial investments at amortised cost

For non actively traded financial investments, independent broker quotations are obtained. Fair values of equity financial investments are estimated using a number of methods, including earning multiples and discounted cash flows analysis. Where discounted cash flows technique is used, the estimated future cash flows are discounted using applicable prevailing market or indicative rates of similar instruments at the reporting date.

Loans, advances and financing

Loans, advances and financing to borrowers/customers, where such market prices are not available, various methodologies have been used to estimate the approximate fair values of such instruments. These methodologies are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in the assumptions could significantly affect these estimates and the resulting fair value estimates. Therefore, for a significant portion of the Group's and the Bank's financial instruments, including loans, advances and financing to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amount that the Group and the Bank could realise in a sale transaction at the reporting date.

The fair values of variable rate loans/financing are estimated to approximate their carrying values. For fixed rate loans and Islamic financing, the fair values are estimated based on expected future cash flows of contractual instalment payments, discounted at applicable and prevailing rates at reporting date offered for similar facilities to new borrowers/customers with similar credit profiles. In respect to impaired loans/financing, the fair values are deemed to approximate the carrying values which are net of allowances for stage 3 ECL.

Investment properties

The fair values of investment properties are estimated based on comparison with indicative market value determined by an accredited independent valuer.

Borrowings (Non-hedged items)

The fair value of variable rate non-concessional borrowings is estimated to approximate the carrying amount.

43. INSURANCE RISKS

The principal underwriting risk to which the Group and the Bank is exposed is credit risk in connection with credit, guarantee and political risk insurance underwriting activities. Management has established underwriting processes and limits to manage this risk by performing credit review on its policy holders and buyers.

The underwriting function undertakes qualitative and quantitative risk assessments on all buyers and clients before deciding on an approved insured amount. Policies in riskier markets may be rejected or charged at a higher premium rate accompanied by stringent terms and conditions to commensurate the risks.

Concentration limits are set to avoid heavy concentration within a specific region or country. Maximum limits are set for buyer credit limits and client facility limits for prudent risk mitigation.

For the monitoring of buyer risks, the Group and the Bank takes into consideration both qualitative and quantitative factors and conducts regular reviews on the buyers' credit standing and payment performance to track any deterioration in their financial position that may result in a loss to the Group and the Bank.

On country risk, the Group and the Bank periodically reviews the economic and political conditions of the insured markets so as to revise its guidelines, wherever appropriate. In order to mitigate the insurance risk, the Group and the Bank may cede or transfer the risk to another insurer company. The ceding arrangement minimises the net loss to the Group and the Bank arising from potential claims.

Key assumptions

The sensitivity analysis is based upon the assumptions set out in the actuarial report and is subject to the reliance's and limitations contained within the report. One particular reliance is that the net sensitivity results assume that all reinsurance recoveries are receivable in full.

The sensitivity items shown are independent of each other. In practice, a combination of adverse and favourable changes could occur.

The sensitivity results are not intended to capture all possible outcomes. Significantly more adverse or favourable results are possible.

Sensitivity analysis

The independent actuarial firm engaged by the Group and the Bank re-runs its valuation models on various bases. An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Group's and the Bank's estimation process in respect of its Insurance contracts and Takaful certificates. The table presented below demonstrates the sensitivity of the Insurance contract liabilities and Takaful certificates estimates to particular movements in assumptions used in the estimation process.

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

	2020 Net RM'000	2019 Net RM'000
Estimated claim liabilities (Note 22)	51,701	48,863

NOTES TO THE FINANCIAL STATEMENTS

43. INSURANCE RISKS (CONT'D.)

Claim liability sensitivity analysis

a. Change in claim costs

Assumed an average claim cost of RM550,000 (2019: RM400,000) net of non-reinsurance recoveries for the Comprehensive Policy Shipments and adopted the Group's and the Bank's specific provisions for the other types of contracts where applicable. Changing the average claims cost and specific provisions by 10% gives the following result:

	2020 Net		2019 Net	
	RM'000 High +10%	RM'000 Low -10%	RM'000 High +10%	RM'000 Low -10%
Estimated claim liabilities	52,069	51,334	49,112	48,616

b. Change in average number of claims

Assumed 10% (2019: 8%) of Comprehensive Policy Shipments policies as IBNR claims for Comprehensive Policy Shipments. Changing this by 10% gives the following result:

	2020 Net		2019 Net	
	RM'000 High +10%	RM'000 Low -10%	RM'000 High +10%	RM'000 Low -10%
Estimated claim liabilities	51,918	51,485	49,137	48,566

c. Change in Claims Handing Expenses ("CHE")

Assumed the following expenses 5% of gross IBNR and 4% of the specific provisions. Changing this by 10% points gives the following result:

	2020 Net		2019 Net	
	RM'000 High +10%	RM'000 Low -10%	RM'000 High +10%	RM'000 Low -10%
Estimated claim liabilities	51,940	51,463	49,090	48,638

43. INSURANCE RISKS (CONT'D.)

Claim liability sensitivity analysis (cont'd.)

d. Change in PRAD %

Assumed a claim Provision of Risk Margin for Adverse Deviation ("PRAD") of 25%. Changing this by 10% (to 27.5% and 22.5% respectively) gives the following result:

	2020 Net RM'000 High +10%	2020 Net RM'000 Low -10%	2019 Net RM'000 High +10%	2019 Net RM'000 Low -10%
Estimated claim liabilities	52,736	50,668	49,678	48,050

	2020 Net RM'000	2019 Net RM'000
Estimated premium	9,870	-

Premium/contribution liability sensitivity analysis

a. Change in probability of default

Management has assumed 1-year probability of default of ranging from 0.5% to 5% for short-term contracts, depending on the type of contract. For the medium long term ("MLT") policies, all 1-year probabilities were assumed to have a B rating which equated to a 3.2% 1-year probability of default. Changing this rating assumption to B rating (less trustworthy - for the "High" Scenario) and B+- rating (more trustworthy - for the "Low" Scenario) gives the following result:

	2020 Net High B- rating points	2020 Net Low B+ rating points	2019 Net High B- rating points	2019 Net Low BBB- rating points
Estimated premium/contribution	12,650	8,989	9,773	7,065

b. Change in recovery rates

On the premium liability front, some of the MLT policies have reinsurance cover. For the "High" Scenario, management has reduce all of these by 10%. For the "Low" scenario management has increase them by 10%.

	2020 Net RM'000 High +10%	2020 Net RM'000 Low -10%	2019 Net RM'000 High +10%	2019 Net RM'000 Low -10%
Estimated premium liabilities/contribution	11,494	8,245	7,065	7,065

NOTES TO THE FINANCIAL STATEMENTS

43. INSURANCE RISKS (CONT'D.)

Premium/contribution liability sensitivity analysis (cont'd.)

c. Change in Maintenance Expenses ("ME")

Assumed ME of 5%. Changing this by 10% (to 5.5% and 4.5% respectively) points gives the following result:

	2020 Net		2019 Net	
	RM'000 High +10%	RM'000 Low -10%	RM'000 High +10%	RM'000 Low -10%
Estimated premium liabilities/contribution	9,892	9,847	7,087	7,043

d. Change in PRAD %

Assumed a premium PRAD of 40%. Changing this by 10% (to 44% and 36% respectively) gives the following result:

	2020 Net		2019 Net	
	RM'000 High +10%	RM'000 Low -10%	RM'000 High +10%	RM'000 Low -10%
Estimated premium liabilities	10,152	9,588	7,219	6,911

44. ISLAMIC BUSINESS FUNDS

Statements of financial position as at 31 December 2020

Group and Bank

	Note	2020 Islamic business fund RM'000	2020 Takaful fund RM'000	2020 Total RM'000	2019 Islamic business fund RM'000	2019 Takaful fund RM'000	2019 Total RM'000
Assets							
Cash and bank balances	(a)	96,283	759	97,042	454	341	795
Deposits and placements with banks and other financial institutions	(b)	1,468,850	15,634	1,484,484	1,190,689	14,047	1,204,736
Financial investments	(c)	864,869	-	864,869	903,540	-	903,540
Islamic financing	(d)	2,083,341	-	2,083,341	2,486,294	-	2,486,294
Derivative financial instruments	(e)	1,532	-	1,532	279	-	279
Contribution receivable		-	361	361	-	435	435
Other receivables		8,794	11,730	20,524	180,221	9,930	190,151
Total assets		4,523,669	28,484	4,552,153	4,761,477	24,753	4,786,230
Liabilities							
Financing payable	(f)	2,095,467	-	2,095,467	2,709,440	-	2,709,440
Deferred income		1,911	5,343	7,254	6,943	5,929	12,872
Provision for commitments and contingencies	(o)	39,813	-	39,813	40,963	-	40,963
Provision for claim	(22(ii))	-	20,193	20,193	-	16,240	16,240
Provision for expenses liability		785	-	785	661	-	661
Other liabilities	(n)	1,767,081	2,948	1,770,029	1,478,006	2,584	1,480,590
Total liabilities		3,893,574	28,484	3,922,058	4,236,013	24,753	4,260,766
Financed by:							
Islamic banking fund		800,000	-	800,000	800,000	-	800,000
Reserves		2,976	-	2,976	(7,932)	-	(7,932)
Accumulated losses		(172,881)	-	(172,881)	(256,930)	-	(256,930)
Takaful participants fund	(j)	(11,483)	-	(11,483)	(9,674)	-	(9,674)
Total Islamic business fund and Takaful fund		618,612	-	618,612	525,464	-	525,464
Total liabilities, Islamic business fund, and Takaful participants fund		4,512,186	28,484	4,540,670	4,761,477	24,753	4,786,230
Commitments and contingencies	(k)	1,056,279	623,439	1,679,718	1,283,548	899,812	2,183,360

NOTES TO THE FINANCIAL STATEMENTS

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Statement of profit and loss for the year ended 31 December 2020

Group and Bank

	Note	2020 Islamic business fund RM'000	2020 Takaful fund RM'000	2020 Total RM'000	2019 Islamic business fund RM'000	2019 Takaful fund RM'000	2019 Total RM'000
Income derived from Islamic banking fund	(g)	159,893	-	159,893	214,738	-	214,738
Financing cost		(49,404)	-	(49,404)	(94,011)	-	(94,011)
Net income from Islamic banking fund		110,489	-	110,489	120,727	-	120,727
Gross contribution		-	3,776	3,776	-	3,964	3,964
Wakalah fee		1,564	(1,564)	-	1,687	(1,687)	-
Reinsurance outward		-	(83)	(83)	-	(139)	(139)
Decrease/(increase) in contribution liability		-	231	231	-	6,142	6,142
Increase in claim liability (Note 22)		-	(4,023)	(4,023)	-	(9,571)	(9,571)
Increase in expenses liability (Note 22)		(124)	-	(124)	(393)	-	(393)
Takaful fees and brokerage commission		273	(19)	254	244	(29)	215
Income from Takaful activities		1,713	(1,682)	31	1,538	(1,320)	218
Islamic banking fund and Takaful fund results		112,202	(1,682)	110,520	122,265	(1,320)	120,945
Other income/(expenses)	(h)	10,888	-	10,888	(11,450)	-	(11,450)
Net Income from Islamic business		123,090	(1,682)	121,408	110,815	(1,320)	109,495
Administrative expenses		(663)	-	(663)	(812)	-	(812)
Reversal of allowance on doubtful debt		-	(127)	(127)	-	(217)	(217)
Writeback/(allowances) for losses on on financing	(i)	3,055	-	3,055	(55,924)	-	(55,924)
Writeback/(allowances) for commitments and contingencies		1,150	-	1,150	(28,481)	-	(28,481)
(Allowances)/writeback of allowances on financial investments		(42,583)	-	(42,583)	10,322	-	10,322
Profit/(Loss) for the year before zakat		84,049	(1,809)	82,240	35,920	(1,537)	34,383
Taxation		-	-	-	-	-	-
Zakat		-	-	-	-	-	-
Net profit/(loss) for the year		84,049	(1,809)	82,240	35,920	(1,537)	34,383

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Statement of Comprehensive Income for the year ended 31 December 2020

Group and Bank

	Note	2020 Islamic business fund RM'000	2020 Takaful fund RM'000	2020 Total RM'000	2019 Islamic business fund RM'000	2019 Takaful fund RM'000	2019 Total RM'000
Net profit/(loss) for the year		84,049	(1,809)	82,240	35,920	(1,537)	34,383
Other comprehensive income to be reclassified to profit or (loss) in subsequent periods:							
Fair value changes on FVOCI		10,908	-	10,908	13,666	-	13,666
Net other comprehensive income to be reclassified to profit or (loss) in subsequent periods		10,908	-	10,908	13,666	-	13,666
Total comprehensive income/(loss) for the year		94,957	(1,809)	93,148	49,586	(1,537)	48,049

Statement of changes in Islamic business fund and Takaful fund for the year ended 31 December 2020

Group and Bank	Islamic Banking Fund RM'000	Retained profits/ (Accumulated losses) RM'000	Fair value adjustment reserve RM'000	Total RM'000
At 1 January 2019	800,000	(300,987)	(21,598)	477,415
Net profit for the year	-	34,383	-	34,383
Other comprehensive profit	-	-	13,666	13,666
At 31 December 2019	800,000	(266,604)	(7,932)	525,464
Net profit for the year	-	82,240	-	82,240
Other comprehensive income	-	-	10,908	10,908
At 31 December 2020	800,000	(184,364)	2,976	618,612

NOTES TO THE FINANCIAL STATEMENTS

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Statement of cash flows for Islamic business fund the financial year ended 31 December 2020

	Group and Bank 2020 RM'000	2019 RM'000
Cash flows from operating activities		
Profit before zakat	84,049	35,920
Adjustments for:		
ECL Stage 3 of financing		
- Charged for the year	26,036	193,595
- Written back during the year	(43,301)	(291,543)
ECL Stage 1 and 2 of financing		
- Charged for the year	37,014	25,972
- Written back during the year	(27,300)	(42,213)
Additional/(reversal) of allowance on financial investments	42,583	(10,322)
ECL Stage 3 of commitments and contingencies	-	12,943
ECL Stage 1 and 2 of commitments and contingencies		
- Charged for the year	15,487	21,910
- Written back during the year	(16,637)	(6,372)
Unrealised foreign exchange loss/(gain)	19,729	(266,834)
Unrealised (gain)/loss on derivatives	(1,363)	12,433
Unrealised gain on Sukuk	(3,004)	(5,722)
Amortisation of premium less accretion of discount	(1,309)	(1,269)
Operating profit/(loss) before working capital changes	131,984	(321,502)
Changes in working capital:		
Deposits and placements with banks and other financial institutions	197,792	848,010
Islamic financing	97,639	1,086,506
Other assets	169,450	(164,490)
Derivative financial instruments	17	(43)
Other liabilities	288,886	90,021
Deferred income	(5,032)	(1,584)
Net claims paid for bank guarantee and takaful claims	124	378
Net cash generated from operating activities	880,860	1,537,296
Cash flow from investing activities		
Proceed from disposal of investments	2,616	34,267
Net cash generated from investing activities	2,616	34,267
Cash flows from financing activities		
Net repayment of financing payable	(589,855)	(744,701)
Net cash used in financing activities	(589,855)	(744,701)

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Statement of cash flows for Islamic business fund the financial year ended 31 December 2020 (cont'd.)

	Group and Bank 2020 RM'000	2019 RM'000
Net increase in cash and cash equivalents	293,621	826,862
Cash and cash equivalents at beginning of year excluding on behalf of customer	1,141,143	314,281
Cash and cash equivalents at end of year	1,434,764	1,141,143
Cash and cash equivalents comprise:		
Cash and bank balances	96,283	454
Deposits and placements with financial institutions	1,468,850	1,190,689
	(130,369)	(50,000)
	1,434,764	1,141,143

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020

(a) Cash and bank balances

	Group and Bank 2020 RM'000	2019 RM'000
Cash and bank balances	97,042	795

(b) Deposits and placements with banks and other financial institutions

	Group and Bank 2020 RM'000	2019 RM'000
Deposits and placements with:		
Licensed banks	782,781	502,659
Other financial institutions	701,703	702,077
	1,484,484	1,204,736
Further breakdown to deposits and placements are as follows:		
For EXIM Bank	1,354,115	1,154,736
On behalf of customers and government	101,787	50,000
	1,484,484	1,204,736

NOTES TO THE FINANCIAL STATEMENTS

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020 (cont'd.)

(c) Financial investments

	Group and Bank 2020 RM'000	Group and Bank 2019 RM'000
Financial investments at FVOCI		
Unquoted debt securities	779,295	769,696
Less: Allowance for expected credit losses	(101,110)	(101,192)
	678,185	668,504
Investment securities at amortised costs		
Unquoted debt securities	300,588	306,275
Less: Allowance for expected credit losses	(113,904)	(71,239)
	186,684	235,036
Total financial investments	864,869	903,540

Included in financial investments at FVOCI are investments in to meet the requirement of Sukuk Programme of the Group amounting to RM139,719,294 (2019: RM160,036,000).

Movements in the allowances for expected credit losses on financial investments at FVOCI are as follows:

	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total ECL RM'000
At 1 January 2019	15	-	100,000	100,015
Allowance during the year	1,177	-	-	1,177
At 1 January 2020	1,192	-	100,000	101,192
Allowance during the year	(82)	-	-	(82)
At 31 December 2020	1,110	-	100,000	101,110

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020 (cont'd.)

(c) Financial investments (cont'd.)

Movements in the allowances for expected credit losses on financial investments at FVOCI are as follows:

	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total ECL RM'000
At 1 January 2019	2	82,738	-	82,740
Reversal during the year	(2)	(11,499)	-	(11,501)
Exchange differences	-	-	-	-
At 1 January 2020	-	71,239	-	71,239
Allowance during the year	-	42,665	-	42,665
At 31 December 2020	-	113,904	-	113,904

(d) Islamic financing

		Group and Bank 2020 RM'000	2019 RM'000
(i)	Murabahah	127,103	781,476
	Istisna'	25,061	200,515
	Tawarruq	2,372,374	2,011,767
	Ijarah **	301,746	156,055
	Ad- Dayn	-	98,110
		2,826,284	3,247,923
	Less: Allowance for expected credit losses on impaired advances and financing		
	- 12-month ECL - Stage 1	(30,304)	(35,801)
	- Lifetime not impaired ECL - Stage 2	(54,662)	(39,453)
	- Lifetime ECL credit impaired - Stage 3	(657,977)	(686,375)
	Net advances and financing	2,083,341	2,486,294

** Nil (2019: RM51,907,426) is in respect of Sukuk Programme of the Group.

NOTES TO THE FINANCIAL STATEMENTS

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020 (cont'd.)

(d) Islamic financing (cont'd.)

(ii) The maturity structure of the advances and financing are as follows:

	Group and Bank 2020 RM'000	Group and Bank 2019 RM'000
Within one year	1,477,939	1,424,056
One year to three years	852,931	101,244
Three years to five years	353,996	813,978
Over five years	141,418	908,645
	2,826,284	3,247,923

(iii) Islamic gross financing analysed by profit rate sensitivity are as follows:

	Group and Bank 2020 RM'000	Group and Bank 2019 RM'000
Fixed rate	2,204	2,755
Variable rate	2,824,080	3,245,168
	2,826,284	3,247,923

(iv) Islamic gross financing analysed by geography are as follows:

	Group and Bank 2020 RM'000	Group and Bank 2019 RM'000
Malaysia	1,768,416	2,331,353
East Asia	355,441	536,727
South Asia	30,863	32,624
Europe	332,759	-
West Africa	72,877	135,864
Oceania	106,698	72,755
Middle East	148,177	127,010
Central Asia	11,053	11,590
	2,826,284	3,247,923

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020 (cont'd.)

(d) Islamic financing (cont'd.)

(v) Islamic gross financing analysed by industry are as follows:

	Group and Bank 2020 RM'000	2019 RM'000
Primary agriculture	40,560	134,471
Mining and quarrying	-	-
Manufacturing	530,029	378,202
Transport, storage and communication	452,555	627,458
Construction	774,950	750,809
Wholesale and retail trade, and restaurants and hotels	722,422	1,011,643
Other	305,768	345,340
	2,826,284	3,247,923

(vi) Movements in impaired financing are as follows:

	Group and Bank 2020 RM'000	2019 RM'000
At 1 January	1,000,690	1,341,356
Impaired during the year	20,242	333,018
Recoveries	(85,202)	(523,251)
Written-off	(4,496)	(170,113)
Exchange differences	(6,867)	19,680
At 31 December	924,367	1,000,690

NOTES TO THE FINANCIAL STATEMENTS

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020 (cont'd.)

(d) Islamic financing (cont'd.)

(vii) Advance and financing analysed by facility and Shariah contract are as follows:

2020	Murabahah RM'000	Istisna RM'000	Bai'Dayn RM'000	Tawarruq RM'000	Ijarah RM'000	Total RM'000
At amortised cost						
Malaysian Kitchen Financing Facility-i	-	-	-	2,204	-	2,204
Overseas Contract Financing-i	-	-	-	84,189	-	84,189
Overseas Investment Financing-i	-	-	-	114,292	-	114,292
Overseas Project Financing-i	-	25,061	-	431,006	-	456,067
Supplier Financing-i	123,263	-	-	996,046	131,718	1,251,027
Term Financing-i	3,840	-	-	687,321	170,028	861,189
Vendor Financing-i	-	-	-	57,316	-	57,316
Gross financing	127,103	25,061	-	2,372,374	301,746	2,826,284
Allowances for expected credit losses on advances and financing						
- 12-month ECL - Stage 1	-	-	-	-	-	(30,304)
- Lifetime not impaired ECL - Stage 2	-	-	-	-	-	(54,662)
- Lifetime ECL credit impaired - Stage 3	-	-	-	-	-	(657,977)
Net advances and financing	127,103	25,061	-	2,372,374	301,746	2,083,341

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020 (cont'd.)

(d) Islamic financing (cont'd.)

(vii) Advance and financing analysed by facility and Shariah contract are as follows: (cont'd.)

2019	Murabahah RM'000	Istisna RM'000	Bai'Dayn RM'000	Tawarruq RM'000	Ijarah RM'000	Total RM'000
At amortised cost						
Buyer Credit-i	-	-	-	(1,178)	-	(1,178)
Malaysian Kitchen Financing Facility-i	1,375	-	-	1,185	-	2,560
Overseas Contract Financing-i	-	-	-	98,494	-	98,494
Overseas Investment Financing-i	-	-	-	174,088	-	174,088
Overseas Project Financing-i	3,364	176,836	-	258,580	35,264	474,044
Supplier Financing-i	776,432	-	-	561,574	109,906	1,447,912
Term Financing-i	-	23,679	-	919,024	10,885	953,588
Vendor Financing-i	305	-	98,110	-	-	98,415
Gross financing	781,476	200,515	98,110	2,011,767	156,055	3,247,923
Allowances for expected credit losses on advances and financing						
- 12-month ECL - Stage 1	-	-	-	-	-	(35,801)
- Lifetime not impaired ECL - Stage 2	-	-	-	-	-	(39,453)
- Lifetime ECL credit impaired - Stage 3	-	-	-	-	-	(686,375)
Net advances and financing	781,476	200,515	98,110	2,011,767	156,055	2,486,294

NOTES TO THE FINANCIAL STATEMENTS

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020 (cont'd.)

(d) Islamic financing (cont'd.)

(viii) Movements in the allowance for impaired advances and financing are as follows:

2020	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total ECL RM'000
At 1 January	35,801	39,453	686,375	761,629
Transferred to/(from) Stage 1	(281)	38	243	-
Transferred (to)/from Stage 2	-	(1,713)	1,713	-
(Written back)/allowance	12,586	(6,322)	(14,724)	(8,460)
Financial assets derecognised	(11,984)	(30)	-	(12,014)
Changes due to change in credit risk	(4,090)	4,759	-	669
Modification to contractual cash flows of financial assets	(1,728)	18,477	-	16,749
Total net profit and loss charge during the period	(5,497)	15,209	(12,768)	(3,056)
Write offs	-	-	(4,496)	(4,496)
Exchange differences	-	-	(11,134)	(11,134)
At 31 December	30,304	54,662	657,977	742,943
2019				
At 1 January	65,036	26,459	811,872	903,367
Transferred to Stage 1	(4,128)	-	-	(4,128)
Transferred to Stage 2	-	14,259	-	14,259
(Written back)/allowance	(6,833)	760	72,165	66,092
Financial assets derecognised	(17,027)	(2,455)	-	(19,482)
Changes due to change in credit risk	(3,111)	430	-	(2,681)
Modification to contractual cash flows of financial assets	1,864	-	-	1,864
Total net profit and loss charge during the period	(29,235)	12,994	72,165	55,924
Write offs	-	-	(170,113)	(170,113)
Exchange differences	-	-	(27,549)	(27,549)
At 31 December	35,801	39,453	686,375	761,629

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020 (cont'd.)

(d) Islamic financing (cont'd.)

(ix) Overlays and adjustments for expected credit losses amid COVID-19 environment

As the current MFRS 9 models are not expected to generate levels of expected credit losses ("ECL") with sufficient reliability in view of the unprecedented and ongoing COVID-19 pandemic, overlays and post-model adjustments have been applied to determine a sufficient overall level of ECLs for the year ended and as at 31 December 2020.

The overlays involved significant level of judgement and reflect the management's views of possible severities of the pandemic and paths of recovery in the forward looking assessment for ECL estimation purposes.

The adjusted downside scenario assumes a continuous restrictive economic environment due to COVID-19, the impact of these adjustments were estimated at portfolio level and the Bank for financing as at 31 December 2020 amounted to RM246,341,000. Total additional overlays for ECL maintained by the Group and the Bank as at 31 December 2020 are RM7,740,954 (2019: Nil).

ECL (inclusive of overlays) analysed by geographical area are as follows:

	Group and Bank			
	Outstanding Amount 2020 RM'000	Modelled ECL 2020 RM'000	Management Overlay 2020 RM'000	Total ECL 2020 RM'000
Africa	45,305	916	2,500	3,416
East Asia	28,328	355	479	834
Malaysia	149,174	18,041	6,466	24,507
Oceania	829	181	339	520
South Asia	22,705	7,134	-	7,134
	246,341	26,627	9,784	36,411

ECL (inclusive of overalys) analysed by industry are as follows:

	Group and Bank			
	Outstanding Amount 2020 RM'000	Modelled ECL 2020 RM'000	Management Overlay 2020 RM'000	Total ECL 2020 RM'000
Construction	62,580	1,196	2,869	4,065
Manufacturing	84,347	21,659	73	21,732
Primary agriculture	13,132	1,227	91	1,318
Wholesale and retail trade, and restaurants and hotels	86,282	2,545	6,751	9,296
	246,341	26,627	9,784	36,411

NOTES TO THE FINANCIAL STATEMENTS

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020 (cont'd.)

(e) Derivative financial instruments

	Group and Bank					
	2020			2019		
	Fair Value		Notional	Fair Value		Notional
	Assets RM'000	Liabilities RM'000	Amount RM'000	Assets RM'000	Liabilities RM'000	Amount RM'000
Derivatives used in fair value hedges						
Profit rate swaps	1,532	-	149,834	279	-	152,669
Total	1,532	-	149,834	279	-	152,669

(f) Financing Payable

		Group and Bank 2020 RM'000	2019 RM'000
(i)	Revolving credit facility - unsecured		
	Within one year	489,329	868,987
	Three years to five years	400	-
		489,729	868,987
(ii)	Sukuk		
	Within one year	149,989	360,160
	One year to three years	180,733	184,292
	Three years to five years	80,235	-
	Over five years	-	81,542
		410,957	625,994
(iii)	Syndication financing		
	Three years to five years	1,194,781	1,214,459
		2,095,467	2,709,440

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020 (cont'd.)

(g) Income derived from investment of Islamic banking fund

	Group and Bank	
	2020 RM'000	2019 RM'000
Islamic financing:		
Murabahah	43,488	64,454
Istisna'	3,389	12,092
Bai' Dayn	-	-
Tawarruq	47,939	64,842
Ijarah	1,821	3,108
Effects on modification loss, to contractual cash flow of financial assets	(16,171)	-
Recoveries from impaired financing	7,119	9,758
Deposits and placements with banks and other financial institutions	28,926	38,970
Financial investments	42,770	29,241
Net income from profit rate swaps	612	(7,726)
	159,893	214,738

(h) Other income/(expenses)

	Group and Bank	
	2020 RM'000	2019 RM'000
Fee Income	8,725	5,255
Foreign exchange gain/(loss)		
- unrealised	(19,729)	266,834
- realised	17,525	(276,828)
Unrealised (loss)/gain on derivatives	1,363	(12,433)
Unrealised gain/(loss) on Sukuk	3,004	5,722
	10,888	(11,450)

NOTES TO THE FINANCIAL STATEMENTS

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020 (cont'd.)

(i) (Writeback)/allowances for expected credit losses on advances and financing

	Group and Bank	
	2020 RM'000	**2019 RM'000**
Allowances for expected credit losses on advances and financing		
- 12-month ECL - Stage 1, net	(5,497)	(29,235)
- Lifetime not impaired ECL - Stage 2, net	15,211	12,994
- Lifetime ECL credit impaired - Stage 3, net	26,036	193,595
- Lifetime ECL written back - Stage 3, net	(43,301)	(291,543)
- Bad debts written off	4,496	170,113
	(3,055)	55,924

(j) Takaful participants fund

		2020 RM'000	**2019 RM'000**
Takaful participants fund			
Accumulated deficit	(i)	(11,483)	(9,674)
Qard	(ii)	11,483	9,674
		-	-

The deficit in the Takaful participant fund is covered by the Qard from Shareholders' funds. Qard represents a benevolent financing to the Takaful participants fund to make good any underwriting deficit experienced during a financial period. The amount is unsecured, not subject to any profit elements and has no fixed terms of repayment. The management expects to recover the balance from future profits of Takaful participants fund.

Measurement and impairment of Qard

Any deficit in the Takaful fund is made good via a benevolent financing, or Qard, granted by the Islamic business fund. Qard is stated at cost less any accumulated impairment losses in the Islamic business fund. In the Takaful fund, Qard is stated at cost. The Qard shall be repaid from future surpluses of the Takaful fund.

Qard is tested for impairment on an annual basis via an assessment of the estimated surpluses or cash flows from the Takaful fund to determine whether there is objective evidence of impairment. If the Qard is impaired, an amount comprising the difference between its carrying amount and its recoverable amount, less any impairment loss previously recognised, is recognised in the statements of profit and loss.

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020 (cont'd.)

(j) Takaful participants fund (cont'd.)

Impairment losses are subsequently reversed in the statements of profit and loss if objective evidence exists that the Qard is no longer impaired.

		2020 RM'000	2019 RM'000
(i)	Accumulated deficit		
	At beginning of the year	(9,674)	(8,137)
	Net deficit of the Takaful fund	(1,809)	(1,537)
	At end of the year	(11,483)	(9,674)
(ii)	Qard		
	At beginning of the year	9,674	8,137
	Increase in Qard	1,809	1,537
	At end of the year	11,483	9,674

(k) Commitments and contingencies

	Group and Bank	
	2020 RM'000	2019 RM'000
Banking operation commitments		
Contracted but not provided for:		
Guarantee facility	20,460	29,368
Letter of credit	198	2,225
Undrawn financing	1,035,621	1,251,955
	1,056,279	1,283,548
Takaful operation commitments		
Contracted but not provided for:		
Within one year	454,725	727,906
One year or later and no later than five years	168,714	171,906
	623,439	899,812
Total commitments and contingencies	1,679,718	2,183,360

NOTES TO THE FINANCIAL STATEMENTS

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020 (cont'd.)

(l) Shariah disclosures

(i) Shariah non-compliant events

There is one event related to Shariah non-compliant event occurred for the financial year ended 31 December 2020 of RM662.97 (2019:Nil).

(ii) Sources and uses of charity funds

	Group and Bank 2020 RM'000	Group and Bank 2019 RM'000
At 1 January	5,515	3,956
Funds collected during the year		
- Income earned from late payment charges	-	2,527
Funds distributed during the year		
- Contribution to non-profit organisation	(1,637)	(968)
At 31 December	3,878	5,515

Monies derived from the Shariah non-compliant event and late payment charges on Islamic financing activities as disclosed in Shariah Committee's Report under note Disclosure on Shariah Non-Compliant Event were channelled to charity fund and distributed progressively to the eligible beneficiaries. On 1 January 2020, the Group and the Bank recognised the late payment charges on Islamic Financing activities to other income.

(m) Regulatory Capital

	Group and Bank		
	Without Transitional Arrangement 2020 RM'000	With Transitional Arrangement 2020 RM'000	2019 RM'000
Islamic banking fund	800,000	800,000	800,000
Accumulated losses	(256,930)	(256,930)	(292,850)
Current year profit	84,049	84,049	35,920
Add: Transitional arrangement	-	54,966	-
Eligible Tier 1 capital	627,119	682,085	543,070

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020 (cont'd.)

(m) Regulatory Capital (cont'd.)

	Group and Bank		
	Before Transitional Arrangement 2020 RM'000	After Transitional Arrangement 2020 RM'000	2019 RM'000
Collective allowance on Islamic financing*	199,980	145,014	147,685
Provision for commitments and contingencies	26,870	26,870	28,020
Provision for guarantee and claim	16,525	16,525	13,854
Eligible Tier 2 capital	243,375	188,409	189,559
Total capital base	870,494	870,494	732,629
Risk weighted assets	3,024,282	3,024,282	3,450,305
Core capital ratio	20.74%	22.55%	15.74%
RWCR	28.78%	28.78%	21.23%

* The eligible amounts for Tier II Capital is only limited to the excess of total collective allowances over the identifiable incurred losses in the collective allowance pool.

(n) Other liabilities

	Group and Bank	
	2020 RM'000	2019 RM'000
Sinking fund and debt services reserve accounts	60,256	77,348
Interest payable	9,425	9,850
Amount due from the Government of Malaysia for MKFF scheme	(549)	(591)
Amount due to Teraju	52,712	52,365
Financing from banking business*	1 ,622,142	1,322,302
Others	26,043	19,316
	1,770,029	1,480,590

* The financing from banking business is unsecured, does not bear profit and has no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020 (cont'd.)

(o) Provision for commitments and contingencies

	Group and Bank 2020 RM'000	2019 RM'000
Provision for commitments and contingencies	39,813	40,963

Movements in the provisions for commitments and contingencies are as follow:

	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total ECL RM'000
At 1 January 2019	10,825	1,657	-	12,482
Changes due change in credit risk	10,467	(1,037)	-	9,430
Reversal ECL during the year	6,100	8	12,943	19,051
At 31 December 2019/1 January 2020	27,392	628	12,943	40,963
Transferred to Stage 2	(5,239)	5,239	-	-
Transferred to Stage 3	-	(407)	407	-
Changes due change in credit risk	(2,094)	1,024	-	(1,070)
Modification to contractual cash flows of financial assets	2,393	572	-	2,965
Allowance/(written back) during the year	(7,662)	5,024	(407)	(3,045)
At 31 December 2020	14,790	12,080	12,943	39,813

(p) Shariah directors remuneration

	Group and Bank 2020 RM'000	2019 RM'000
Salaries and other short-term benefits	372	407

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020 (cont'd.)

(q) Liquidity risk management

Measurement

Table below analyses assets and liabilities of the Islamic business's according to their contractual maturity:

Islamic business	On demand RM'000	Less than 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2020						
Assets						
Cash and bank balances	96,283	-	-	-	-	96,283
Deposits and placements with banks and other financial institutions	-	1,345,746	123,104	-	-	1,468,850
Financial Investment	-	-	49,459	815,410	-	864,869
Loans, advances and financing	-	472,840	396,004	721,948	492,549	2,083,341
Derivative financial instruments	1,532	-	-	-	-	1,532
Other assets	8,794	-	-	-	-	8,794
Total assets	106,609	1,818,586	568,567	1,537,358	492,549	4,523,669
Liabilities						
Borrowings	-	639,318	1,456,149	-	-	2,095,467
Derivative financial instruments	-	-	-	-	-	-
Other liabilities	1,809,590	-	-	-	-	1,809,590
Total liabilities	1,809,590	639,318	1,456,149	-	-	3,905,057
Net maturity mismatch	(1,702,981)	1,179,268	(887,582)	1,537,358	492,549	618,612

NOTES TO THE FINANCIAL STATEMENTS

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020 (cont'd.)

(q) Liquidity risk management (cont'd.)

Measurement (cont'd.)

Table below analyses assets and liabilities of the Islamic business's according to their contractual maturity: (cont'd.)

Islamic business	On demand RM'000	Less than 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2019						
Assets						
Cash and bank balances	454	-	-	-	-	454
Deposits and placement with banks and other financial institutions	-	1,165,689	25,000	-	-	1,190,689
Financial Investment	-	-	-	903,540	-	903,540
Loans, advances and financing	781,688	210,838	882,588	296,867	314,313	2,486,294
Derivative financial instruments	279	-	-	-	-	279
Other assets	180,221	-	-	-	-	180,221
Total assets	962,642	1,376,527	907,588	1,200,407	314,313	4,761,477
Liabilities						
Borrowings	2,080,406	363,201	184,292	81,542	-	2,709,440
Derivative financial instruments	-	-	-	-	-	-
Other liabilities	1,526,573	-	-	-	-	1,526,573
Total liabilities	3,606,979	363,201	184,292	81,542	-	4,236,013
Net maturity mismatch	(2,644,337)	1,013,326	723,296	1,118,866	314,313	525,464

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020 (cont'd.)

(q) Liquidity risk management (cont'd.)

The following tables show the contractual undiscounted cash flow payable for non-derivatives financial liabilities. The financial liabilities in the tables below do not agree to the balances in the statement of financial position as the tables incorporate all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments. The maturity profile does not necessarily reflect behavioural cash flows.

Islamic business	On demand RM'000	Less than 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2020						
Derivative financial instruments	-	-	-	-	-	-
Non-derivative financial liabilities						
Borrowings	-	642,361	-	1,476,650	-	2,119,011
Other liabilities	1,809,590	-	-	-	-	1,809,590
Total financial liabilities	1,809,590	642,361	-	1,476,650	-	3,928,601
Commitments and contingencies						
Banking operation commitments						
Contracted but not provided for:						
Guarantee facility	20,460	-	-	-	-	20,460
Letter of credit	198	-	-	-	-	198
Undrawn loans and financing	-	531,680	353,102	63,733	87,106	1,035,621
	20,658	531,680	353,102	63,733	87,106	1,056,279
Insurance operation commitments						
Contracted but not provided for:						
Within one year	-	-	454,725	-	-	454,725
One year or later and no later than five years	-	-	-	168,714	-	168,714
	-	-	454,725	168,714	-	623,439
Total commitments and contingencies	20,658	531,680	807,827	232,447	87,106	1,679,718

NOTES TO THE FINANCIAL STATEMENTS

44. ISLAMIC BUSINESS FUNDS (CONT'D.)

Notes to the financial statements for Islamic business fund and Takaful fund for the financial year ended 31 December 2020 (cont'd.)

(q) Liquidity risk management (cont'd.)

The following tables show the contractual undiscounted cash flow payable for non-derivatives financial liabilities. The financial liabilities in the tables below do not agree to the balances in the statement of financial position as the tables incorporate all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments. The maturity profile does not necessarily reflect behavioural cash flows. (cont'd.)

Islamic business	On demand RM'000	Less than 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2019						
Derivative financial liabilities instruments	-	28,363	80,517	634,629	65,537	809,046
Non-derivative financial liabilities						
Borrowings	-	403,749	319,223	466,818	80,769	1,270,558
Other liabilities	1,526,573	-	-	-	-	1,526,573
Total financial liabilities	1,526,573	403,749	319,223	466,818	80,769	2,797,131
Commitments and contingencies						
Banking operation commitments						
Contracted but not provided for:						
Guarantee facility	29,368	-	-	-	-	29,368
Letter of credit	2,225	-	-	-	-	2,225
Undrawn loans and financing	3,662	366,644	584,143	69,844	227,662	1,251,955
	35,255	366,644	584,143	69,844	227,662	1,283,548
Insurance operation commitments						
Contracted but not provided for:						
Within one year	-	-	727,906	-	-	727,906
One year or later and no later than five years	-	-	-	171,906	-	171,906
	-	-	727,906	171,906	-	899,812
Total commitments and contingencies	35,255	366,644	1,312,049	241,750	227,662	2,183,360

45. 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.

Segment information are presented in respect of the Group's business segments as follows:

(1) Banking

Banking comprises activities involving conventional and Islamic facilities to finance and support export and import of goods, services and overseas projects as well as financial guarantee facilities with an emphasis on non-traditional markets.

(2) Insurance and Takaful

Insurance and Takaful comprise activities involving providing export, credit and political risks insurance/takaful.

(3) Support

Support refers to non-core operations mainly involving finance, treasury, administration, human resource and others which support the Group's overall operation.

NOTES TO THE FINANCIAL STATEMENTS

45. SEGMENT INFORMATION (CONT'D.)

	Group and Bank							
	2020 Business segments				2019 Business segments			
	Banking RM'000	Insurance and Takaful RM'000	Support RM'000	Total RM'000	Banking RM'000	Insurance and Takaful RM'000	Support RM'000	Total RM'000
Net interest income	18,189	-	-	18,189	25,819	-	51,768	77,587
Underwriting results	-	1,975	-	1,975	-	(21,965)	-	(21,965)
Income from Islamic business	110,489	1,713	-	112,202	120,727	1,538	-	122,265
Other income	21,483	-	85,176	106,659	22,023	-	24,630	46,653
Net income	150,161	3,688	85,176	239,025	168,569	(20,427)	76,398	224,540
Overhead expenses	(21,653)	(2,013)	(64,525)	(88,191)	(28,379)	(6,579)	(47,071)	(82,029)
Operating profit	128,508	1,675	20,651	150,834	140,190	(27,006)	29,327	142,511
Allowance for expected credit losses on advances and financing	(53,643)	-	-	(53,643)	(566,135)	-	-	(566,135)
Allowance for expected credit losses on commitment and contingencies	(2,833)	-	-	(2,833)	(64,947)	-	-	(64,947
Allowance for expected credit losses on investment securities	-	-	(42,584)	(42,584)	-	-	10,321	10,321
Allowances for other assets	(624)	-	-	(624)	-	-	-	-
	71,408	1,675	(21,933)	51,150	(490,892)	(27,006)	39,648	(478,250)
Taxation				-				(1,323)
Net profit/(loss) for the year - Bank				51,150				(479,573)
Add: taxation for the Group				-				2,316
Net profit/(loss) for the year - Group				51,150				(477,257)

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