RHB ISLAMIC BANK BERHAD
(Incorporated in Malaysia)
Registration No. 200501003283 (680329-V)

STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

RHB ISLAMIC BANK BERHAD
(Incorporated in Malaysia)
Registration No. 200501003283 (680329-V)

STATUTORY FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

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REGISTERED OFFICE:

LEVEL 10
TOWER ONE
RHB CENTRE
JALAN TUN RAZAK
50420 KUALA LUMPUR
MALAYSIA

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DIRECTORS' REPORT

The Directors submit herewith their report together with the audited financial statements of RHB Islamic Bank Berhad ('the Bank') for the financial year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in the Islamic banking business and is committed to offer customers a comprehensive range of products and services in accordance with its Constitution and Shariah principles.

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

FINANCIAL RESULTS

	RM'000
Profit before zakat and taxation	**1,030,515**
Zakat	**(5,868)**
Taxation	**(235,159)**
Net profit for the financial year	**789,488**

DIVIDENDS

During the financial year ended 31 December 2021, the Bank has paid a single-tier dividend of 3.00 sen per share in respect of the financial year ended 31 December 2020, amounting to RM50,203,000 on 25 March 2021.

The Directors proposed a single-tier interim dividend of 14.00 sen per share amounting to RM234,279,000 in respect of the financial year ended 31 December 2021.

The financial statements for the current financial year do not reflect this single-tier interim dividend. This dividend payment will be accounted for in the shareholder's equity as an appropriation of retained profits in the financial year ending 31 December 2022.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are disclosed in the financial statements.

ISSUE OF SHARES

There were no issue of shares in the Bank during the financial year.

BAD AND DOUBTFUL FINANCING AND ADVANCES

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that proper actions have been taken in relation to the writing off of bad financing and advances and the making of allowance for impaired financing and advances, and satisfied themselves that all known bad financing and advances have been written-off and that adequate allowance had been made for impaired financing and advances.

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

CURRENT ASSETS

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

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

DIRECTORS' REPORT (CONTINUED)

VALUATION METHOD

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Bank for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature, other than the impact of COVID-19 and net modification loss as disclosed in Note 29 to the financial statements.

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

DIRECTORS' REPORT (CONTINUED)

DIRECTORS OF THE BANK

The Directors of the Bank in office during the financial year and during the period from the end of the financial year to the date of the report are:

Dato' Mohamad Nasir Ab Latif
Dato' Abd Rahman Dato' Md Khalid
Dato' Foong Chee Meng
Ong Ai Lin
Hizamuddin bin Jamalluddin (appointed on 1 October 2021)
Dato' Adissadikin Ali

In accordance with Article 75 of the Bank's Constitution, Dato' Mohamad Nasir Ab Latif and Dato' Abd Rahman Dato' Md Khalid retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 80 of the Bank's Constitution, Hizamuddin bin Jamalluddin retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings required to be kept under Section 59 of the Companies Act 2016, the Directors in office at the end of the financial year holding securities of the Bank and its related corporations are as follows:

	Number of ordinary shares			
	As at 1.1.2021	**Bought**	**Sold**	**As at 31.12.2021**
Holding company				
RHB Bank Berhad				
Ong Ai Lin	**25,000**	**955** ^	**-**	**25,955**

^ These shares were acquired pursuant to the Dividend Reinvestment Plan of RHB Bank Berhad.

Other than the above, none of the other Directors holding office at the end of the financial year held any interest in the securities of the Bank or its related corporations 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 any benefit (other than Directors' remuneration and benefits-in-kind as disclosed in Note 34 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 33 to the financial statements.

HOLDING COMPANY

The Directors regard RHB Bank Berhad ('RHB Bank'), a company incorporated in Malaysia and listed on Bursa Malaysia Securities Berhad, as the holding company.

ZAKAT OBLIGATION

The Bank only pays zakat on its business to zakat state authorities. The Bank does not pay zakat on behalf of the shareholder or depositors.

RHB ISLAMIC BANK BERHAD
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DIRECTORS' REPORT (CONTINUED)

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014421-LCA & AF 1146), have expressed their willingness to continue in office.

This report was approved by the Board of Directors on 25 February 2022. Signed on behalf of the Board of Directors:

DATO' MOHAMAD NASIR AB LATIF
CHAIRMAN

DATO' ADISSADIKIN ALI
CHIEF EXECUTIVE OFFICER/
MANAGING DIRECTOR

Kuala Lumpur

RHB ISLAMIC BANK BERHAD
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REPORT OF THE SHARIAH COMMITTEE

In the name of Allah, The Most Gracious, The Most Merciful

In compliance with the Shariah Governance policy document, Financial Reporting for Islamic Banking Institutions and other relevant guidelines issued by Bank Negara Malaysia, we, the members of the Shariah Committee of RHB Islamic Bank Berhad (the 'Bank'), do hereby confirm the following:

We are responsible to provide objective and sound advice to the Bank to ensure its aims and operations, business, affairs and activities are in compliance with Shariah. We have conducted thirteen (13) meetings to discuss, elaborate and review various product structures and documentations, transactions, services and operations of the Bank during the financial year ended 31 December 2021.

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank during the financial year ended 31 December 2021.

We have also conducted our review to form an opinion as to whether the Bank has complied with Shariah rulings, resolutions and guidelines issued by the Shariah Advisory Council ('SAC') of Bank Negara Malaysia and SAC of Securities Commission Malaysia (for capital market related matters), as well as the specific rulings and decisions issued by us.

The Bank's management is responsible for ensuring that the financial institution conducts its business in accordance with Shariah rules and principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank, and to report to you.

We have assessed the work carried out by Shariah review and Shariah audit, as presented to us, which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by the Bank.

We have performed our review so as to obtain all the information and explanations, which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has complied with Shariah rules and principles.

In our opinion:

(a) the main sources of income of the Bank during the financial year ended 31 December 2021 that we have reviewed are in compliance with the Shariah rules and principles;
(b) all investments that have been disclosed to us by the Bank conform to the basis that had been approved by us in accordance with Shariah rules and principles;
(c) all earnings that have been realised from sources or by means prohibited by the Shariah principles have been considered for disposal to charitable causes;
(d) the contracts and legal documents of the products used by the Bank that we reviewed are in compliance with the Shariah rules and principles;
(e) the products proposals including concept used by the Bank which have been reviewed and advised by us are in compliance with the Shariah rules and principles;
(f) the calculation of zakat is in compliance with Shariah rules and principles; and
(g) 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 event has occurred and has been rectified.

To the best of our knowledge based on the information provided and disclosed to us during discussions and meetings, we hereby confirm that the operations of the Bank for the financial year ended 31 December 2021 have been conducted in conformity with the Shariah rules and principles.

We pray Allah, The Almighty to grant us success and lead us on the right path.

Wassalamu 'Alaikum Wa Rahmatullahi Wa Barakatuh

On behalf of the Shariah Committee:

Dr. Ahmad Basri Ibrahim
Chairman of the Committee

Mohd Fadhly Md. Yusoff
Member of the Committee

Kuala Lumpur
25 February 2022

RHB ISLAMIC BANK BERHAD
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STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Note	**2021**	2020
		RM'000	RM'000
ASSETS			
Cash and short-term funds	2	**8,061,808**	2,262,454
Securities purchased under resale agreements	3	**2,800,958**	3,767,531
Deposits and placements with banks and other financial institutions	4	**2,326,510**	2,410,219
Financial assets at fair value through profit or loss (‘FVTPL’)	5	**52,093**	107,678
Financial assets at fair value through other comprehensive income (‘FVOCI’)	6	**5,587,524**	6,409,937
Financial investments at amortised cost	7	**5,235,191**	4,577,078
Financing and advances	8	**74,259,901**	66,788,344
Other assets	9	**411,224**	320,985
Derivative assets	10	**125,320**	215,979
Statutory deposits with Bank Negara Malaysia ('BNM')	11	**20,000**	12,000
Deferred tax assets	12	**110,860**	6,794
Right of use assets	13	**2,528**	4,750
Property, plant and equipment	14	**3,452**	3,944
Intangible assets	15	**3,528**	3,133
TOTAL ASSETS		**99,000,897**	86,890,826
LIABILITIES AND EQUITY			
Deposits from customers	16	**71,661,203**	60,830,175
Deposits and placements of banks and other financial institutions	17	**8,026,615**	7,124,095
Investment accounts	18	**10,794,930**	8,840,858
Bills and acceptances payable		**8,287**	12,182
Other liabilities	19	**1,160,202**	785,816
Derivative liabilities	10	**134,410**	337,929
Recourse obligation on financing sold to Cagamas Berhad ('Cagamas')	20	**753,585**	3,023,760
Provision for taxation and zakat	21	**93,685**	52,548
Lease liabilities	22	**2,548**	4,840
Subordinated obligations	23	**754,573**	754,514
TOTAL LIABILITIES		**93,390,038**	81,766,717
Share capital	24	**1,673,424**	1,673,424
Reserves	25	**3,937,435**	3,450,685
TOTAL EQUITY		**5,610,859**	5,124,109
TOTAL LIABILITIES AND EQUITY		**99,000,897**	86,890,826
COMMITMENTS AND CONTINGENCIES	40	**35,011,301**	34,732,978

The accompanying accounting policies and notes form an integral part of these financial statements.

RHB ISLAMIC BANK BERHAD
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INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	Note	**2021**	2020
		RM'000	RM'000
Income derived from investment of depositors' funds	26	**2,970,546**	2,818,747
Income derived from investment of investment account funds	27	**357,697**	364,011
Income derived from investment of shareholders' funds	28	**185,606**	183,584
Net modification loss	29	**(118,521)**	(259,233)
Allowance for credit losses on financial assets	30	**(145,879)**	(234,976)
Total distributable income		**3,249,449**	2,872,133
Income attributable to depositors	31	**(1,480,321)**	(1,713,761)
Profit distributed to investment account holders		**(290,658)**	(288,753)
		1,478,470	869,619
Personnel expenses	32	**(33,739)**	(29,610)
Other overheads and expenditures	33	**(414,216)**	(389,490)
Profit before zakat and taxation		**1,030,515**	450,519
Zakat		**(5,868)**	(4,091)
Profit after zakat before taxation		**1,024,647**	446,428
Taxation	35	**(235,159)**	(106,089)
Net profit for the financial year		**789,488**	340,339
Earnings per share (sen):			
- basic	36	**47.18**	20.34

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STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	Note	**2021**	2020
		RM'000	RM'000
Net profit for the financial year		**789,488**	340,339
Other comprehensive income/(loss) in respect of:			
Items that will be reclassified subsequently to profit or loss:			
Debt instruments measured at FVOCI:			
- Unrealised net (loss)/gain on revaluation		**(241,011)**	181,011
- Net transfer to income statement on disposal		**(91,714)**	(39,942)
- Changes in expected credit losses	6	**336**	(394)
Income tax relating to components of other comprehensive loss/(income)	12,37	**79,854**	(33,856)
Other comprehensive (loss)/income, net of tax for the financial year		**(252,535)**	106,819
Total comprehensive income for the financial year		**536,953**	447,158

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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

			Non distributable		Distributable	
	Note	Share capital	FVOCI reserve	Regulatory reserve	Retained profits	Total
2021		RM'000	RM'000	RM'000	RM'000	RM'000
Balance as at 1 January 2021		1,673,424	226,849	327,805	2,896,031	5,124,109
Net profit for the financial year		-	-	-	789,488	789,488
Debt instruments measured at FVOCI:						
- Unrealised net loss on revaluation		-	(241,011)	-	-	(241,011)
- Net transfer to income statement on disposal		-	(91,714)	-	-	(91,714)
- Changes in expected credit losses	6	-	336	-	-	336
Income tax relating to components of other comprehensive loss	12,37	-	79,854	-	-	79,854
Other comprehensive loss, net of tax, for the financial year		-	(252,535)	-	-	(252,535)
Total comprehensive income/(loss) for the financial year		-	(252,535)	-	789,488	536,953
Dividend paid	38	-	-	-	(50,203)	(50,203)
Transfer from regulatory reserve		-	-	(80,686)	80,686	-
Balance as at 31 December 2021		1,673,424	(25,686)	247,119	3,716,002	5,610,859

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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

			Non distributable		Distributable	
		Share	FVOCI	Regulatory	Retained	
	Note	capital	reserve	reserve	profits	Total
2020		RM'000	RM'000	RM'000	RM'000	RM'000
Balance as at 1 January 2020		1,673,424	120,030	442,869	2,530,491	4,766,814
Net profit for the financial year		-	-	-	340,339	340,339
Debt instruments measured at FVOCI:						
- Unrealised net gain on revaluation		-	181,011	-	-	181,011
- Net transfer to income statement on disposal		-	(39,942)	-	-	(39,942)
- Changes in expected credit losses	6	-	(394)	-	-	(394)
Income tax relating to components of other comprehensive income	12,37	-	(33,856)	-	-	(33,856)
Other comprehensive income, net of tax, for the financial year		-	106,819	-	-	106,819
Total comprehensive income for the financial year		-	106,819	-	340,339	447,158
Dividend paid	38	-	-	-	(89,863)	(89,863)
Transfer from regulatory reserve		-	-	(115,064)	115,064	-
Balance as at 31 December 2020		1,673,424	226,849	327,805	2,896,031	5,124,109

The accompanying accounting policies and notes form an integral part of these financial statements.

RHB ISLAMIC BANK BERHAD
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STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	Note	**2021**	2020
		RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before zakat and taxation		**1,030,515**	450,519
Adjustments for:			
Net modification loss	29	**118,521**	259,233
Property, plant and equipment			
- Depreciation	14	**955**	966
- Loss on disposal	28	**30**	-
Right of use assets			
- Depreciation	13	**2,136**	3,116
- Gain on modification	28	**(38)**	-
Amortisation of computer software license	15	**758**	1,025
Income from:			
- Investment on financial assets at FVTPL		**(1,447)**	(2,888)
- Investment on financial assets at FVOCI		**(202,963)**	(204,906)
- Investment on financial investments at amortised cost		**(198,741)**	(156,034)
Net gain on disposal of financial assets at FVOCI		**(91,714)**	(39,942)
Net loss/(gain) on disposal of financial assets at FVTPL		**4,566**	(5,881)
Net gain arising from derecognition of financial investments at amortised cost		**(23)**	-
Net gain on fair value hedges	28	**(2,452)**	(1,941)
Net loss on revaluation of derivatives	28	**40,217**	27,470
Net unrealised foreign exchange gain		**(3,034)**	(93)
Unrealised gain on revaluation of financial assets at FVTPL		**(4)**	(672)
Allowance for credit losses on financing and advances		**166,320**	261,493
Net allowance on financial assets at FVOCI, financial investments at amortised cost and other financial assets		**1,591**	(952)
Financing expense on subordinated obligations and lease liabilities		**33,944**	34,094
Operating profit before working capital changes		**899,137**	624,607
(Increase)/Decrease in operating assets:			
Securities purchased under resale agreements		**966,573**	(2,043,424)
Deposits and placements with banks and other financial institutions		**83,709**	(2,373,333)
Financing and advances		**(7,757,948)**	(7,110,667)
Financial assets at FVTPL		**52,470**	108,909
Other assets		**(37,921)**	17,829
Statutory deposits with BNM		**(8,000)**	1,505,000
		(6,701,117)	(9,895,686)
Increase/(Decrease) in operating liabilities:			
Deposits from customers		**10,836,453**	6,410,410
Deposits and placements of banks and other financial institutions		**902,520**	2,014,234
Investment accounts		**1,954,072**	611,524
Bills and acceptances payable		**(3,895)**	(278)
Other liabilities		**(498,495)**	66,377
Amount due to holding company		**671,088**	(167,701)
Recourse obligation on financing sold to Cagamas		**(2,270,175)**	753,521
		11,591,568	9,688,087
Cash generated from operations		**5,789,588**	417,008
Profit paid		**(33,885)**	(34,145)
Net tax and zakat paid		**(224,102)**	(159,728)
Net cash generated from operating activities		**5,531,601**	223,135

The accompanying accounting policies and notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

	Note	**2021**	2020
		RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Net purchase of financial assets at FVOCI and financial investments at amortised cost		**(91,896)**	(2,276,571)
Property, plant and equipment			
- Purchase	14	**(655)**	(931)
- Proceeds from disposal		**162**	-
Purchases of intangible assets	15	**(1,153)**	(525)
Investment income received from financial assets at FVOCI and financial investments at amortised cost		**415,516**	357,963
Net cash generated from/(used in) investing activities		**321,974**	(1,920,064)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal lease payment		**(4,018)**	(3,150)
Dividend paid		**(50,203)**	(89,863)
Net cash used in financing activities		**(54,221)**	(93,013)
Net increase/(decrease) in cash and cash equivalents		**5,799,354**	(1,789,942)
Cash and cash equivalents at the beginning of the financial year		**2,262,454**	4,052,396
Cash and cash equivalents at the end of the financial year	2	**8,061,808**	2,262,454

		← Cash Changes →		← Non-Cash Changes →		
	Balance as at the beginning of the financial year	**Net cash flow from financing activities**	**Net cash flow from operating activities**	**Additions to lease liabilities**	**Accrued profit**	**Balance as at the end of the financial year**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2021						
Lease liabilities	**4,840**	**(4,018)**	**(144)**	**1,726**	**144**	**2,548**
Subordinated obligations	**754,514**	**-**	**(33,741)**	**-**	**33,800**	**754,573**
	759,354	**(4,018)**	**(33,885)**	**1,726**	**33,944**	**757,121**
2020						
Lease liabilities	3,040	(3,150)	(201)	4,950	201	4,840
Subordinated obligations	754,565	-	(33,944)	-	33,893	754,514
	757,605	(3,150)	(34,145)	4,950	34,094	759,354

The accompanying accounting policies and notes form an integral part of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements. These accounting policies have been consistently applied to all the years presented, unless otherwise stated.

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at FVOCI, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires Directors to exercise their judgement in the process of applying the Bank’s accounting policies. Although these estimates and judgement are based on the Directors’ best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Section (B).

(a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank and are effective

The relevant new accounting standards, annual improvements and amendments to published standards and interpretations to existing accounting standards that are effective for the Bank’s financial year beginning on or after 1 January 2021 are as follows:

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

The Phase 1 amendments, which were effective on 1 January 2020, provided temporary reliefs from applying specific hedge accounting requirements to relationships affected by uncertainties arising as a result of interbank offered rate (‘IBOR’) reform.

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide practical expedient allowing entities to update the effective profit rate (for instruments measured at amortised cost, lessees and insurers applying the temporary exemption from MFRS 9) to account for any required changes in contractual cash flows that is a direct consequence of IBOR reform. This results in no immediate gain or loss recognised in the income statement.

The Phase 2 amendments require entities to update the hedge documentation to reflect the changes required by the IBOR replacement. These amendments also provide reliefs that enable and require entities to continue hedge accounting in circumstances when changes in hedged items and hedging instruments are solely due to IBOR reform.

(ii) Amendment to MFRS 16 ‘COVID-19-Related Rent Concessions’

In 2020, MFRS 16 ‘Leases’ was amended to provide an optional practical expedient to the lessees on accounting for COVID-19-related rent concessions, such as rent holidays and temporary rent reductions of which payments are originally due on or before 30 June 2021.

The adoption of the above accounting standards, annual improvements and amendments do not give rise to any material financial impact to the Bank.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective

(i) Amendments to MFRS 16 'COVID-19-Related Rent Concessions' beyond 30 June 2021 - effective 1 April 2022

The 2021 amendment extends the applicable period of the practical expedient by one year to cover rent concessions that reduce lease payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

The amendments shall be applied retrospectively.

(ii) Amendments to MFRS 116 'Proceeds Before Intended Use' - effective 1 January 2022

The amendments prohibit an entity from deducting from the cost of a property, plant and equipment ('PPE') the proceeds received from selling items produced by the PPE before it is ready for its intended use. The sales proceeds should instead be recognised in the income statement.

The amendments shall be applied retrospectively.

(iii) Annual Improvements to Illustrative Example accompanying MFRS 16 'Leases: Lease Incentives' - effective 1 January 2022

The amendments removed the illustration on the reimbursement relating to leasehold improvements by the lessor to avoid potential confusion as the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in MFRS 16.

(iv) Annual Improvements to MFRS 9 'Fees in the '10 Percent' Test for Derecognition of Financial Liabilities' - effective 1 January 2022

When entities restructure their financing with the existing lenders, MFRS 9 requires management to quantitatively assess the significance of the difference between cash flows of the existing and new financing (commonly known as the '10% test').

This amendment to MFRS 9 clarifies that only fees paid or received between the borrower and the lender are included in the 10% test. Any fees paid to third parties should be excluded. This amendment will impact the result of the 10% test and accordingly affect the amount of gain or loss recognised in the income statement.

An entity shall apply the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

(v) Amendments to MFRS 137 'Onerous Contracts – Cost of Fulfilling a Contract' - effective 1 January 2022

The amendments clarify that direct cost of fulfilling a contract include both the incremental cost of fulfilling the contract as well as an allocation of other costs directly related to fulfilling contracts. The amendments also clarify that before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

The amendments shall be applied to contracts for which the entity has yet to fulfil all its obligations at the beginning of annual reporting period in which the amendments are first applied.

Comparative information is not restated.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)

(vi) Amendments to MFRS 101 'Classification of Liabilities as Current or Non-current' - effective 1 January 2023

Amendments to MFRS 101 'Classification of Liabilities as Current or Non-current' clarify that a liability is classified as non-current if an entity has a substantive right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. If the right to defer settlement of a liability is subject to the entity complying with specified conditions (for example, debt covenants), the right exists at the end of the reporting period only if the entity complies with those conditions at that date. The amendments further clarify that the entity must comply with the conditions at the end of the reporting period even if the lender does not test compliance until a later date.

The assessment of whether an entity has the right to defer settlement of a liability at reporting date is not affected by expectations of the entity or events after the reporting date.

In addition, the amendments clarify that when a liability could be settled by the transfer of an entity's own equity instruments (e.g. a conversion option in a convertible bond), conversion option that is not an equity instrument as defined in MFRS 132 'Financial Instruments: Presentation' is considered in the current or non-current classification of the convertible instrument.

These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies those amendments for an earlier period, it should disclose that fact.

(vii) Amendments to MFRS 101, MFRS Practice Statement 2 and MFRS 108 on disclosure of accounting policies and definition of accounting estimates - effective 1 January 2023

Amendments on disclosure of accounting policies
The amendments to MFRS 101 require companies to disclose material accounting policies rather than significant accounting policies. Entities are expected to make disclosure of accounting policies specific to the entity and not generic disclosures on MFRS applications. The amendment explains an accounting policy is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Also, accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements.

Accordingly, immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. MFRS Practice Statement 2 was amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Amendments on definition of accounting estimates
The amendments to MFRS 108, redefined accounting estimates as 'monetary amounts in financial statements that are subject to measurement uncertainty'. To distinguish from changes in accounting policies, the amendments clarify that effects of a change in an input or measurement technique used to develop an accounting estimate is a change in accounting estimate, if they do not arise from prior period errors. Examples of accounting estimates include expected credit losses; net realisable value of inventory; fair value of an asset or liability; depreciation for property, plant and equipment; and provision for warranty obligations.

(viii) Amendments to MFRS 112 on 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction' - effective 1 January 2023

The amendments clarify that the initial exemption rule does not apply to transactions where both an asset and a liability are recognised at the same time such as leases and decommissioning obligations. Accordingly, companies are required to recognise both deferred tax assets and liabilities for all deductible and taxable temporary differences arising from such transactions.

The adoption of the accounting standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective above are not expected to give rise to any material financial impact to the Bank.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(c) Changes in regulatory requirements

(i) Measures issued by Bank Negara Malaysia ('BNM')

Following BNM's letters dated 24 March 2020, 24 July 2020 and 17 August 2020 on measures to assist borrowers/customers affected by the COVID-19 pandemic, BNM had on 31 May 2021 extended the eligibility period of various repayment assistance from 30 June 2021 to on or before 31 December 2021.

I Definition of defaulted exposures under the policy documents on Capital Adequacy Framework and Capital Adequacy Framework for Islamic Banks

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

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

(2) For financing to individuals or small and medium-sized enterprises ('SMEs'), a borrower/customer should not be considered to be in default based on 'unlikeliness to repay' at the time the repayment assistance is granted, except where the financing is sold by the banking institution at a material loss or the borrower/customer is subjected to bankruptcy actions; and

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

Regulatory Capital Treatment

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

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

(2) The application for repayment assistance by a borrower/customer is received on or before 30 June 2021.

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

II Classification in the Central Credit Reference Information System ('CCRIS')

For rescheduled and restructured ('R&R') individual, SME and corporate financing with arrears not exceeding 90 days as at the date of application for repayment assistance and where application for repayment assistance is received on or before 31 December 2021, including a financing that is restructured and rescheduled more than once, the financing need not be reported as R&R in CCRIS.

III Drawdown of prudential buffers

Banking institutions are given the following relaxation of the prudential buffers, which will need to be restored to the minimum regulatory requirements by 30 September 2021:

- Drawdown of capital conservation buffer of 2.5%;
- Operate below the minimum liquidity coverage ratio ('LCR') of 100%;
- Reduce the regulatory reserves held against expected credit losses to 0%; and
- Minimum Net Stable Funding Ratio ('NSFR') is lowered to 80% from 100%.

During the current financial year, the Bank has not drawn down any of the prudential buffers.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(c) Changes in regulatory requirements (continued)

(ii) Targeted repayment assistance (‘TRA’)

I Targeted repayment assistance under Program Strategik Memperkasa Rakyat dan Ekonomi Tambahan (‘PEMERKASA+’)

TRA under PEMERKASA+ was announced on 31 May 2021. The TRA was applicable to all borrowers/customers who have lost their employment, B40 borrowers/customers registered under Bantuan Sara Hidup (‘BSH’) or Bantuan Prihatin Rakyat (‘BPR’), SMEs and microenterprises with financing facilities not more than RM150,000 whose financing were approved on or before 30 June 2021 and not in arrears for more than 90 days. All these affected borrowers/customers may opt for 3-month deferment of instalment or a 50% reduction in their monthly instalment payment for a period of 6 months.

II 6-month moratorium under Perlindungan Rakyat dan Pemulihan Ekonomi (‘PEMULIH’)

On 6 July 2021, BNM announced that individuals, microenterprise borrowers and SMEs affected by the COVID-19 pandemic may start applying for the 6-month moratorium from 7 July 2021 onwards, in line with Government's PEMULIH.

The moratorium applies to ringgit and foreign currency denominated financing approved on or before 30 June 2021, not in arrears exceeding 90 days and customers must not be adjudicated bankrupts or under bankruptcy proceedings. All individuals, SMEs and microenterprises may opt for 6-month deferment of instalment or 50% reduction in their monthly instalment payment for a period of 6 months. There will be no compounding profit and any penalty profit during the moratorium period.

(iii) Waiver of profit

On 14 October 2021, BNM announced that B50 individuals who continue to be affected by the COVID-19 pandemic and are under an existing repayment assistance program, may start applying for financial assistance under the Financial Management and Resilience Programme ('URUS') managed by AKPK from 15 November 2021 until 31 March 2022. Under URUS, AKPK will provide the customer with a personalised financial plan that is developed holistically, taking into account the customer’s financial circumstances and ability to afford repayment of all the customer’s financing obligations. The financial plan will encompass options of either a profit waiver of three months or profit waiver of three months together with reduced instalments of up to 24 months. Customers who are not eligible for URUS may apply for assistance under AKPK's Financial Resilience Support Scheme ('FIRST'), which includes features such as reduced instalments, extended financing tenures and financial resilience support programmes. In addition, for eligible B50 customers who have signed up for the Bank's flood relief assistance programmes, the URUS application closing date has been extended to 31 July 2022, or upon the expiry of the flood relief assistance programme, whichever is earlier.

The adoption of the above additional measures gave rise to the following observations and financial impact:

(1) Where the original contractual terms of the financing and advances have been modified for credit reasons and the financing and advances have not been derecognised, this may result in modification loss to be recognised in the income statement, with a corresponding decrease in the gross carrying value of the financing and advances. The modification loss is as disclosed in Note 29 to the financial statements;

(2) Financing granted with moratorium will not be considered as ‘restructured and rescheduled’; and

(3) The moratorium does not automatically result in stage transfer under MFRS 9 in the absence of other factors relevant to the assessment of whether there has been a significant increase in credit risk. Instead, the Bank will assess other factors, such as historical repayment and delinquency trends before the COVID-19 outbreak, in considering whether the borrower has experienced a significant increase in credit risk.

(2) FINANCIAL ASSETS

(a) Classification

The Bank classifies its financial assets into the following measurement categories:

- Those to be measured at fair value (either through other comprehensive income (‘OCI’), or through profit or loss; and
- Those to be measured at amortised cost

The classification of debt instruments depend on the Bank’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets:

(i) Business model assessment

The Bank conducts assessment of the objective of a business model to align with how an asset held within a portfolio is being managed. Factors that are being considered include the key objectives of a portfolio whether the business strategy is to earn contractual profit revenue, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising a portfolio through sale of assets. Other factors considered also include the frequency and volume of sales in prior periods, how the asset's performance is evaluated and reported to key management personnel.

(ii) Assessment whether contractual cash flows are solely payments of principal and interest ('SPPI')

Where the business model is to hold the financial assets to collect contractual cash flows, or to collect contractual cash flows and sell, the Bank assesses whether the financial assets’ contractual cash flows represent SPPI. In applying the SPPI test, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. profit includes only consideration for time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

(b) Recognition and derecognition

Financial assets are recognised when the Bank becomes a party to the contractual provisions of the instrument.

Regular way purchases and sales of financial assets are recognised on trade date, the date on which the Bank commits to purchase and sell the assets.

(c) Measurement

At initial recognition, the Bank measures a financial asset at fair value plus transaction costs that are directly attributable to acquisition of the financial asset in the case of a financial asset not at FVTPL. Transaction costs of financial assets carried at FVTPL are expensed in the income statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

(i) Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer’s perspective, such as financing, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Subsequent measurement of debt instruments depends on the Bank's business model for managing the financial asset and the cash flow characteristics of the financial asset. There are three measurement categories into which the Bank classifies its debt instruments:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(c) Measurement (continued)

(i) Debt instruments (continued)

(1) Financial investments at amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated as fair value through profit or loss (‘FVTPL’), are measured at amortised cost. The carrying amount of these assets is adjusted for any expected credit losses that are recognised into income statement. The profit income is recognised into income statement using the effective profit rate method. Upon derecognition, any gain or loss will be recognised in income statement and presented under ‘other operating income’.

(2) Financial assets through other comprehensive income (‘FVOCI’)

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Changes in the fair value of these assets are recognised in OCI, except for recognition of profit, foreign exchange gains or losses and expected credit losses which are recognised in income statement.

When these financial assets are derecognised, the cumulative gains or losses previously recognised in OCI is reclassified from equity to income statement and recognised in ‘other operating income’. The profit income is recognised into income statement using the effective profit rate method. Foreign exchange gains or losses are recognised in ‘other operating income’ and impairment credit losses are presented separately under ‘allowance for credit losses’.

(3) Financial assets at FVTPL

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented in the income statement within ‘net gain/(loss) arising from financial assets at FVTPL’ in the period in which it arises. The profit income is recognised into income statement using the effective profit rate method.

(ii) Equity instruments

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

The Bank subsequently measures all equity instruments at FVTPL, except where the management has elected, at initial recognition, to irrevocably designate an equity instrument as FVOCI. The Bank’s policy is to designate equity instruments as FVOCI when those instruments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to income statement, including on disposal. Dividend, when representing a return on such investments, continue to be recognised in income statement as dividend income when the Bank’s right to receive payments is established.

Gains and losses on equity instruments at FVTPL are included in the ‘net gain/(loss) arising from financial assets at FVTPL’ in the income statement.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(d) Derecognition and modification

(i) Derecognition due to modification of terms and conditions

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of financing to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced, such as a profit share or equity-based return that substantially affects the risk profile of the financing;
- Significant extension of the financing term when the borrower is not in financial difficulty;
- Significant change in the profit rate;
- Change in the currency the financing is denominated in; and
- Insertion of collaterals, other securities or credit enhancements that significantly affect the credit risk associated with the financing.

If the terms are substantially different, the Bank derecognises the original financial assets and recognises a 'new' asset at fair value and recalculates a new effective profit rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in income statement as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition. The Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in income statement. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective profit rate (or credit-adjusted effective profit rate for purchased or originated credit-impaired financial assets).

(ii) Derecognition other than modification of terms and conditions

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

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

(e) Reclassification policy

Reclassification of financial assets is required when, and only when, the Bank changes its business model for managing the assets. In such cases, the Bank is required to reclassify all affected financial assets.

However, it will be inappropriate to reclassify financial assets that have been designated at FVTPL, or equity instruments that have been designated as FVOCI even when there is a change in business model. Such designations are irrevocable.

(3) REPURCHASE AGREEMENTS

Securities purchased under resale agreements are securities which the Bank has purchased with a commitment to resell at future dates. The commitment to resell the securities is reflected as an asset on the statement of financial position.

Conversely, obligations on securities sold under repurchase agreements are securities which the Bank has sold from its portfolio, with a commitment to repurchase at future dates. Such financing and the obligation to repurchase the securities is reflected as a liability on the statement of financial position.

The difference between sale and repurchase price as well as purchase and resale price are amortised as profit income and profit expense respectively on an effective yield method.

(4) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivatives are initially recognised at fair value on the date on which derivative contracts are entered into and are subsequently remeasured at their fair values at the end of each reporting period. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative. Changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the income statement. Cash collateral held in relation to derivative transactions are carried at amortised cost.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits on day one.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Bank documents at the inception of the hedging transaction, the risk management objective and strategy and the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items.

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for in profit or loss at the time of the hedge relationship rebalancing.

The Bank has applied the following Phase 1 reliefs provided by the Amendments to MFRS 9 and MFRS 7 ‘Interest Rate Benchmark Reform’ until the uncertainty arising from IBOR reform no longer being present:

- When considering the ‘highly probable’ requirement, the Bank has assumed that the IBOR profit rate on which the Bank’s hedged borrowings is based does not change as a result of IBOR reform.

- In assessing whether the hedge is expected to be highly effective on a forward-looking basis, the Bank has assumed that the IBOR profit rate on which the cash flows of the hedged borrowings and the profit rate swap that hedges it are based is not altered by IBOR reform.

- The Bank has not recycled the cash flow hedge reserve for designated hedges that are subject to the IBOR reform.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

The Bank has applied the following reliefs provided by the Amendments to MFRS 9 and MFRS 7 'Interest Rate Benchmark Reform - Phase 2':

- Hedge designation: When the Phase 1 amendments cease to apply, the Bank will amend its hedge designation to reflect changes which are required by IBOR reform, but only to make one or more of the following changes:

  (a) designating an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;

  (b) amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or

  (c) amending the description of the hedging instrument.

The Bank amends its hedge documentation to reflect this change in designation by the end of the reporting period in which the changes are made. These amendments to the hedge documentation does not require the Bank to discontinue its hedge relationships.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 10 to the financial statements.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

The Bank applies fair value hedge accounting for hedging fixed profit risk on financing and advances and financial assets at FVOCI. The gain or loss relating to the effective portion of profit rate swaps hedging fixed rate financing and advances are recognised in income statement within other operating income. The gain or loss relating to the ineffective portion is recognised in income statement within net gain or loss on fair value hedges.

For fair value hedge of financial assets designated as FVOCI, any changes in fair value of the hedged financial assets FVOCI are recycled from FVOCI reserves to income statement, while the changes in fair value of the derivatives that is related to the effective portion of the hedge is recognised in income statement within other operating income. The ineffective portion of the aforesaid hedging derivatives is recognised in income statement with net gain or loss on fair value changes of derivatives.

For financial instruments measured at amortised cost, if the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective profit method is used is amortised to the income statement over the period to maturity and recorded as other operating income. Effective profit rate 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 income statement.

(b) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(5) INTANGIBLE ASSETS - COMPUTER SOFTWARE LICENSES

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software licenses are subsequently carried at cost less accumulated amortisation and impairment losses. The costs are amortised over the estimated useful lives of 5 to 10 years.

At the end of the reporting period, the Bank assesses whether there is any indication of impairment on computer software licenses. Where an indication of impairment exists, the carrying amount of the asset is written down to its recoverable amount. Refer to accounting policy Note 19 on impairment of non-financial assets.

Gains and losses arising from de-recognition of computer software licenses are measured as the difference between net disposal proceeds and the carrying amount of the computer software licenses and are recognised in income statement when the asset is de-recognised.

(6) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are recognised as expense in income statement during the financial period in which they are incurred.

Renovations in progress are not depreciated. Other property, plant and equipment are depreciated on a straight-line basis to write down their costs to their residual values over their estimated useful lives. The principal annual depreciation rates are as follows:

Renovations	10%
Office equipment and furniture	20%
Computer equipment	14⅓% to 33⅓%
Motor vehicles	20%

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. There are no material adjustments arising from the review that would require disclosure in the financial statements.

Gains or losses on disposals are determined by comparing proceeds with carrying amounts and are included in other operating income in income statement.

At the end of the reporting period, the Bank assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is written down to its recoverable amount. Refer to accounting policy Note 19 on impairment of non-financial assets.

(7) FINANCIAL LIABILITIES

Financial liabilities are measured at amortised cost, except for trading liabilities designated at fair value, which are held at fair value through profit or loss. Financial liabilities are initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in income statement. Financial liabilities are de-recognised when extinguished.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities as held-for-trading, and financial liabilities designated at fair value through profit or loss upon initial recognition.

A financial liability is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking. Derivatives are also categorised as held-for-trading unless they are designated as hedges. Refer to accounting policy Note 4 on hedge accounting.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(7) FINANCIAL LIABILITIES (CONTINUED)

(a) Financial liabilities at fair value through profit or loss (continued)

The financial liabilities measured at fair value through profit and loss upon initial recognition are trading derivatives and financial liabilities designated at fair value.

(b) Other financial liabilities measured at amortised cost

Other financial liabilities are initially recognised at fair value plus transaction costs. Subsequently, other financial liabilities are remeasured at amortised cost using the effective profit rate.

Other financial liabilities measured at amortised cost are deposits from customers, deposits and placements of banks and other financial institutions, investment accounts, bills and acceptances payable, recourse obligation on financing sold to Cagamas, lease liabilities and other financial liabilities.

(c) Borrowings measured at amortised cost

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost, any difference between initial recognised amount and the redemption value is recognised in income statement over the period of the borrowings using the effective profit method.

All other borrowing costs are recognised in income statement in the period in which they are incurred.

Borrowings measured at amortised cost are subordinated obligations.

(8) INVESTMENT ACCOUNT ('IA')

IA is defined by the application of Shariah contracts as investment with non-principal guarantee feature. Under the Islamic Financial Services Act, 2013, the priority payment for IA upon liquidation of Islamic Financial Institution ('IFI') is treated separately from Islamic deposit, in accordance with the rights and obligations accrued to the investment account holders. IA is further categorised to Restricted Investment Account (‘RIA’) and Unrestricted Investment Account (‘URIA’).

RIA refers to a type of investment account where the Investment Account Holder ('IAH') provides a specific investment mandate to the IFI such as purpose, asset class, economic sector and period for investment while URIA refers to a type of investment account where the IAH provides the IFI with the mandate to make the ultimate investment decision without specifying any particular restrictions or conditions.

IA are contracts based on the Shariah concept below:

(a) Mudharabah between two parties, customer and the Bank, to finance a business venture where the customer provides capital and the business venture is managed solely by the Bank. The profit of the business venture will be shared based on pre-agreed ratios with the Bank as Mudharib (manager or manager of funds), and losses shall be borne solely by customers.

(b) Wakalah, a trust-based contract in which a party (muwakkil) appoints another party as his agent (wakil) to perform a particular task, in matters that may be delegated, either voluntarily or with imposition of a fee. The fee shall be recognised based on agreement. Profit generated/losses incurred is based on net distributable income calculated. Net distributable income is derived after deducting Wakalah fee, direct expenses and provisions (if any). Losses (if any) will solely be borne by the investors unless such losses is due to the Bank’s misconduct, negligence or breach of specified terms in the contract between the investors and the Bank.

(c) Details of the IA are as disclosed in Note 18 to the financial statements.

(9) RECOURSE OBLIGATION ON FINANCING SOLD TO CAGAMAS

In the normal course of banking operations, the Bank sells financing to Cagamas but undertake to administer the financing on behalf of Cagamas and to buy back any financing which are regarded as defective. Such financing transactions and the obligation to buy back the financing are reflected as a liability on the statement of financial position and accounted for in accordance with accounting policy Note 7(b).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(10) LEASES - WHERE THE BANK IS THE LESSEE

The Bank recognises leases as right of use ('ROU') asset, with a corresponding liability at the date on which the leased asset is available for use (i.e. the commencement date).

Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

(a) Lease term

In determining the lease term, the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not to be terminated).

The Bank reassesses the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Bank, and affects whether the Bank is reasonably certain to exercise an option not previously included in the determination of lease term, or not to exercise an option previously included in the determination of lease term. A revision in lease term results in remeasurement of the lease liabilities (refer to (d) below).

(b) ROU assets

ROU assets are initially measured at cost comprising the following:
- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentive received;
- any initial direct costs; and
- decommissioning or restoration costs.

ROU assets that are not investment properties are subsequently measured at cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life. In addition, the ROU assets are adjusted for certain remeasurement of the lease liabilities.

(c) Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. The lease payments include the following:
- fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Bank under residual value guarantees;
- the exercise price of a purchase and extension options if the Bank is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

Lease payments are discounted using the profit rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, the lessee's incremental borrowing is used. This is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU in a similar economic environment with similar term, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to income statement over the lease period so as to produce a constant periodic rate of profit on the remaining balance of the liability for each period.

Variable lease payments that depend on sales are recognised in income statement in the period in which the condition that triggers those payments occurs.

The Bank presents the lease liabilities as a separate line item in the statement of financial position. Finance expense on the lease liability is presented within the other finance expenses in the income statement.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(10) LEASES - WHERE THE BANK IS THE LESSEE (CONTINUED)

(d) Reassessment of lease liabilities

The Bank is also exposed to potential future increases in variable lease payments that depend on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is remeasured and adjusted against the ROU assets.

(e) Short term leases and leases of low-value assets

Short term leases are leases with a lease term of 12 months or less. Low-value assets comprise information technology equipment and small items of office furniture. Payments associated with short term leases of information technology and all leases of low-value assets are recognised on a straight-line basis as an expense in income statement.

(11) PROVISIONS

Provisions are recognised when the Bank has a present legal or constructive obligation, as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Where the Bank expects 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. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

(12) FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to financial institutions and other bodies on behalf of customers to secure financing and advances, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value.

The fair value of financial guarantee is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Financial guarantee contracts are subsequently measured at the higher of the amount determined in accordance with the expected credit loss model under MFRS 9 ‘Financial Instruments’ and the amount initially recognised less cumulative amount of income recognised in accordance with the principles of MFRS 15 ‘Revenue from Contracts with Customers’, where appropriate.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(13) GOVERNMENT GRANTS

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

Financial contribution under a government scheme is measured in accordance with the amount received. The benefit of a financing under a government scheme or a financial contribution under a government scheme that addresses identified costs or expenses incurred by the Bank is recognised in the income statement in the same financial period when the costs or expenses are recognised, when the required conditions are fulfilled in accordance with MFRS 120 'Accounting for Government Grants and Disclosure of Government Assistance'.

(14) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Bank does not recognise contingent asset and contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Bank or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts.

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

(15) SHARE CAPITAL

(a) Classification

Ordinary shares are classified as equity. Other shares, if issued, are classified as equity and/or liability according to the economic substance of the particular instrument.

(b) Share issue cost

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(c) Dividend distribution

Distributions to holders of an equity instrument are debited directly to equity, and the corresponding liability is recognised in the period in which the shareholders' right to receive the dividends are established or the dividends are approved.

(16) CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of one month or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(17) REVENUE RECOGNITION

(a) Profit income is recognised using the effective profit rate method. The effective profit rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to its carrying amount. The calculation includes significant fees and transaction costs that are integral to the effective profit rate, as well as premiums or discounts. Profit income is calculated by applying the effective profit rate to the gross carrying amount of a financial asset except for financial asset that subsequently becomes credit-impaired. For credit-impaired financial asset, the effective profit rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

<u>Bai' Bithaman Ajil</u>
A contract of sale of an asset in which the payment of price is deferred either to be paid in lump-sum or instalment basis within an agreed period of time. Income is recognised on effective profit rate basis over the expected life of the contract based on outstanding financing amount.

<u>Ijarah</u>
A contract that transfers ownership of a permitted usufruct and/or service for a specified period in exchange for a specified consideration. The Bank is the owner of the assets throughout the tenure of the ijarah financing.

<u>Murabahah</u>
A contract of sale where the assets cost and profit margin shall be made transparent and agreed upon between buyer and seller. Income is recognised on effective profit rate basis over the expected life of the contract based on outstanding financing amounts.

<u>Musyarakah</u>
Partnership between two or more parties, which may take effect through contractual relationship or by operation of Islamic law, whereby all contracting parties will share the profit and bear loss from the partnership.

<u>Qard</u>
A contract of lending a fungible asset to a customer who is about to return an equivalent replacement. No income from financing shall be generated from the transaction.

(b) Fees and commissions are recognised as income when all conditions precedent are fulfilled. Commitment fees and guarantee fees for financing and advances that are likely to be drawndown are deferred (together with related direct costs) and income which forms an integral part of the effective profit rate of a financial instrument is recognised as an adjustment to the effective profit rate of the financial instrument.

(c) Corporate advisory fees are recognised as income based on fulfilment of the performance obligation.

(d) Dividends are recognised when the shareholders' right to receive payment is established. Dividend income received from financial assets at FVTPL and FVOCI are recognised as other operating income in income statement.

(e) Income from bancatakaful agreement is recognised based on time apportionment method throughout the exclusive service agreement period.

(18) IMPAIRMENT OF FINANCIAL ASSETS

Under MFRS 9, impairment model requires the recognition of expected credit loss ('ECL') for all financial assets, except for financial assets classified or designated as FVTPL and equity securities classified under FVOCI, which are not subject to impairment assessment. Off-balance sheet items that are subject to ECL include financial guarantees and undrawn financing commitments.

The general approach is adopted by the Bank. ECL will be assessed using an approach which classifies financial assets into three stages which reflects the change in credit quality of the financial assets since initial recognition:

(i) Stage 1: 12 months ECL – not credit impaired

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(18) IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

The general approach is adopted by the Bank. ECL will be assessed using an approach which classifies financial assets into three stages which reflects the change in credit quality of the financial assets since initial recognition (continued):

(ii) Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised.

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

(iii) Stage 3: Lifetime ECL – credit impaired

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

Generally, all financial assets that are 90 days past due or more are classified under Stage 3. The Bank considers the following as constituting an event of default:

(1) Quantitative criteria
- the borrower is past due more than 90 days on any material credit obligation to the Bank.

(2) Qualitative criteria
- legal action has been initiated by the Bank for recovery purposes;
- borrower is a bankrupt;
- borrower has been assigned to external collection agency.

Significant increase in credit risk ('SICR')

(1) The Bank considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Bank compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition.

(2) Among the indicators incorporated in ascertaining SICR are:
- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increase in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrower in the group and changes in the operating results of the borrower.

Macroeconomic information (such as market profit rates or growth rates) is incorporated as part of the internal rating model.

The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The measurement of ECL is based on the discounted products of the Probability of Default model ('PD'), Loss Given Default model ('LGD') and Exposure at Default model ('EAD'). Certain ECL models are leveraging on the existing Bank's Basel II Internal Ratings-Based ('IRB') model, where feasible or available, with necessary adjustment to meet MFRS 9 requirements. The changes in ECL between two-periods will be recognised in income statement.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(18) IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-month ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Bank's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for doubtful debts for these financial assets is based on a 12-month ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

The Bank leverages on the model/segments/credit related factors implemented under the Basel II IRB framework where feasible or available, with calibration to meet MFRS 9 requirements. For portfolio without Basel model, other relevant historical information, loss experience or proxies will be utilised if deemed feasible.

In determining the ECL, management will evaluate a range of possible outcomes, taking into account past events, current conditions/trends and economic outlooks. Additional consideration through structured management overlays have been considered and reflected to ensure adequacy of ECL. The structured management overlays are subject to robust review and governance process.

Generally, all financial assets are considered to have experienced a significant increase in credit risk if the exposures are more than 30 days past due on its contractual payments.

(19) IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. The Bank also assess intangible assets with indefinite useful life and other assets that are subject to amortisation for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the non-financial assets exceeds its recoverable amount.

The impairment loss is charged to income statement. Any subsequent increase in recoverable amount is recognised in income statement.

(20) EMPLOYEE BENEFITS

(a) Short term employee benefits

The Bank recognises a liability and an expense for bonuses. The Bank recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Bank.

(b) Defined contribution plans

A defined contribution plan is a pension plan under which the Bank pays fixed contributions to the national pension scheme, the Employees' Provident Fund. The Bank's contributions to defined contribution plans are charged to income statement in the period to which they relate. Once the contributions have been paid, the Bank has no further legal or constructive obligations.

(c) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(21) CURRENT AND DEFERRED INCOME TAXES

The tax expense for the period comprises current and deferred tax. Tax is recognised in income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax expense is determined according to the tax laws of each jurisdiction in which the Bank operates and include all taxes based upon the taxable profits.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Deferred income tax related to the fair value remeasurement of debt instruments at fair value through other comprehensive income and equity instruments at fair value through other comprehensive income, which is charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with deferred gain or loss.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the date of statement of financial position and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(22) CURRENCY CONVERSION AND TRANSLATION

(a) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia, which is the Bank’s functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement, except when deferred in other comprehensive income as qualifying cash flow hedges. Foreign exchange gains and losses are presented in income statement within other operating income.

Changes in the fair value of monetary securities denominated in foreign currency classified as debt instruments under fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in income statement, and other changes in carrying amount are recognised in other comprehensive income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as at fair value through other comprehensive income, are included in other comprehensive income.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(23) SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources to and assessing performance of the operating segments of an entity. The Bank has determined RHB Bank's Group Management Committee as its chief operating decision-maker.

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

(24) ZAKAT

This represents business zakat which is an obligatory amount payable by the Bank to comply with the principles of Shariah and as approved by the Shariah Committee. The Bank only pays zakat on its business and does not pay zakat on behalf of depositors or shareholders. Zakat provision is calculated based on the “Working Capital Method”, at 2.5% on the adjusted net assets of the Bank.

(B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets within the next financial year are outlined below:

(1) Fair value measurement

A significant portion of financial instruments are carried on the statement of financial position at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Bank has immediate access. An adjustment for credit risk is also incorporated into the fair value as appropriate.

Fair value for a net open position that is a financial liability quoted in an active market is the current offer price, and for a financial asset the bid price, multiplied by the number of units of the instrument held or issued.

Where no active market exists for a particular asset or liability, the Bank uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm’s length transactions, discounted cash flow analysis, option pricing models and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

The valuation techniques are further disclosed in Note 44(g)(i) to the financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

(B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(2) Allowance for expected credit losses ('ECL')

The measurement of the ECL for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour.

MFRS 9 introduces the use of macroeconomic factors which include, but is not limited to, private consumption, unemployment rates, inflation and KLIBOR-3M and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

(i) Determining criteria for significant increase in credit risk;
(ii) Choosing appropriate models and assumptions for the measurement of ECL;
(iii) Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
(iv) Establishing groups of similar financial assets for the purposes of measuring ECL; and
(v) Identifying and calculating adjustments to model output (model overlay adjustments).

The impact of the COVID-19 pandemic remains uncertain and represents a material downside risk to the economy. While the methodologies and assumptions applied in the base ECL calculations remained unchanged, the Bank has incorporated the following estimates, assumptions and judgements specific to the impact of the COVID-19 pandemic and the associated support packages in the measurement of ECL:

- Forward looking macro-economic information and assumptions relating to the COVID-19 pandemic have been considered, including potential impacts of the COVID-19 pandemic, recognising uncertainty still exists in relation to the duration of the COVID-19 pandemic-related restrictions, the anticipated impact of government stimulus and regulatory actions.

  The sensitivity effect on the macroeconomic factor is further disclosed in Note 44(f)(vii) to the financial statements;

- When determining whether the risk of default has increased significantly since initial recognition, both quantitative and qualitative information is considered, including expert credit assessment, forward looking information and analysis based on the Bank’s historical loss experience;

- Consistent with industry guidance, customer support payment deferrals as part of the COVID-19 pandemic moratorium packages, by itself, will not result in a significant increase in credit risk, and therefore will not trigger an automatic migration from stage 1 (12-month ECL) to stage 2 (lifetime ECL) in the credit impairment provision for such financing; and

- As the current MFRS 9 models are not expected to generate levels of ECL to cater for the unprecedented and on-going COVID-19 pandemic due to lack of actual historical loss experiences, overlays and post-model adjustments have been applied to determine a sufficient overall level of ECLs for the year. Total ECL provided for the year amounted to RM46 million (2020: RM140 million), whereas the total balance as at 31 December 2021 amounted to RM186 million (2020: RM140 million).

  These overlays and post-model adjustments were taken to reflect the latest macroeconomic outlook not captured in the modelled outcome and the potential impact to delinquencies and defaults when the various relief and support measures are expiring in the future.

  The overlays and post-model adjustments 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 borrowers and customers who have received repayment supports remain in their existing stages unless they have been individually identified as not viable or with subsequent indicators of significant increase in credit risk from each of their pre-COVID-19 status. The overlays and post-model adjustments were generally made at retail and non-retail portfolios level in determining the sufficient level of ECLs to cater for potential deterioration in credit risk due to COVID-19.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

1 GENERAL INFORMATION

RHB Islamic Bank Berhad, is a licensed Islamic Bank under the Islamic Financial Services Act, 2013, a limited liability company domiciled in Malaysia, and is principally engaged in the Islamic banking business and is committed to offer customers a comprehensive range of products and services in accordance with its Constitution and Shariah principles.

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

The address of the registered office of the Bank is Level 10, Tower One, RHB Centre, Jalan Tun Razak, 50420 Kuala Lumpur, Malaysia.

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 25 February 2022.

2 CASH AND SHORT-TERM FUNDS

	2021	2020
	RM'000	RM'000
Cash and balances with banks and other financial institutions	**200,256**	182,693
Money at call and deposit placements maturing within one month	**7,861,552**	2,079,761
	8,061,808	2,262,454

3 SECURITIES PURCHASED UNDER RESALE AGREEMENTS

	2021	2020
	RM'000	RM'000
Malaysian Government Investment Issues	**761,355**	1,492,982
Corporate sukuk	**2,039,603**	2,274,549
	2,800,958	3,767,531

4 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2021	2020
	RM'000	RM'000
Licensed Islamic banks	**125,020**	478,762
BNM	**2,001,467**	1,931,457
Other financial institutions	**200,023**	-
	2,326,510	2,410,219

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

	2021	2020
	RM'000	RM'000
Mandatory measured at fair value		
<u>Money market instruments:</u>		
Malaysian Government Investment Issues	**52,093**	107,678

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ('FVOCI')

	2021 RM'000	2020 RM'000
At fair value		
Debt instruments	**5,587,524**	6,409,937
Money market instruments:		
Malaysian Government Investment Issues	**1,539,960**	1,714,309
Islamic Cagamas bonds	**-**	10,156
Negotiable Islamic debt certificates	**298,527**	397,744
Unquoted securities:		
In Malaysia		
Corporate sukuk	**3,749,037**	4,287,728
	5,587,524	6,409,937

Movement in allowance for credit losses recognised in FVOCI reserve

2021	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
Balance as at the beginning of the financial year	**2,001**	**-**	**-**	**2,001**
Changes in credit risk	**(26)**	**-**	**-**	**(26)**
Purchases and origination	**968**	**-**	**-**	**968**
Derecognition and disposal	**(606)**	**-**	**-**	**(606)**
Balance as at the end of the financial year	**2,337**	**-**	**-**	**2,337**
2020				
Balance as at the beginning of the financial year	2,395	-	-	2,395
Changes in credit risk	(147)	-	-	(147)
Purchases and origination	925	-	-	925
Derecognition and disposal	(1,172)	-	-	(1,172)
Balance as at the end of the financial year	2,001	-	-	2,001

7 FINANCIAL INVESTMENTS AT AMORTISED COST

	2021	2020
	RM'000	RM'000
At amortised cost		
Money market instruments:		
Malaysian Government Investment Issues	**369,129**	389,129
Sukuk Perumahan Kerajaan	**10,047**	10,031
Islamic Cagamas bonds	**15,085**	-
Islamic Khazanah bonds	**123,966**	145,214
Unquoted securities:		
In Malaysia		
Corporate sukuk	**4,723,053**	4,037,396
	5,241,280	4,581,770
Allowance for credit losses	**(6,089)**	(4,692)
	5,235,191	4,577,078

Included in financial investments at amortised cost are exposures to RIA as part of arrangement between the Bank and its holding company, RHB Bank Berhad ('RHB Bank') and other investors.

Gross exposure to RIA financing as at 31 December 2021 is RM1,366,975,000 (2020: RM811,775,000), of which RM1,009,105,000 (2020: RM811,775,000) is funded by RHB Bank.

The portfolio expected credit losses for financial investments at amortised cost relating to RIA is borne solely by the investors and the amount recognised in the financial statements of RHB Bank is RM446,910,000 as at 31 December 2021 (2020: RM220,170,000).

(a) Movement in credit impaired financial investments at amortised cost

	2021	2020
	RM'000	RM'000
Balance as at the beginning of the financial year	**-**	-
Transferred to lifetime ECL credit impaired (Stage 3)	**608,076**	-
Purchases and origination	**496,948**	-
Balance as at the end of the financial year	**1,105,024**	-

The credit impaired financial investments at amortised cost relate to certain exposures to RIA, of which exposure with other investors amounted to RM357,870,000.

7 FINANCIAL INVESTMENTS AT AMORTISED COST (CONTINUED)

(b) Movement in allowance for credit losses

2021	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
Balance as at the beginning of the financial year	**4,557**	**135**	**-**	**4,692**
Transferred to 12-month ECL (Stage 1)	**123**	**(123)**	**-**	**-**
Transferred to lifetime ECL not credit impaired (Stage 2	**(238)**	**238**	**-**	**-**
Changes in credit risk	**(430)**	**804**	**-**	**374**
Purchases and origination	**1,650**	**735**	**-**	**2,385**
Derecognition and disposal	**(1,350)**	**(12)**	**-**	**(1,362)**
Balance as at the end of the financial year	**4,312**	**1,777**	**-**	**6,089**
2020				
Balance as at the beginning of the financial year	5,182	189	-	5,371
Changes in credit risk	(736)	-	-	(736)
Purchases and origination	3,895	135	-	4,030
Derecognition and disposal	(3,784)	(189)	-	(3,973)
Balance as at the end of the financial year	4,557	135	-	4,692

8 FINANCING AND ADVANCES

	Bai' Bithaman Ajil ('BBA') RM'000	Ijarah * RM'000	Murabahah RM'000	Musyarakah RM'000	Qard RM'000	Others RM'000	Total RM'000
(i) By type and Shariah concepts							
2021							
At amortised cost							
Cashline	-	-	992,380	-	28,178	-	1,020,558
Term financing:							
- Housing financing	276,125	-	10,906,924	13,354,042	-	155	24,537,246
- Syndicated term financing	-	-	3,238,693	-	-	19,181	3,257,874
- Hire purchase receivables	-	9,163,396	-	-	-	-	9,163,396
- Other term financing	696	103,223	32,721,179	-	-	25	32,825,123
Bills receivables	-	-	382,513	-	-	-	382,513
Trust receipts	-	-	40,694	-	-	-	40,694
Claims on customers under acceptance credits	-	-	1,017,087	-	-	-	1,017,087
Share margin financing	-	-	1,752	-	-	-	1,752
Staff financing	1,366	-	11,814	-	-	-	13,180
Credit/charge card receivables	-	-	-	-	-	271,518	271,518
Revolving financing	-	-	2,337,239	-	-	-	2,337,239
Gross financing and advances	278,187	9,266,619	51,650,275	13,354,042	28,178	290,879	74,868,180
Fair value changes arising from fair value hedge							(1,788)
							74,866,392
Allowance for credit losses on financing and advances							(606,491)
Net financing and advances							74,259,901

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

8 FINANCING AND ADVANCES (CONTINUED)

	Bai' Bithaman Ajil ('BBA')	Ijarah *	Murabahah	Musyarakah	Qard	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
(i) By type and Shariah concepts (continued)							
2020							
At amortised cost							
Cashline	-	-	825,982	-	30,384	-	856,366
Term financing:							
- Housing financing	310,961	-	7,776,907	13,081,574	-	-	21,169,442
- Syndicated term financing	-	-	3,349,361	-	-	19,181	3,368,542
- Hire purchase receivables	-	8,598,499	-	-	-	-	8,598,499
- Other term financing	770	114,761	29,462,951	-	-	24	29,578,506
Bills receivables	-	-	386,964	-	-	-	386,964
Trust receipts	-	-	37,079	-	-	-	37,079
Claims on customers under acceptance credits	-	-	764,298	-	-	-	764,298
Share margin financing	-	-	2,546	-	-	-	2,546
Staff financing	1,521	-	9,420	-	-	-	10,941
Credit/charge card receivables	-	-	-	-	-	273,966	273,966
Revolving financing	-	-	2,162,771	-	-	-	2,162,771
Gross financing and advances	313,252	8,713,260	44,778,279	13,081,574	30,384	293,171	67,209,920
Fair value changes arising from fair value hedge							109,684
							67,319,604
Allowance for credit losses on financing and advances							(531,260)
Net financing and advances							66,788,344

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

8 FINANCING AND ADVANCES (CONTINUED)

(a) Included in financing and advances are exposures to RIA and URIA as part of arrangement between the Bank and its holding company, RHB Bank and other investors.

As at 31 December 2021, gross exposure to RIA financing funded by RHB Bank is RM8,564,457,000 (2020: RM7,917,534,000) and gross exposure to URIA financing funded by other investors is RM220,670,000 (2020: Nil).

The portfolio expected credit losses for financing and advances relating to RIA and URIA is borne solely by the investors and the amount recognised in the financial statements of RHB Bank is RM143,209,000 (2020: RM164,445,000).

(b) Included in term financing are housing financing sold to Cagamas amounting to RM741,384,000 (2020: RM2,896,091,000).

(c) Movement of Qard financing

	2021	2020
	RM'000	RM'000
Balance as at the beginning of the financial year	**30,384**	25,578
New disbursement	**1,537**	19,838
Repayment	**(3,743)**	(15,032)
Balance as at the end of the financial year	**28,178**	30,384
Sources of Qard fund:		
- Depositors' fund	**28,178**	30,384
Uses of Qard fund:		
- Personal use	**635**	314
- Business purpose	**27,543**	30,070
	28,178	30,384

(ii) By type of customer

Domestic non-bank financial institutions:		
- Others	**2,372,457**	2,664,899
Domestic business enterprises:		
- Small medium enterprises	**6,926,561**	5,317,492
- Others	**15,839,568**	13,963,090
Government and statutory bodies	**6,251,858**	6,447,168
Individuals	**43,090,990**	38,441,528
Other domestic entities	**131,026**	121,727
Foreign entities	**255,720**	254,016
	74,868,180	67,209,920

(iii) By profit rate sensitivity

Fixed rate:		
- Housing financing	**13,183**	1,521
- Hire purchase receivables	**1,107,076**	1,544,122
- Other fixed rate financing	**10,325,073**	10,764,142
Variable rate:		
- Base financing rate-plus	**43,909,955**	36,457,513
- Cost-plus	**19,348,696**	18,247,514
- Other variable rates	**164,197**	195,108
	74,868,180	67,209,920

8 FINANCING AND ADVANCES (CONTINUED)

		2021	2020
		RM'000	RM'000
(iv)	By economic sector		
	Agriculture, hunting, forestry and fishing	**1,483,104**	1,447,001
	Mining and quarrying	**90,179**	114,934
	Manufacturing	**2,480,299**	2,079,858
	Electricity, gas and water	**571,169**	226,175
	Construction	**5,208,674**	4,853,654
	Wholesale and retail trade and restaurant and hotel	**3,026,885**	2,177,615
	Transport, storage and communication	**6,416,740**	5,212,091
	Finance, insurance, real estate and business services	**5,633,879**	5,684,002
	Government and government agencies	**3,236,761**	3,432,112
	Education, health and others	**3,363,859**	3,330,492
	Household sector	**43,348,442**	38,608,107
	Others	**8,189**	43,879
		74,868,180	67,209,920
(v)	By purpose		
	Purchase of securities	**5,577,488**	5,288,201
	Purchase of transport vehicles	**9,132,175**	8,556,880
	Purchase of landed property:		
	- Residential	**23,527,874**	20,007,111
	- Non-residential	**5,394,504**	5,101,564
	Purchase of property, plant and equipment other than land and building	**707,150**	614,675
	Personal use	**4,875,001**	4,607,262
	Credit card	**271,518**	273,966
	Construction	**884,448**	1,117,589
	Working capital	**16,518,876**	14,660,736
	Merger and acquisition	**2,615,844**	1,314,861
	Other purposes	**5,363,302**	5,667,075
		74,868,180	67,209,920
(vi)	By geographical distribution		
	Malaysia	**74,868,180**	67,209,920
(vii)	By remaining contractual maturities		
	Maturing within one year	**6,908,432**	6,082,032
	One to three years	**6,298,556**	4,077,510
	Three to five years	**5,730,552**	7,105,019
	Over five years	**55,930,640**	49,945,359
		74,868,180	67,209,920

8 FINANCING AND ADVANCES (CONTINUED)

(viii) By stages

2021	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
Balance as at the beginning of the financial year	**60,503,519**	**6,271,194**	**435,207**	**67,209,920**
Transfer to 12-month ECL (Stage 1)	**3,073,302**	**(3,057,806)**	**(15,496)**	**-**
Transfer to lifetime ECL not credit impaired (Stage 2)	**(1,335,651)**	**1,389,418**	**(53,767)**	**-**
Transfer to lifetime ECL credit impaired (Stage 3)	**(64,507)**	**(92,898)**	**157,405**	**-**
Purchases and origination	**19,555,932**	**668,762**	**27,390**	**20,252,084**
Derecognition	**(11,145,553)**	**(1,164,823)**	**(72,445)**	**(12,382,821)**
Amount written off	**-**	**-**	**(101,293)**	**(101,293)**
Modification of contractual cash flows	**(96,989)**	**(21,520)**	**(12)**	**(118,521)**
Other movements	**-**	**-**	**8,811**	**8,811**
Balance as at the end of the financial year	**70,490,053**	**3,992,327**	**385,800**	**74,868,180**

2020	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
Balance as at the beginning of the financial year	56,946,209	3,158,082	466,169	60,570,460
Transfer to 12-month ECL (Stage 1)	986,132	(970,214)	(15,918)	-
Transfer to lifetime ECL not credit impaired (Stage 2)	(3,731,627)	3,774,252	(42,625)	-
Transfer to lifetime ECL credit impaired (Stage 3)	(84,232)	(92,333)	176,565	-
Purchases and origination	18,516,801	1,156,665	26,127	19,699,593
Derecognition	(11,820,661)	(734,617)	(104,208)	(12,659,486)
Amount written off	-	-	(70,664)	(70,664)
Modification of contractual cash flows	(309,103)	(20,641)	(239)	(329,983)
Balance as at the end of the financial year	60,503,519	6,271,194	435,207	67,209,920

8 FINANCING AND ADVANCES (CONTINUED)

(ix) Impaired financing and advances

	2021	2020
	RM'000	RM'000
(a) By economic sector		
Agriculture, hunting, forestry and fishing	**119**	359
Mining and quarrying	**-**	13
Manufacturing	**25,196**	23,644
Electricity, gas and water	**12,100**	3,805
Construction	**48,617**	43,907
Wholesale and retail trade and restaurant and hotel	**33,468**	47,882
Transport, storage and communication	**15,679**	14,429
Finance, insurance, real estate and business services	**33,259**	33,676
Education, health and others	**81**	6,888
Household sector	**217,281**	260,518
Others	**-**	86
	385,800	435,207
(b) By purpose		
Purchase of securities	**621**	677
Purchase of transport vehicles	**34,283**	51,713
Purchase of landed property:		
- Residential	**164,115**	190,461
- Non-residential	**53,653**	64,686
Purchase of property, plant and equipment other than land and building	**3,234**	3,230
Personal use	**11,392**	7,485
Credit card	**2,201**	3,610
Working capital	**75,912**	78,506
Other purposes	**40,389**	34,839
	385,800	435,207
(c) By geographical distribution		
Malaysia	**385,800**	435,207

8 FINANCING AND ADVANCES (CONTINUED)

(ix) Impaired financing and advances (continued)

(d) Movement in allowance for credit losses

	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
2021				
Balance as at the beginning of the financial year	**156,636**	**195,019**	**179,605**	**531,260**
Changes due to financial assets recognised in the opening balance that have been:				
- Transferred to 12-month ECL (Stage 1)	**43,835**	**(38,816)**	**(5,019)**	**-**
- Transferred to lifetime ECL not credit impaired (Stage 2)	**(11,059)**	**29,202**	**(18,143)**	**-**
- Transferred to lifetime ECL credit impaired (Stage 3)	**(645)**	**(5,733)**	**6,378**	**-**
	32,131	**(15,347)**	**(16,784)**	**-**
Changes in credit risk	**(22,504)**	**88,658**	**91,679**	**157,833**
Purchases and origination	**16,667**	**5,372**	**6,106**	**28,145**
Bad debts written off	**-**	**-**	**(61,989)**	**(61,989)**
Changes to model methodologies	**(4,952)**	**(8,592)**	**55**	**(13,489)**
Derecognition	**(7,269)**	**(12,504)**	**(24,307)**	**(44,080)**
Other movements	**-**	**-**	**8,811**	**8,811**
Balance as at the end of the financial year	**170,709**	**252,606**	**183,176**	**606,491**
2020				
Balance as at the beginning of the financial year	67,562	99,609	173,882	341,053
Changes due to financial assets recognised in the opening balance that have been:				
- Transferred to 12-month ECL (Stage 1)	29,383	(24,092)	(5,291)	-
- Transferred to lifetime ECL not credit impaired (Stage 2)	(8,766)	21,718	(12,952)	-
- Transferred to lifetime ECL credit impaired (Stage 3)	(266)	(3,841)	4,107	-
	20,351	(6,215)	(14,136)	-
Changes in credit risk	54,231	98,014	85,435	237,680
Purchases and origination	23,374	9,502	5,728	38,604
Bad debts written off	-	-	(41,550)	(41,550)
Derecognition	(8,882)	(5,891)	(29,754)	(44,527)
Balance as at the end of the financial year	156,636	195,019	179,605	531,260

Included in allowance for credit losses for the Bank as at 31 December 2021 is expected credit losses for financing commitments and financial guarantee contracts amounting to RM9,868,000 (2020: RM11,390,000).

9 OTHER ASSETS

	2021	2020
	RM'000	RM'000
Prepayments	29,816	27,588
Deposits	1,088	1,535
Amount due to a related company	87	-
Other receivables	380,233	291,862
	411,224	320,985

10 DERIVATIVE ASSETS/(LIABILITIES)

Derivative financial instruments are financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, profit rates and security prices) of the underlying instruments. These instruments are used by the Bank for economic hedges and for proprietary trading purposes. The default classification for derivative financial instruments is trading, unless designated in a hedge relationship and are in compliance with the stringent requirements of hedge accounting mentioned in the Bank's accounting policies.

The table below shows the Bank's derivative financial instruments as at the date of statement of financial position. The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative assets) and gross negative (derivative liabilities) fair values at the date of statement of financial position are analysed below:

	2021	2020
	RM'000	RM'000
Derivative assets:		
- Trading derivatives	68,326	215,971
- Fair value hedging derivatives	56,994	8
	125,320	215,979
Derivative liabilities:		
- Trading derivatives	80,931	216,937
- Fair value hedging derivatives	53,479	120,992
	134,410	337,929

10 DERIVATIVE ASSETS/(LIABILITIES) (CONTINUED)

	Contract or underlying principal amount RM'000	Year-end positive fair value RM'000	Year-end negative fair value RM'000
2021			
Trading derivatives:			
Foreign exchange related contracts:			
- Forwards	**13,384,663**	**47,516**	**60,307**
- Cross currency profit rate swaps	**1,811,949**	**20,810**	**20,624**
Fair value hedging derivatives:			
Profit rate related contracts:			
- Swaps	**3,800,000**	**56,994**	**53,479**
		125,320	**134,410**
2020			
Trading derivatives:			
Foreign exchange related contracts:			
- Forwards	13,431,890	162,905	164,171
- Cross currency profit rate swaps	1,784,868	51,313	51,019
Profit rate related contracts:			
- Swaps	340,225	1,753	1,747
Fair value hedging derivatives:			
Profit rate related contracts:			
- Swaps	3,800,000	8	120,992
		215,979	337,929

10 DERIVATIVE ASSETS/(LIABILITIES) (CONTINUED)

(i) Fair value hedges

Fair value hedges are used by the Bank for protection against the changes in fair value of financial assets and financial liabilities due to movements in market profit rates. The Bank uses profit rate swaps to hedge against profit rate risk of specific identified fixed rate long term, portfolio homogenous pools of financing and advances and financial assets measured at FVOCI.

The Bank's hedge accounting policy only allows for effective hedge relationship to be established. Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessment to ensure that an economic relationship exists between the hedged item and hedging instrument. The Bank determines whether an economic relationship exists between hedged item and the hedging instrument by considering qualitative characteristics of these items and wherever necessary, supported by quantitative analysis. Under qualitative assessment, the Bank will perform assessment by comparing the changes in the fair value of the hedge to changes in the fair value of the hypothetical derivative.

Only the profit rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Bank. The profit rate risk component is determined as the changes in fair value of long-term fixed rate financial investment (e.g. bonds, financing and advances) arising from changes in benchmarks rates such as 3-month KLIBOR rate. Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed with reference to the effectiveness requirements as set out in MFRS 9, which include demonstrating economic relationship, assessing the effect of credit risk and calculating hedge ratio.

The Bank establishes the hedge ratio by aligning the principal amount of the hedged instrument to the extent of its hedged item.

The Bank has identified the following possible sources of ineffectiveness:
i. Counterparty credit risk which impact the fair value of the profit rate swaps but not the hedged items; or
ii. Mismatches in terms of the hedged items and hedging instruments such as voluntary discontinuance, maturity date and disposal of hedged item.

The following table sets out the maturity profile and average price of the hedging instruments used in fair value hedges:

	2021		2020	
	Nominal amount	**Average fixed profit rate**	Nominal amount	Average fixed profit rate
	RM'000	**%**	RM'000	%
Profit rate related contracts				
One to five years	**2,000,000**	**3.52%**	1,685,000	3.46%
More than five years	**1,800,000**	**2.47%**	2,115,000	2.70%
	3,800,000		3,800,000	

10 DERIVATIVE ASSETS/(LIABILITIES) (CONTINUED)

(i) Fair value hedges (continued)

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

	2021	2020
	RM'000	RM'000
Profit rate swaps		
Nominal amount	**3,800,000**	3,800,000
Fair value assets	**56,994**	8
Fair value liabilities	**53,479**	120,992
Hedge effectiveness recognised in income statement	**124,420**	(73,056)

The amounts relating to items designated as hedged items are as follows:

	2021			2020		
	Carrying value	**Fair value hedge adjustments***	**Hedge effectiveness recognised in income statement**	Carrying value	Fair value hedge adjustments*	Hedge effectiveness recognised in income statement
	RM'000	**RM'000**	**RM'000**	RM'000	RM'000	RM'000
Fixed rate financing and advances	**3,311,758**	**(1,788)**	**(111,472)**	3,311,726	109,684	71,770
Financial assets at FVOCI	**511,798**	**(7,268)**	**(10,496)**	537,757	3,228	3,227
	3,823,556	**(9,056)**	**(121,968)**	3,849,483	112,912	74,997

* All hedging instruments are included in derivative assets and liabilities line items in the statement of financial position.

11 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA ('BNM')

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

12 DEFERRED TAX ASSETS/(LIABILITIES)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when the deferred taxes relate to the same authority. The following amounts determined after appropriate set-off, are shown in the statement of financial position:

	2021	2020
	RM'000	RM'000
Deferred tax assets	**110,860**	6,794
	110,860	6,794
Deferred tax assets:		
- Settled more than twelve months	**73,786**	27,493
- Settled within twelve months	**37,626**	50,674
Deferred tax liabilities:		
- Settled more than twelve months	**(331)**	(71,225)
- Settled within twelve months	**(221)**	(148)
	110,860	6,794

12 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

The movements in deferred tax assets and liabilities during the financial year comprise the following:

	Note	Intangible assets - computer software license RM'000	Property, plant and equipment and right of use assets RM'000	Financial assets at FVOCI RM'000	Expected credit losses RM'000	Provisions RM'000	Total RM'000
2021							
Balance as at the beginning of the financial year		**(366)**	**239**	**(71,007)**	**39,019**	**38,909**	**6,794**
Transfer (to)/from income statement	35	**(87)**	**(199)**	**-**	**10,565**	**2,140**	**12,419**
Transfer from equity		**-**	**-**	**79,854**	**-**	**-**	**79,854**
Effect of change in tax rate	35	**(99)**	**24**	**-**	**5,578**	**6,290**	**11,793**
Balance as at the end of the financial year		**(552)**	**64**	**8,847**	**55,162**	**47,339**	**110,860**
2020							
Balance as at the beginning of the financial year		(338)	260	(37,151)	6,208	5,600	(25,421)
Transfer (to)/from income statement	35	(28)	(21)	-	32,811	33,309	66,071
Transfer to equity		-	-	(33,856)	-	-	(33,856)
Balance as at the end of the financial year		(366)	239	(71,007)	39,019	38,909	6,794

13 RIGHT OF USE ASSETS

	Note	2021	2020
		RM'000	RM'000
Properties			
Balance as at the beginning of the financial year		**4,750**	2,924
Additions during the year		**1,726**	4,950
Depreciation charge for the financial year	33	**(2,136)**	(3,116)
Modification		**(1,812)**	(8)
Balance as at the end of the financial year		**2,528**	4,750

14 PROPERTY, PLANT AND EQUIPMENT

	Note	Renovations	Office equipment and furniture	Computer equipment	Motor vehicles	Total
		RM'000	RM'000	RM'000	RM'000	RM'000
2021						
Cost						
Balance as at the beginning of the financial year		17,546	8,435	11,759	1,749	39,489
Additions		52	83	520	-	655
Disposals		-	-	-	(345)	(345)
Written off		-	-	(39)	-	(39)
Balance as at the end of the financial year		17,598	8,518	12,240	1,404	39,760
Less: Accumulated depreciation						
Balance as at the beginning of the financial year		15,116	7,827	11,321	1,281	35,545
Charge for the financial year	33	577	134	181	63	955
Disposals		-	-	-	(153)	(153)
Written off		-	-	(39)	-	(39)
Balance as at the end of the financial year		15,693	7,961	11,463	1,191	36,308
Net book value as at the end of the financial year		1,905	557	777	213	3,452

14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Renovations	Office equipment and furniture	Computer equipment	Motor vehicles	Total
		RM'000	RM'000	RM'000	RM'000	RM'000
2020						
Cost						
Balance as at the beginning of the financial year		17,292	8,449	11,501	1,461	38,703
Additions		254	70	319	288	931
Disposals		-	(84)	-	-	(84)
Written off		-	-	(61)	-	(61)
Balance as at the end of the financial year		17,546	8,435	11,759	1,749	39,489
Less: Accumulated depreciation						
Balance as at the beginning of the financial year		14,491	7,783	11,251	1,199	34,724
Charge for the financial year	33	625	128	131	82	966
Disposals		-	(84)	-	-	(84)
Written off		-	-	(61)	-	(61)
Balance as at the end of the financial year		15,116	7,827	11,321	1,281	35,545
Net book value as at the end of the financial year		2,430	608	438	468	3,944

15 INTANGIBLE ASSETS

	Note	2021 RM'000	2020 RM'000
Computer software license			
Cost			
Balance as at the beginning of the financial year		**18,364**	17,839
Additions		**1,153**	525
Balance as at the end of the financial year		**19,517**	18,364
Less: Accumulated amortisation			
Balance as at the beginning of the financial year		**15,231**	14,206
Charge for the financial year	33	**758**	1,025
Balance as at the end of the financial year		**15,989**	15,231
Net book value as at the end of the financial year		**3,528**	3,133

16 DEPOSITS FROM CUSTOMERS

	2021 RM'000	2020 RM'000
Savings Deposits:		
- Qard	**2,574,440**	2,094,100
Demand Deposits:		
- Qard	**6,183,489**	5,981,871
- Commodity Murabahah	**3,134,399**	1,464,521
Term Deposits:		
- Commodity Murabahah	**50,129,731**	42,962,476
Specific Investment Account:		
- Commodity Murabahah	**9,638,797**	8,289,588
General Investment Account:		
- Mudharabah	**347**	37,619
	71,661,203	60,830,175

(a) The maturity structure of investment accounts and term deposits are as follows:

	2021 RM'000	2020 RM'000
Due within six months	**46,741,264**	37,638,943
Six months to one year	**11,918,392**	12,325,774
One year to three years	**1,086,493**	909,096
Three years to five years	**22,726**	415,870
	59,768,875	51,289,683

(b) By type of customer

	2021 RM'000	2020 RM'000
Government and statutory bodies	**13,071,677**	13,311,167
Business enterprises	**31,300,199**	26,275,936
Individuals	**26,283,229**	20,612,596
Others	**1,006,098**	630,476
	71,661,203	60,830,175

17 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Note	2021	2020
		RM'000	RM'000
Non-Mudharabah Funds:			
- Licensed Islamic banks		**1,296,903**	948,447
- Licensed banks		**5,888,898**	5,882,079
- Licensed investments banks		**501,236**	149,675
- BNM	(a)	**151,883**	121,750
		7,838,920	7,101,951
Mudharabah Funds:			
- Other financial institutions		**187,695**	22,144
		8,026,615	7,124,095

(a) Included in deposits and placements by BNM is an amount received under the Government scheme as part of the COVID-19 relief measures for the purpose of financing to SMEs at a concessionary rate and with six-year maturity period.

18 INVESTMENT ACCOUNTS

	Note	2021 RM'000	2020 RM'000
Mudharabah Restricted Investment Account	(a)	**10,574,159**	8,840,858
Wakalah Unrestricted Investment Account	(b)	**220,771**	-
		10,794,930	8,840,858

(a) Mudharabah Restricted Investment Account

	2021 RM'000	2020 RM'000
Funding inflows/(outflows) - Principal (Note i):		
Balance as at the beginning of the financial year	**8,729,309**	8,132,076
New placement during the financial year	**2,646,216**	1,250,000
Accretion during the financial year	**8,984**	-
Redemption during the financial year	**(963,077)**	(652,767)
Balance as at the end of the financial year	**10,421,432**	8,729,309
Profit attributable to investment account holders - Total profit payable:		
Balance as at the beginning of the financial year	**111,549**	97,258
Profit distributed to investment account holders during the financial year	**290,557**	288,753
Profit paid to investment account holders during the financial year	**(249,379)**	(274,462)
Balance as at the end of the financial year	**152,727**	111,549
Net balance as at the end of the financial year	**10,574,159**	8,840,858

(i) Investment asset (principal):

	2021 RM'000	2020 RM'000
- Personal financing (Note 8(i)(a))	**1,500,000**	1,000,000
- Other term financing (Note 8(i)(a))	**7,064,457**	6,917,534
- Short term funds	**490,000**	**-**
- Unquoted securities (Note 7)	**1,366,975**	811,775
	10,421,432	8,729,309

As at 31 December 2021, the amount of the restricted investment account placed by the holding company, RHB Bank, amounted to RM10,213,639,000 (2020: RM8,840,858,000).

(ii) By type of counterparty

	2021 RM'000	2020 RM'000
- Licensed banks	**10,574,159**	8,840,858

(iii) Profit sharing ratio and rate of return

	Average profit sharing ratio %	Average rate of return per annum %
2021		
- Below one year	**85**	**5.12**
- Between one to two years	**82**	**4.25**
- Between two to five years	**85**	**3.05**
- More than five years	**89**	**4.01**
2020		
- Below one year	69	2.98
- Between one to two years	88	5.67
- Between two to five years	83	3.19
- More than five years	88	3.90

18 INVESTMENT ACCOUNTS (CONTINUED)

	2021 RM'000	2020 RM'000
(b) Wakalah Unrestricted Investment Account		
Funding inflows/(outflows) - Principal (Note i):		
Balance as at the beginning of the financial year	-	-
New placement during the financial year	**220,670**	-
Redemption during the financial year	-	-
Balance as at the end of the financial year	**220,670**	-
Profit attributable to investment account holders - Total profit payable:		
Balance as at the beginning of the financial year	-	-
Profit distributed to investment account holders during the financial year	**101**	-
Profit paid to investment account holders during the financial year	-	-
Balance as at the end of the financial year	**101**	-
Net balance as at the end of the financial year	**220,771**	-
(i) Investment asset (principal):		
- Personal financing (Note 8(i)(a))	**176,536**	-
- Housing financing (Note 8(i)(a))	**44,134**	-
	220,670	-
(ii) By type of counterparty		
- Business enterprises	**220,771**	-

(iii) Rate of return

	Average rate of return per annum %
2021	
- Below one year	**2.37**

19 OTHER LIABILITIES

	Note	2021 RM'000	2020 RM'000
Sundry creditors		**8,126**	7,959
Amount due to holding company	(a)	**934,414**	263,326
Amount due to other related companies		**12,162**	876
Contract liability	(b)	**129,683**	141,946
Short term employee benefits		**6,719**	5,306
Accrual for operational expenses		**34,201**	13,722
Other accruals and payables	(c)	**34,897**	352,681
		1,160,202	785,816

(a) Included in amount due to holding company is an amount of RM774.9 million (2020: RM114.9 million) relating to part of COVID-19 Government relief measures that has been channelled from BNM to the Bank through RHB Bank, for the purpose of financing to SMEs at a concessionary rate and with maturity period ranging between five to eight and a half years.

Other than the above, the remaining amount due to holding company and amount due to other related companies are unsecured, non-profit bearing and repayable within the normal credit period.

(b) Contract liability represents the recognition of bancatakaful fee income and fee advances received but yet to be recognised in the income statement. During the current financial year, an amount of RM24,075,000 (2020: RM16,209,000) has been recognised in the income statement.

(c) Included in the other accruals and payables is undistributed charity funds amounting to RM73,000 (2020: RM73,000). The funds are sourced from ta'widh (late payment charges).

Movement of sources and uses of charity funds are as follows:

	2021 RM'000	2020 RM'000
Undistributed funds as at the beginning of the financial year	**73**	83
Uses of funds during the financial year:		
Contribution to non-profit organisation	**-**	(10)
Undistributed funds as at the end of the financial year	**73**	73

20 RECOURSE OBLIGATION ON FINANCING SOLD TO CAGAMAS BERHAD ('CAGAMAS')

Recourse obligation on financing sold to Cagamas represents those acquired from the originators and sold to Cagamas with recourse. Under the agreement, the Bank undertakes to administer the financing on behalf of Cagamas and to buy back any financing which are regarded as defective based on pre-determined and agreed-upon prudential criteria with recourse against the originators. Such financing transactions and the obligation to buy back the financing are reflected as a liability on the statement of financial position. The financing are not derecognised from the statement of financial position.

21 PROVISION FOR TAXATION AND ZAKAT

	2021 RM'000	2020 RM'000
Tax expense	**87,685**	48,416
Zakat	**6,000**	4,132
	93,685	52,548

22 LEASE LIABILITIES

	2021	2020
	RM'000	RM'000
Lease liabilities	**2,548**	4,840
Scheduled repayment of lease liabilities:		
- Within one year	**1,321**	2,327
- One year to three years	**1,227**	2,513
	2,548	4,840

23 SUBORDINATED OBLIGATIONS

	2021	2020
	RM'000	RM'000
4.88% RM250 million Tier II Subordinated Sukuk Murabahah 2017/2027	**252,206**	252,206
4.32% RM500 million Tier II Subordinated Sukuk Murabahah 2019/2029	**502,367**	502,308
	754,573	754,514

As at statement of financial position date, the Bank has put in place a RM5 billion Subordinated Sukuk Murabahah programme.

The details of the issuance to date are as follows:

Tranche	**Principal RM'million**	**Maturity date**	**Profit rate**	**Profit payment**
2017/2027	250	27 April 2027 (Callable on 2022)	4.88% per annum chargeable to 27 April 2027	Accrued and payable semi-annually in arrears
2019/2029	500	21 May 2029 (Callable in 2024)	4.32% per annum chargeable to 21 May 2029	Accrued and payable semi-annually in arrears

The Bank did not have any defaults of principal and profit or other breaches with respect to its subordinated obligations during the financial years ended 31 December 2021 and 2020.

24 SHARE CAPITAL

	2021	2020
	RM'000	RM'000
Issued and fully paid:		
Balance as at the beginning/end of the financial year	**1,673,424**	1,673,424

There were no issue of shares in the Bank during the current financial year.

25 RESERVES

	Note	2021	2020
		RM'000	RM'000
FVOCI reserve	(a)	**(25,686)**	226,849
Regulatory reserve	(b)	**247,119**	327,805
Retained profits		**3,716,002**	2,896,031
		3,937,435	3,450,685

(a) FVOCI reserve represents the cumulative gains and losses arising on the revaluation of investments in debt instruments classified as FVOCI, net of cumulative loss allowance recognised on these investments and cumulative gain/loss reclassified to income statement upon disposal or reclassification of these investments.

(b) Regulatory reserve represents the Bank's compliance with BNM's Revised Policy Documents on Financial Reporting for Islamic Banking Institutions with effect from 1 January 2018, whereby the Bank must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserve of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures.

26 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	2021	2020
	RM'000	RM'000
Income derived from investment of:		
(i) General investment deposits	**370**	3,673
(ii) Other deposits	**2,970,176**	2,815,074
	2,970,546	2,818,747

(i) Income derived from investment of general investment deposits:

	2021	2020
	RM'000	RM'000
Financing and advances	**297**	3,070
Securities purchased under resale agreements	**6**	53
Financial assets at FVTPL	**-**	4
Financial assets at FVOCI	**27**	260
Financial investments at amortised cost	**17**	140
Money at call and deposits with banks and other financial institutions	**12**	73
Total finance income and hibah	**359**	3,600
Other operating income (Note a)	**11**	73
	370	3,673
Of which:		
Financing income earned on impaired financing	**2**	12

(a) Other operating income comprise of:

	2021	2020
Commission	**1**	9
Guarantee fees	**-**	5
Net gain on revaluation of financial assets at FVTPL	**-**	1
Net (loss)/gain on disposal of financial assets at FVTPL	**(1)**	7
Net gain on disposal of debt instruments of financial assets at FVOCI	**11**	51
	11	73

26 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS (CONTINUED)

	2021	2020
	RM'000	RM'000
(ii) Income derived from investment of other deposits:		
Financing and advances	**2,393,983**	2,353,022
Securities purchased under resale agreements	**44,294**	40,515
Financial assets at FVTPL	**1,414**	2,806
Financial assets at FVOCI	**198,369**	199,128
Financial investments at amortised cost	**133,793**	107,127
Money at call and deposits with banks and other financial institutions	**99,889**	56,158
Other income	**-**	17
Total finance income and hibah	**2,871,742**	2,758,773
Other operating income (Note a)	**98,434**	56,301
	2,970,176	2,815,074
Of which:		
Financing income earned on impaired financing	**12,003**	9,204

(a) Other operating income comprise of:

	2021	2020
Commission	**9,541**	6,957
Guarantee fees	**3,690**	4,160
Net gain on revaluation of financial assets at FVTPL	**4**	653
Net (loss)/gain on disposal of financial assets at FVTPL	**(4,462)**	5,716
Net gain on disposal of debt instruments of financial assets at FVOCI	**89,639**	38,815
Net gain arising from derecognition of financial investments at amortised cost	**22**	-
	98,434	56,301

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

27 INCOME DERIVED FROM INVESTMENT OF INVESTMENT ACCOUNT FUNDS

	2021	2020
	RM'000	RM'000
Financing and advances	**293,271**	318,187
Financial investments at amortised cost	**61,851**	45,798
Money at call and deposits with banks and other financial institutions	**2,575**	26
Total finance income and hibah	**357,697**	364,011

28 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	2021	2020
	RM'000	RM'000
Financing and advances	**55,115**	65,205
Securities purchased under resale agreements	**1,020**	1,123
Financial assets at FVTPL	**33**	78
Financial assets at FVOCI	**4,567**	5,518
Financial investments at amortised costs	**3,080**	2,969
Money at call and deposits with banks and other financial institutions	**2,300**	1,556
Total finance income and hibah	**66,115**	76,449
Other operating income (Note a)	**119,491**	107,135
	185,606	183,584

Of which:

Financing income earned on impaired financing	**276**	256

(a) Other operating income comprise of:

	2021	2020
Commission	**44,088**	29,942
Service charges and fees	**97,481**	80,489
Guarantee fees and underwriting fees	**85**	115
Foreign exchange profit	**15,810**	21,907
Net gain on revaluation of financial assets at FVTPL	**-**	18
Net (loss)/gain on disposal of financial assets at FVTPL	**(103)**	158
Net gain on disposal of debt instruments of financial assets at FVOCI	**2,064**	1,076
Net gain arising from derecognition of financial investments at amortised cost	**1**	-
Net gain on fair value hedges (Note 10)	**2,452**	1,941
Net loss on revaluation of derivatives	**(40,217)**	(27,470)
Loss on disposal of property, plant and equipment	**(30)**	-
Gain on modification of right of use assets	**38**	-
Other non-operating loss	**(2,178)**	(1,041)
	119,491	107,135

29 NET MODIFICATION LOSS

	Note	2021 RM'000	2020 RM'000
Modification loss arising from payment moratorium	(a)	**118,521**	329,983
Benefits recognised under various government schemes	(b)	**-**	(70,750)
		118,521	259,233

(a) During the current financial year, the Bank has granted payment moratorium on selected individuals, microenterprise borrowers and SMEs affected by the COVID-19 pandemic who have opted in under the Government's repayment assistance, reduction in instalments and other packages, including to reschedule and restructure financing and advances to suit the specific financial circumstances of borrowers.

In 2020, the Bank has granted an automatic payment moratorium on certain financing to individuals and SMEs for a period of six months from 1 April 2020 and targeted moratorium to the other borrowers from 1 October 2020.

As a result of these payment moratoriums, the Bank has recognised a loss arising from the modification of cash flows of the financing.

(b) In 2020, the Bank has received funding from the Government for the purpose of lending/financing to SMEs at a concessionary rate to support them in sustaining business operations and safeguarding jobs during the COVID-19 pandemic. The fair value gain at inception of these various government schemes have been recognised in the income statement by the Bank as part of the COVID-19 relief measures to address the financial and accounting impact incurred by the Bank.

The following table includes a summary information for financial assets with lifetime ECL whose cash flows were modified during the financial year and their respective effect on the Bank’s financial performance:

	2021 RM'000	2020 RM'000
Financing and advances:		
Amortised cost before modification	**1,019,557**	628,630
Net modification loss	**21,532**	20,880

30 ALLOWANCE FOR CREDIT LOSSES ON FINANCIAL ASSETS

	2021 RM'000	2020 RM'000
Charge/(Writeback)		
Financing and advances:		
- Net charge	**128,409**	231,757
- Bad debts recovered	**(22,032)**	(25,565)
- Bad debts written off	**37,911**	29,736
	144,288	235,928
Financial assets at FVOCI	**336**	(394)
Financial investments at amortised cost	**1,397**	(679)
Other financial assets	**(142)**	121
	145,879	234,976

31 INCOME ATTRIBUTABLE TO DEPOSITORS

	2021	2020
	RM'000	RM'000
Deposits from customers:		
- Mudharabah funds	**16,295**	16,666
- Non-Mudharabah funds	**1,252,490**	1,455,497
Deposits and placements of banks and other financial institutions:		
- Non-Mudharabah funds	**104,132**	106,690
Others:		
- Subordinated obligations	**33,800**	33,893
- Recourse obligation on financing sold to Cagamas	**73,460**	100,814
- Others	**144**	201
	1,480,321	1,713,761

32 PERSONNEL EXPENSES

	2021	2020
	RM'000	RM'000
Salaries, allowances and bonuses	**22,626**	23,589
Contributions to Employees' Provident Fund	**3,524**	3,783
Other staff related costs	**7,589**	2,238
	33,739	29,610

Included in the personnel expenses is the Managing Director's remuneration as disclosed in Note 34.

33 OTHER OVERHEADS AND EXPENDITURES

	2021	2020
	RM'000	RM'000
Establishment costs		
Property, plant and equipment:		
- Depreciation	**955**	966
Computer software license		
- Amortisation	**758**	1,025
Right of use assets:		
- Depreciation	**2,136**	3,116
Information technology expenses	**4,065**	2,892
Repair and maintenance	**211**	469
Rental of premises	**440**	399
Water and electricity	**422**	506
Rental of equipment	**7**	14
Printing and stationeries	**2,574**	6,850
Insurance	**4,487**	4,156
Others	**1,485**	3,008
	17,540	23,401
Marketing expenses		
Advertisement and publicity	**1,693**	1,150
Sales commission	**13,285**	9,984
Travelling expenses	**64**	137
Motor vehicle expenses	**46**	118
Others	**3,143**	2,966
	18,231	14,355
Administration and general expenses		
Auditors' remuneration:		
Audit		
- Statutory audit	**231**	245
- Limited review	**54**	54
Other audit related	**35**	100
Communication expenses	**7,568**	10,430
Legal and professional fee	**9,973**	2,073
Management fee	**338,156**	330,333
Others	**22,428**	8,499
	378,445	351,734
	414,216	389,490

Included in the administration and general expenses of the Bank are other Director’s remuneration as disclosed in Note 34.

34 REMUNERATION OF MANAGING DIRECTOR, NON-EXECUTIVE DIRECTORS AND SHARIAH COMMITTEE MEMBERS

2021

	Salary and other remuneration	Benefits-in-kind (based on an estimated monetary value)	Bonus	Total
	RM'000	RM'000	RM'000	RM'000
Managing Director				
Dato' Adissadikin Ali	1,363	7	840	2,210
	1,363	7	840	2,210

In addition to the above, during the financial year ended 31 December 2021, the Managing Director of the Bank who led the achievement of the Group's short and long term business objectives, was awarded a sum of RM448,000 (inclusive of the employer's EPF contribution) (2020: RM2,318,000) as a Cash Deferred Scheme.

	Fees	Benefits-in-kind (based on an estimated monetary value)	Other remuneration	Total
	RM'000	RM'000	RM'000	RM'000
Non-executive Directors				
Dato' Mohamad Nasir Ab Latif	162	17	46	225
Dato' Abd Rahman Dato' Md Khalid	128	-	102	230
Dato' Foong Chee Meng	128	-	45	173
Ong Ai Lin	128	-	107	235
Hizamuddin bin Jamalluddin (appointed on 1 October 2021)	32	-	5	37
	578	17	305	900

	Fees
	RM'000
Shariah Committee	
Dr. Ahmad Basri Ibrahim	124
Assoc. Prof. Dr. Kamaruzaman Noordin	100
Mohd Fadhly Md. Yusoff	99
Wan Abdul Rahim Kamil Wan Mohamed Ali	97
Shabnam Mohamad Mokhtar	100
Dr. Md. Nurdin Ngadimon	68
	588

34 REMUNERATION OF MANAGING DIRECTOR, NON-EXECUTIVE DIRECTORS AND SHARIAH COMMITTEE MEMBERS (CONTINUED)

2020

	Salary and other remuneration	Benefits-in-kind (based on an estimated monetary value)	Bonus	Total
	RM'000	RM'000	RM'000	RM'000
Managing Director				
Dato' Adissadikin Ali	1,332	7	672	2,011
	1,332	7	672	2,011

	Fees	Benefits-in-kind (based on an estimated monetary value)	Other remuneration	Total
	RM'000	RM'000	RM'000	RM'000
Non-executive Directors				
Dato' Mohamad Nasir Ab Latif	111	15	26	152
Dato' Abd Rahman Dato' Md Khalid	135	-	102	237
Dato' Foong Chee Meng	135	-	43	178
Ong Ai Lin	135	-	115	250
Abdul Aziz Peru Mohamed (retired on 28 May 2020)	69	7	8	84
	585	22	294	901

	Fees
	RM'000
Shariah Committee	
Dr. Ahmad Basri Ibrahim	113
Assoc. Prof. Dr. Kamaruzaman Noordin	76
Mohd Fadhly Md. Yusoff	95
Wan Abdul Rahim Kamil Wan Mohamed Ali	94
Shabnam Mohamad Mokhtar	96
Dr. Ghazali Jaapar	23
Assoc. Prof. Dr. Amir Shaharuddin	19
	516

Note:
During the financial year, Directors of the Bank are covered under the Directors' Liability Takaful in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors of the Bank subject to the term of the policy. The total amount of Directors' Liability Takaful effected for the Directors of the Bank was RM200.0 million (2020: RM200.0 million). The total amount of premium paid for the Directors' Liability Takaful by the Bank was RM441,000 (2020: RM401,000).

35 TAXATION

	2021	2020
	RM'000	RM'000
Malaysian income tax		
- Current tax	**257,708**	171,908
Deferred tax (Note 12)	**(22,674)**	(64,802)
	235,034	107,106
Under/(Over)provision in respect of prior financial years		
- Income tax	**1,663**	252
- Deferred tax (Note 12)	**(1,538)**	(1,269)
	125	(1,017)
Tax expense	**235,159**	106,089

The numerical reconciliation between the effective tax rate and the applicable statutory income tax rate are as follows:

	2021	2020
	%	%
Tax at Malaysian statutory income tax rate	**24.0**	24.0
Tax effects in respect of:		
Expenses not deductible for tax purposes	**-**	0.1
Under/(Over)provision in respect of prior financial years	**-**	(0.2)
Temporary differences not recognised in prior financial years	**-**	(0.3)
Non-taxable income	**(0.1)**	(0.1)
Effect of increase in tax rate on deferred tax (Note(i))	**(1.1)**	-
Effective tax rate	**22.8**	23.5

(i) In order to support the Government’s initiative to assist parties affected by the pandemic, it has been proposed in Budget 2022 that for year of assessment (‘YA’) 2022, a special one-off tax which is called ‘Cukai Makmur’ will be imposed on non-micro, small and medium enterprise companies which generate high profits during the period of the pandemic. Chargeable income in excess of RM100.0 million will be charged an income tax rate of 33% for YA 2022.

36 EARNINGS PER SHARE

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

	2021	2020
Net profit for the financial year (RM'000)	**789,488**	340,339
Weighted average number of ordinary shares in issue ('000)	**1,673,424**	1,673,424
Basic earnings per share (sen)	**47.18**	20.34

37 INCOME TAX EFFECTS RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

	Before tax	Tax effects	Net of tax
2021	**RM'000**	**RM'000**	**RM'000**
Financial assets at FVOCI:			
- Net fair value loss, net amount transfer to income statement and changes in expected credit losses	**(332,389)**	**79,854**	**(252,535)**
2020			
Financial assets at FVOCI:			
- Net fair value gain, net amount transfer to income statement and changes in expected credit losses	140,675	(33,856)	106,819

38 DIVIDENDS

Dividends declared or proposed by the Bank are as follows:

	2021		2020	
	Dividend per share sen	**Total dividend RM'000**	Dividend per share sen	Total dividend RM'000
Interim dividend	**14.00**	**234,279**	3.00	50,203

The Directors proposed a single-tier interim dividend of 14.00 sen per share amounting to RM234,279,000 in respect of the financial year ended 31 December 2021.

The financial statements for the current financial year do not reflect this single-tier interim dividend. This dividend payment will be accounted for in the shareholder's equity as an appropriation of retained profits in the financial year ending 31 December 2022.

Dividend recognised as distribution to equity holders of the Bank:

	2021		2020	
	Dividend per share sen	**Total dividend RM'000**	Dividend per share sen	Total dividend RM'000
Interim dividend	**3.00**	**50,203**	5.37	89,863

39 RELATED PARTY TRANSACTIONS

(a) Related parties and relationships

The related parties of, and their relationship with the Bank are as follows:

Related parties	**Relationship**
RHB Bank Berhad	Holding company
Employees' Provident Fund ('EPF')	Holding company's substantial shareholder, a fund body that is significantly influenced by government
Subsidiaries of RHB Bank Berhad as disclosed in its financial statements	Subsidiaries of the holding company
Subsidiaries, associates and joint ventures of EPF as disclosed in its financial statements	Reporting entities that EPF has control or significant influence
Key management personnel	The key management personnel of the Bank consists of: - All Directors of the Bank and - Members of the Group Management Committee ('GMC')
Related parties of key management personnel (deemed as related to the Bank)	(i) Close family members and dependents of key management personnel; and (ii) Entities that are controlled, jointly controlled or significantly influenced, by or for which voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

(b) Significant related party balances and transactions

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances.

Other related parties of the Bank comprise of transactions or balances with the companies in the RHB Bank Berhad Group.

All related party transactions are entered into in the normal course of business at agreed terms between the related parties.

39 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant related party balances and transactions (continued)

	Holding company RM'000	EPF and EPF Group of companies RM'000	Key management personnel RM'000	Other related companies RM'000
2021				
Income				
Commission	-	-	-	84
Income derived from investment of depositors' funds	45,322	12,025	-	-
Other income	61,799	-	-	79
	107,121	12,025	-	163
Expenditure				
Profit expense on deposits and placements	58,470	18	32	866
Profit expense on investment account	268,299	-	-	-
Reimbursement of operating expenses to holding company	338,156	-	-	-
Other expenses	698	-	-	8,721
	665,623	18	32	9,587
Amounts due from				
Cash and short-term funds	177	-	-	-
Securities purchased under resale agreements	2,800,958	-	-	-
Financial assets at FVOCI	-	67,948	-	-
Financial investments at amortised cost	-	10,270	-	-
Financing and advances	-	220,005	-	-
Derivative assets	116,145	-	-	-
Other assets	-	-	-	87
	2,917,280	298,223	-	87
Amounts due to				
Demand and investment deposits	-	147,558	4,547	39,390
Deposits and placements of banks and other financial institutions	4,535,205	-	-	-
Investment accounts	10,213,639	-	-	-
Derivative liabilities	90,305	-	-	-
Other liabilities	934,414	-	-	12,162
	15,773,563	147,558	4,547	51,552

39 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant related party balances and transactions (continued)

	Holding company	EPF and EPF Group of companies	Key management personnel	Other related companies
	RM'000	RM'000	RM'000	RM'000
2020				
Income				
Commission	-	-	-	113
Income derived from investment of depositors' funds	41,691	19,561	-	-
Other income	(70,132)	-	-	84
	(28,441)	19,561	-	197
Expenditure				
Profit expense on deposits and placements	52,650	24	64	2,538
Profit expense on investment account	288,753	-	-	-
Reimbursement of operating expenses to holding company	330,333	-	-	-
Other expenses	827	-	-	1,417
	672,563	24	64	3,955
Amounts due from				
Cash and short-term funds	2,979	-	-	-
Securities purchased under resale agreements	3,767,531	-	-	-
Financial assets at FVOCI	-	83,988	-	-
Financial investments at amortised cost	-	10,112	-	-
Financing and advances	-	319,203	-	-
Derivative assets	209,406	-	-	-
	3,979,916	413,303	-	-
Amounts due to				
Demand and investment deposits	-	122,818	4,980	34,125
Deposits and placements of banks and other financial institutions	5,276,432	-	-	-
Investment accounts	8,840,858	-	-	-
Derivative liabilities	144,527	-	-	-
Other liabilities	263,326	-	-	876
	14,525,143	122,818	4,980	35,001

39 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management personnel

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

	2021	2020
	RM'000	RM'000
Short-term employee benefits:		
- Fees	**578**	585
- Salary and other remuneration (Note (i))	**2,646**	4,206
- Defined contribution plan (Note (i))	**310**	410
- Benefits-in-kind (based on an estimated monetary value)	**24**	29
	3,558	5,230

(i) Inclusive of Cash Deferred Scheme and the related employer's EPF contribution totalling RM448,000 (2020: RM2,318,000) for the Bank. The payout under this Cash Retention/Deferred Scheme was based on the achievement of the Group’s short and long term business objectives.

The above includes Directors' remuneration as disclosed in Note 34.

(d) Credit exposures arising from transactions with connected parties

Credit exposures with connected parties as per BNM’s revised Guidelines on Credit Transactions and Exposures with Connected Parties are as follows:

	2021	2020
Outstanding credit exposure with connected parties (RM'000)	**4,216,124**	4,338,121
Percentage of outstanding credit exposures with connected parties as proportion of total credit exposures (%)	**5.06**	5.74
Percentage of outstanding credit exposures with connected parties which is impaired or in default (%)	**0.12**	0.28

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

(e) Intercompany charges

Breakdown of intercompany charges by type of services received and geographical distribution as per BNM's Guidelines on Financial Reporting for Islamic Banking Institutions issued on 2 February 2018 are as follows:

	Profit expense on deposits and placements	**Profit expense on investment account**	**Reimbursement of operating expenses to holding company**	**Other expenses**
2021	**RM’000**	**RM’000**	**RM’000**	**RM’000**
Malaysia	**59,336**	**268,299**	**338,156**	**9,419**
2020				
Malaysia	55,188	288,753	330,333	2,244

40 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to customers.

	2021	2020
	RM'000	RM'000
Contingent liabilities		
Transaction-related contingent items	**348,068**	321,425
Short-term self-liquidating trade related contingencies	**27,903**	24,011
	375,971	345,436
Commitments		
Irrevocable commitments to extend credit:		
- Maturity less than one year	**1,974,669**	180,691
- Maturity more than one year	**8,105,582**	8,649,652
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	**2,648,467**	2,410,216
	12,728,718	11,240,559
Derivative financial instruments		
Foreign exchange related contracts^:		
- Less than one year	**14,233,787**	13,436,013
- One year to less than five years	**962,825**	834,440
- More than five years	**-**	946,305
Profit rate related contracts^:		
- Less than one year	**2,910,000**	4,130,225
- One year to less than five years	**2,000,000**	1,685,000
- More than five years	**1,800,000**	2,115,000
	21,906,612	23,146,983
	35,011,301	34,732,978

^ These derivatives are revalued on gross position basis and the unrealised gains or losses has been reflected in the income statement and statement of financial position as derivative assets and liabilities.

41 CAPITAL COMMITMENTS

	2021	2020
	RM'000	RM'000
Capital expenditure for property, plant and equipment:		
- Authorised and contracted for	**3,442**	900

42 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined RHB Bank's Group Management Committee as its chief operating decision-maker.

Pursuant to RHB Bank Group's internal management reporting framework, the Group has on 1 July 2021 set up Group Community Banking and Group Wholesale Banking, in line with a much leaner organisation structure that would reflect the Group's focus and resolve to be more effective in pursuing its business strategies. The Bank has accordingly adopted the same reporting framework and has restated the related corresponding segment information arising from the above.

The business segment results are prepared based on the Bank's internal management reporting, which reflect the organisation's management structure. Internal allocation of costs has been used in preparing the segmental reporting.

The Bank's business segment can be organised into the following main segments reflecting the Bank's internal reporting structure:

(a) Wholesale Banking

(i) Treasury

Treasury operation is involved in money market operation and securities trading on behalf of the Bank and also for the Bank's customers. The division also provides solutions to serve investment needs of the Bank and the Bank's customers.

(ii) Corporate and Investment Banking

Corporate and Investment Banking caters to financing and managing relationship of corporate customers including public listed corporations and its related entities, multinational corporations, financial institutions, government and state owned entities as well as high net worth individual related to the above. The division also generates fee-based income from private debt securities issuances ('PDS'), financing restructuring and syndication as well as general and project advisory services.

(iii) Commercial Banking

Commercial Banking offers a wide range of business solutions ranging from financing, deposits, cash management solutions, trade finance, FX and remittance among others for Commercial customers (Mid-size to Large-Size Private Companies).

(b) Community Banking ('CB')

CB comprise Retail Banking and Small and Medium Enterprises ('SME's) Banking.

(i) Retail Banking

Retail Banking focuses on providing products and services to individual customers. The products and services offered to customers include term financing (house and shop house financing), Islamic automobile financing business with concentration on the financing of high demand and popular passenger motor vehicles, deposit portfolios (savings and current account), credit cards, remittance services, investment products (term deposit/investment account) and bancatakaful products.

(ii) SME Banking

SME Banking focuses on providing financing solutions to SMEs and family-owned enterprises, as well as trade and cash management solutions for SMEs.

42 SEGMENT REPORTING (CONTINUED)

2021

	Wholesale Banking RM'000	Community Banking RM'000	Others RM'000	Total RM'000
External revenue	1,522,342	1,914,732	(41,746)	3,395,328
Inter-segment revenue	282,815	(282,815)	-	-
Segment revenue	1,805,157	1,631,917	(41,746)	3,395,328
Depositors' payout	(1,174,530)	(596,449)	-	(1,770,979)
Net income	630,627	1,035,468	(41,746)	1,624,349
Operating overheads	(84,880)	(363,075)	-	(447,955)
Including:				
Depreciation of property, plant and equipment and right of use assets	(709)	(2,382)	-	(3,091)
Amortisation of computer software	(320)	(438)	-	(758)
Allowance for credit losses on financial assets	(49,577)	(96,302)	-	(145,879)
Profit before zakat and taxation	496,170	576,091	(41,746)	1,030,515
Zakat				(5,868)
Profit after zakat before taxation				1,024,647
Taxation				(235,159)
Net profit for the financial year				789,488

Note: Total segment revenue comprise of net profit income and other operating income, net of modification loss.

42 SEGMENT REPORTING (CONTINUED)

2021

	Wholesale Banking RM'000	Community Banking RM'000	Total RM'000
Segment assets	49,568,614	49,019,449	98,588,063
Unallocated assets			301,974
Deferred tax assets			110,860
Total assets			99,000,897
Segment liabilities	57,518,562	34,615,041	92,133,603
Unallocated liabilities			1,256,435
Total liabilities			93,390,038
Other segment items:			
Capital expenditure	-	3,534	3,534

42 SEGMENT REPORTING (CONTINUED)

2020

	Wholesale Banking	Community Banking	Others	Total
	RM'000	RM'000	RM'000	RM'000
External revenue	1,493,216	1,802,978	(189,085)	3,107,109
Inter-segment revenue	331,968	(331,968)	-	-
Segment revenue	1,825,184	1,471,010	(189,085)	3,107,109
Depositors' payout	(1,383,983)	(618,531)	-	(2,002,514)
Net income	441,201	852,479	(189,085)	1,104,595
Operating overheads	(78,951)	(340,149)	-	(419,100)
Including:				
Depreciation of property, plant and equipment and right of use assets	(1,428)	(2,654)	-	(4,082)
Amortisation of computer software	(392)	(633)	-	(1,025)
Allowance for credit losses on financial assets	(35,485)	(199,491)	-	(234,976)
Profit before zakat and taxation	326,765	312,839	(189,085)	450,519
Zakat				(4,091)
Profit after zakat before taxation				446,428
Taxation				(106,089)
Net profit for the financial year				340,339

Note: Total segment revenue comprise of net profit income and other operating income, net of modification loss.

42 SEGMENT REPORTING (CONTINUED)

2020

	Wholesale Banking	Community Banking	Total
	RM'000	RM'000	RM'000
Segment assets	43,940,645	42,691,708	86,632,353
Unallocated assets			251,679
Deferred tax assets			6,794
Total assets			86,890,826
Segment liabilities	54,632,762	26,290,750	80,923,512
Unallocated liabilities			843,205
Total liabilities			81,766,717
Other segment items:			
Capital expenditure	125	6,281	6,406

43 CAPITAL ADEQUACY RATIO

BNM guidelines on capital adequacy requires the Bank to maintain an adequate level of capital to withstand any losses which may result from credit and other risks associated with financing operations. The capital adequacy ratio is computed based on the eligible capital in relation to the total risk-weighted assets as determined by BNM.

Pursuant to Capital Adequacy Framework (Basel II – Risk Weighted Assets ('RWA')), the Bank will not apply prudential capital floors on RWA effective from 30 September 2021 upon completion of a three-year Internal Rating Based ('IRB') approach implementation.

The capital adequacy ratios of the Bank are as follows:

	2021	2020
	RM'000	RM'000
Common Equity Tier-I ('CET-I') Capital/Tier-I Capital		
Share capital	**1,673,424**	1,673,424
Retained profits	**3,716,002**	2,896,031
FVOCI reserve	**(28,023)**	224,848
	5,361,403	4,794,303
Less:		
Deferred tax assets	**(102,565)**	(78,167)
Intangible assets (include associated deferred tax liabilities)	**(2,976)**	(2,767)
55% of cumulative gains of financial assets at FVOCI	**-**	(123,666)
Other deductions*	**(918)**	(2,643)
Total CET-I / Total Tier-I Capital	**5,254,944**	4,587,060
Tier-II Capital		
Subordinated obligations	**750,000**	750,000
Surplus eligible provisions over expected losses	**134,679**	137,002
General provisions^	**52,467**	69,026
Total Tier-II Capital	**937,146**	956,028
Total Capital	**6,192,090**	5,543,088
<u>Capital ratios</u>		
Before proposed dividends:		
CET-I capital ratio	**17.635%**	14.877%
Tier-I capital ratio	**17.635%**	14.877%
Total capital ratio	**20.780%**	17.977%
After proposed dividends:		
CET-I capital ratio	**16.849%**	14.714%
Tier-I capital ratio	**16.849%**	14.714%
Total capital ratio	**19.994%**	17.815%

* Pursuant to the Basel II Market Risk para 5.18 and 5.19 – Valuation Adjustments, the Capital Adequacy Framework for Islamic Banks (Basel II - Risk Weighted Assets) calculation shall account for the ageing, liquidity and holding back adjustments/ reserves on its trading portfolio.

^ Pursuant to BNM's policy document on Financial Reporting for Islamic Banking Institutions, general provision refers to loss allowance measured at an amount equal to 12-month and lifetime expected credit losses as defined under MFRS 9 'Financial Instruments'; and regulatory reserve, to the extent they are ascribed to non-credit-impaired exposures, determined under standardised approach for credit risk.

Includes the qualifying regulatory reserve of the Bank of RM41,763,000 (2020: RM54,526,000).

43 CAPITAL ADEQUACY RATIO (CONTINUED)

The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:

	2021	2020
	RM'000	RM'000
Credit risk	**33,329,415**	35,557,840
Credit risk absorbed by PSIA [+]	**(6,318,180)**	(7,202,054)
Market risk	**201,515**	210,344
Operational risk	**2,585,628**	2,223,938
Additional RWA due to capital floor	**-**	43,510
Total risk-weighted assets	**29,798,378**	30,833,578

The total risk-weighted assets of the Bank are computed based on BNM's Capital Adequacy Framework for Islamic Banks ('CAFIB'): Internal Ratings Based Approach for Credit and Standardised Approach for Market Risk and Basic Indicator Approach for Operational Risk (Basel II).

[+] In accordance with BNM's “Guidelines on the Recognition and Measurement of Profit Sharing Investment Account ('PSIA') as Risk Absorbent”, the credit risk weighted assets funded by the Restricted Investment Account and Unrestricted Investment Account which qualifies as risk absorbent are excluded from the capital adequacy ratio calculation.

44 FINANCIAL RISK MANAGEMENT

(a) Financial risk management objectives and policies

Risk is inherent in the Bank's activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Bank is exposed to a range of other risk types such as market, liquidity, operational, legal, Shariah, strategic and cross-border, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

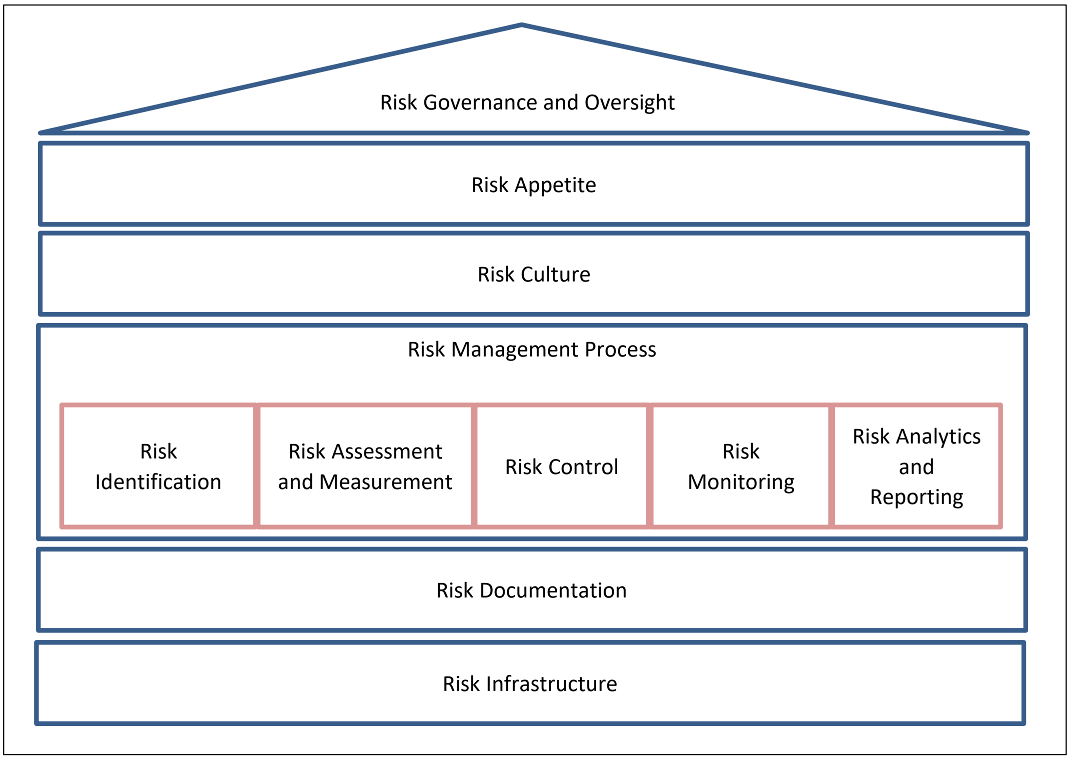
Effective risk management is fundamental to being able to drive sustainable growth and shareholder's value, while maintaining competitive advantage, and is thus a central part of the proactive risk management of the Bank's operating environment.

The Group Risk Management Framework governs the management of risks in the RHB Banking Group ('Group'), as follows:

(1) It provides a holistic overview of the risk and control environment of the Group, with risk management aimed towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and controls in the organisation.

(2) It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is realised through building up capabilities and infrastructure in risk management sophistication, and enhanced risk quantification to optimise risk adjusted returns.

The Group Risk Management Framework is represented in the following diagram:



44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Key features of the framework are:

Risk Governance and Oversight

The Board of Directors sits at the apex of the risk governance structure and is ultimately responsible for the Group's/respective entities' risk management strategy, appetite, framework and oversight of risk management activities.

In order to manage the businesses and risks across all subsidiaries in an integrated basis, Group level committees are established to ensure consistency in practices. However, the Group maintains entity-specific committees to allow for greater flexibility and agility in managing specific regulatory and business requirements. Each Board Risk Committee which reports directly to the respective Boards provides oversight and assists the respective Boards to review the Group's overall risk management philosophy, frameworks, policies and models, and risk issues relevant and unique to its business.

The responsibility for the supervision of the day-to-day management of enterprise risk and capital matters is delegated to the Group Capital and Risk Committee ('GCRC') comprising senior management of the Group and which reports to the relevant board committees and the Group Management Committee ('GMC'). The Investment Bank Risk Management Committee ('IBRMC') is responsible for oversight of risk management matters relating to RHB Investment Bank Group's business whilst the Group Asset and Liability Committee ('Group ALCO') oversees market risk, liquidity risk and balance sheet management.

The Group Chief Risk Officer ('GCRO') who reports directly to the Group Managing Director, is responsible for the risk management function. The main roles and responsibilities of GCRO are:

1. Facilitating the setting of the strategic direction and overall policy on management and control of risks of the Group;
2. Ensuring industry best practices in risk management are adopted across the Group, including the setting of risk management parameters and risk models;
3. Developing proactive, balanced and risk attuned culture within the Group; and
4. Advising senior management, management level committees, board level risk committees and Board of Directors of the Group's entities on risk issues and their possible impact on the Group in the achievement of its objectives and strategies.

GCRO is supported by the entities chief risk officers and various teams within risk management function:

1. The entities' chief risk officers main function is to assess and manage the enterprise risk and liaise with regulators in the respective country/entity under his/her purview. They are supported by their respective risk management teams with support from the risk management function from the Group.
2. The risk management function are teams who specialise in the respective risks and responsible for the active oversight of Group-wide functional risk management and support the respective entities/chief risk officers. Group Risk and Credit Management consist of Group Credit Risk Management, Group Market Risk Management, Group Asset and Liability Management, Group Operational Risk Management, Group Technology and Cyber Risk Management, Group Shariah Risk Management, Risk Strategy & Transformation, Enterprise Risk Management, Group Credit Management, Investment Banking and Regional Risk and Insurance Risk Management.

Risk Appetite

The Board of Directors sets the risk appetite and tolerance level that are consistent with the Group and each entity's overall business objectives and desired risk profile. It describes the types and level of risks the Group is prepared to accept in delivering its business strategies, and reported through various metrics that enable the Group to manage capital resources and shareholders' expectations.

The alignment of the Group's business strategy with its risk strategy, and vice-versa is articulated through the risk appetite setting and the Group's annual business and financial budgetary plan, which is facilitated by the integration of risk measures in capital management.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Key features of the framework are (continued):

Risk Culture

The Group subscribes to the principle of 'Risk and Compliance is Everyone's Responsibility' and risk management is managed via a 'three lines of defence' model. Business/functional units of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risk.

The approach is based on the 'three lines of defence' model as depicted below:

FIRST LINE Business/Functional Level	• Responsible for managing day-to-day risks and compliance issues • Business Risk and Compliance Officer is to assist business/functional unit in day-to-day risks and compliance matters
SECOND LINE Group Risk Management & Group Compliance	• Responsible for oversight, establishing governance and providing support to business/functional unit on risk and compliance matters
THIRD LINE Group Internal Audit	• Provide independent assurance to the Board that risk and compliance management functions effectively as designed

Risk Management Process

The risk management process identifies, assesses and measures, controls, monitors and reports/analyses risk. This ensures that risk exposures are adequately managed and that the expected return compensates for the risk taken.

- Identification: The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and proactive and timely identification of risk within the Group's business operations. This ensures that risks can be managed and controlled within the risk appetite of the Group and specific entity, where necessary.
- Assessment and Measurement: Risks are measured, assessed and aggregated using comprehensive qualitative and quantitative risk measurement methodologies, and the process also serves as an important tool as it provides an assessment of capital adequacy and solvency.
- Controlling: Risks identified during the risk identification process must be adequately managed and mitigated to control the risk of loss. This is also to ensure risk exposures are managed within the Group's or entity's risk appetite.
- Monitoring: Effective monitoring process ensures that the Group is aware of the condition of its exposures vis-à-vis its approved appetite and to facilitate early identification of potential problem on a timely basis by using continuous and on-going monitoring of risk exposures and risk control/mitigation measures.
- Analytics and Reporting: Risk analysis and reports are prepared at the respective entities and consolidated level as well as business level are regularly escalated to the senior management and relevant Boards of the Group's entities to ensure that the risks identified remain within the established appetite and to support an informed decision-making process.

In addition, risk management seeks to ensure that risk decisions are consistent with strategic business objectives and within the risk appetite.

Risk Documentation

The Group recognises that effective implementation of the risk management system and process must be supported by a robust set of documentation. Towards this end, the Group has established frameworks, policies and other relevant control documents to ensure clearly defined practices and processes are effected consistently across the Group.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Key features of the framework are (continued):

Risk Infrastructure

The Group has organised its resources and talents into specific functions, and invested in the technology, including data management to support the Group's risk management activities.

Major Areas of Risk

As a banking institution with key activities covering retail, business banking, corporate banking and advisory services, treasury products and services, and securities and futures related business, the Group is subject to business risks which are inherent in the financial services industry. Generally, these business risks can be broadly classified as follows:

(i) (i) Credit risk – the risk of loss arising from customers' or counterparties' failure to fulfil their financial and contractual obligations in accordance to the agreed terms. It stems primarily from the Bank's lending/financing, trade finance, placement, underwritings, investment, hedging and trading activities from both on- and off-balance sheet transactions. Credit risk does not happen in isolation as certain risk event (e.g. fluctuation of profit rate and foreign exchange) may give rise to both market and credit risks.

(ii) Market risk - the risk of losses arising from adverse movements in market drivers, such as profit rates, credit spreads, equity prices, currency exchange rates and commodity prices. Under this definition, market risk will constitute:

- the profit rate and equity risks pertaining to financial instruments in the trading book; and
- foreign exchange risk and commodities risk in the trading and banking books.

(iii) Liquidity risk - the risk of the Bank being unable to maintain sufficient liquidity to meet its financial commitments and obligations when they fall due and transact at a reasonable cost. Liquidity risk also arises from the inability to manage unplanned decreases or changes in funding sources.

(iv) Operational risk - the risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events, which also includes IT, legal and Shariah non-compliance risk but excludes strategic and reputational risk.

(v) Technology and Cyber risk – Technology risk refers to the risk associated with the use, ownership, operation, involvement, influence and adoption of Information Technology ('IT') within an enterprise while Cyber risk refers to threats or vulnerabilities emanating from the connectivity of internal infrastructure to external networks such as the Internet.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Major Areas of Risk (continued)

To mitigate the various business risks of the Bank, the following has been put in place:

Credit risk

- The Bank abides to the Board approved credit policy which supports the development of a strong credit culture and with the objective of maintaining a well-diversified portfolio that addresses credit risk, and mitigates concern for unexpected losses.

- Regulatory requirement and industry best practices are incorporated into the approved policy.

- Group Credit Committee ('GCC') is responsible for ensuring adherence to the Board approved credit risk appetite as well as the effectiveness of credit risk management. GCC is the senior management committee empowered to approve or reject all financial investments, counterparty credit and lending/financing up to the defined threshold limits.

- Group Investment Underwriting Committee (‘GIUC’) deliberates, approves and rejects stockbroking/equities/futures business related proposals such as equity underwriting, equity derivatives and structured products, and share margin financing.

- GCC and GIUC submit to the Board Credit Committee (‘BCC’) for affirmation or veto if the financing facilities exceed a pre- defined threshold.

- The Bank also ensures that internal processes and credit underwriting standards are adhered to before credit proposals are approved. All credit proposals are first evaluated by the originating business units before being evaluated by Group Credit Management/Group Retail Credit prior to submission to the relevant committees for approval, if required. With the exception of credit applications for the Bank's approved program lending/financing which can be auto approved by financing origination system or business units’ supervisors, all other credit facilities are subject to independent assessment by a team of dedicated and experienced credit evaluators in Head Office. For proper checks and controls, joint or escalated approval is required for all discretionary lending between business and independent credit underwriters, except for end-financing which can only be singly assessed by independent reviewers. Financing which are beyond the delegated lending authority limits will be escalated to the relevant committees for approval.

- Internal credit rating models are an integral part of the Bank’s credit risk management, decision-making process, and regulatory capital calculations.

- Clients’ accounts are reviewed at regular intervals and weakening credits are transferred to Loan Recovery for more effective management.

- Counterparty, industry and product exposure limits/directions are set and risk reward relationships are mapped with the aim of maintaining a diverse credit profile and track the changing risk concentrations in response to market changes and external events.

- The Bank applies the Internal Ratings-Based (‘IRB’) approach for credit risk, whereby more advanced Basel II approaches and key program components are implemented, which includes (i) enhancing the returns of the Bank using established credit risk framework and methodologies, (ii) implementing and using empirical credit scoring models for consumer financing and credit rating models for business financing, and (iii) designing and implementing modelling of expected and unexpected losses.

- The Bank has embarked on an end-to-end credit transformation journey to support business growth responsibly and protect the asset quality in challenging times. The coverage of the transformation covers the core business segments of retail banking, business banking and corporate banking.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Major Areas of Risk (continued)

Credit risk (continued)

- The Credit War Room continues to steer, coordinate and ensure the effective implementation of the Group's payment assistance strategy in relation to borrowers/customers affected by the COVID-19 pandemic, in a consistent and structured response across RHB Banking Group.

Market risk

- A framework of risk policies, measurement methodologies and limits, as approved by the Board, which controls the Bank's financial market activities as well as to identify potential risk areas early in order to mitigate against any adverse effects arising from market volatility.

- The senior management committees; namely Group ALCO, the GCRC and IBRMC performs a critical role in the oversight of the management of market risk and supports the board risk committees in the overall market risk management.

- The Group Risk Management function forms a centralised function to support senior management to operationalise the processes and methods, to ensure adequate risk control and oversight are in place.

- The Bank applies risk monitoring and assessment tools to measure trading book positions and market risk factors. Statistical and non-statistical risk assessment tools applied include Value-at-Risk ('VaR'), sensitivity analysis and stress testing.

- Market risk is primarily monitored and controlled via a structure of limits and triggers i.e. cut loss, VaR, trading and notional limit set in accordance with the size of positions and risk tolerance appetites.

- Periodic stress testing are applied to ascertain market risk under abnormal market conditions.

Liquidity risk

- The Group ALCO plays a fundamental role in the asset and liability management of the Bank, and establishes strategies to assist in controlling and reducing any potential exposures to liquidity risk.

- The liquidity risk management process involves establishing liquidity risk management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions.

- Minimum liquid assets buffer, capping on large depositor concentration and sufficient long term funding are available to meet obligations and aligned to Liquidity Coverage Ratio and Net Stable Funding Ratio to ensure adequate cover for withdrawals arising from unexpected levels of demand.

- Defined liquidity management ratios are maintained and monitored.

- The Bank has established a Liquidity Incident Management Procedure to manage any potential adverse liquidity incidences, and which can be implemented on a timely basis so that appropriate actions can be taken to mitigate against any unexpected market developments.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Major Areas of Risk (continued)

Operational risk

- The Group Operational Risk Management function is responsible for the development of group-wide operational risk policies, framework and methodologies, and providing guidance and information to the business units on operational risk matters. The respective business units are primarily responsible for managing operational risk on a day-to-day basis. Some of the operational risk tools used include Risk and Control Self-Assessment, Key Risk Indicators, Key Control Testing, Incident Management and Loss Data Collection and Scenario Analysis.

- The Bank's operational risk management system has integrated applications to support the operational risk management process (i.e. assessment, reporting, database/library).

- The Bank has Business Continuity Management ('BCM') programme for the major critical business operations and activities at the Head Office, data centre, and branches' locations. The BCM programme is subject to regular testing to ensure efficacy, reliability and functionality.

- There is continuous refinement of existing policies, procedures and internal control measures; and regular internal review, compliance monitoring, and audits are performed to prevent and/or minimise unexpected losses.

- Regular operational risk reporting is made to senior management, relevant committees and board to facilitate the identification of adverse operational lapses, taking of prompt corrective actions, and ensuring appropriate risk mitigation decision making and action plans.

Technology & Cyber Risk

- The Group Technology & Cyber Risk function is responsible for the development of group-wide technology and cyber risk policies, framework and methodologies, and providing guidance and consultation to the business units on technology and cyber risk areas.

- There is a continuous enhancement of existing policies, procedures and internal control measures; with regular independent assessment on areas pertaining to technology and cyber risks to prevent and/or minimise unexpected losses.

- Development of policies and mitigating controls are made reference to industry standards such as ISO/IEC:27001:2013, COBIT 5 and the NIST Cyber Security Framework.

- Regular technology and cyber risk reporting is made to senior management, relevant senior management and board committees to facilitate a risk informed decision by proactively identifying emerging cyber threats, assessment on the effectiveness of the controls implemented and the recommendation of new appropriate controls.

- Subscription to threat intelligence service providers for the latest cyber threats, and modus operandi in compromising an organisation. The information shall be shared with business units in improving their controls.

- Continuous education and awareness on technology and cyber risks to Board, business units, new recruits and third party service providers via Computer Based Training, classroom training and regular email broadcast communication.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category

	At amortised cost	At fair value through profit and loss	At fair value through other comprehensive income	Total
	RM'000	RM'000	RM'000	RM'000
2021				
Assets				
Cash and short-term funds	8,061,808	-	-	8,061,808
Securities purchased under resale agreements	2,800,958	-	-	2,800,958
Deposits and placements with banks and other financial institutions	2,326,510	-	-	2,326,510
Financial assets at FVTPL	-	52,093	-	52,093
Financial assets at FVOCI				
- Debt instruments	-	-	5,587,524	5,587,524
Financial investments at amortised cost	5,235,191	-	-	5,235,191
Financing and advances	74,259,901	-	-	74,259,901
Other financial assets	368,361	-	-	368,361
Derivative assets	-	125,320	-	125,320
	93,052,729	177,413	5,587,524	98,817,666
Liabilities				
Deposits from customers	71,661,203	-	-	71,661,203
Deposits and placements of banks and other financial institutions	8,026,615	-	-	8,026,615
Investment accounts	10,794,930	-	-	10,794,930
Bills and acceptances payable	8,287	-	-	8,287
Other financial liabilities	1,008,341	-	-	1,008,341
Derivative liabilities	-	134,410	-	134,410
Recourse obligation on financing sold to Cagamas	753,585	-	-	753,585
Lease liabilities	2,548	-	-	2,548
Subordinated obligations	754,573	-	-	754,573
	93,010,082	134,410	-	93,144,492

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category (continued)

	At amortised cost	At fair value through profit and loss	At fair value through other comprehensive income	Total
	RM'000	RM'000	RM'000	RM'000
2020				
Assets				
Cash and short-term funds	2,262,454	-	-	2,262,454
Securities purchased under resale agreements	3,767,531	-	-	3,767,531
Deposits and placements with banks and other financial institutions	2,410,219	-	-	2,410,219
Financial assets at FVTPL	-	107,678	-	107,678
Financial assets at FVOCI				
- Debt instruments	-	-	6,409,937	6,409,937
Financial investments at amortised cost	4,577,078	-	-	4,577,078
Financing and advances	66,788,344	-	-	66,788,344
Other financial assets	240,557	-	-	240,557
Derivative assets	-	215,979	-	215,979
	80,046,183	323,657	6,409,937	86,779,777
Liabilities				
Deposits from customers	60,830,175	-	-	60,830,175
Deposits and placements of banks and other financial institutions	7,124,095	-	-	7,124,095
Investment accounts	8,840,858	-	-	8,840,858
Bills and acceptances payable	12,182	-	-	12,182
Other financial liabilities	647,945	-	-	647,945
Derivative liabilities	-	337,929	-	337,929
Recourse obligation on financing sold to Cagamas	3,023,760	-	-	3,023,760
Lease liabilities	4,840	-	-	4,840
Subordinated obligations	754,514	-	-	754,514
	81,238,369	337,929	-	81,576,298

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

Market risk sensitivity assessment is based on the changes in key variables, such as profit rates and foreign currency rates, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the assets and liabilities position of the Bank.

The scenarios used are based on the assumption that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables. The Bank seeks to ensure that the profit rate risk profile is managed to minimise losses and optimise net revenues.

(i) Profit rate sensitivity analysis

The profit rate sensitivity results below shows the impact on profit after tax and reserve of financial assets and financial liabilities bearing floating profit rate and fixed rate financial assets and financial liabilities:

	Impact on profit after tax RM'000	**Impact on reserve RM'000**
Increase/(Decrease)		
2021		
+100 bps	**137,508**	**(150,335)**
-100 bps	**(137,401)**	**167,076**
2020		
+100 bps	112,039	(181,850)
-100 bps	(111,424)	204,535

The results above represent financial assets and liabilities that have been prepared on the following basis:

(i) Impact on the profit after tax is the sum of valuation changes on profit rate instruments held in the trading portfolio and earnings movement for all short term profit rate sensitive assets and liabilities (with maturity or re-pricing tenure of up to one year) that is not held in the trading portfolio. Earnings movement for the short term profit rate sensitive assets and liabilities uses a set of risk weights with its respective time band to simulate the 100 bps (2020: 100 bps) profit rate change impact. For assets and liabilities with non-fixed maturity e.g. current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of these profit bearing assets and liabilities.

(ii) Impact on reserve represents the changes in fair values of profit rate instruments held in the FVOCI portfolio arising from the shift in the profit rate.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Foreign currency sensitivity analysis

The foreign currency sensitivity represents the effect of the appreciation or depreciation of the foreign currency rates, while other variables remain constant.

	Impact on profit after tax RM'000
Increase/(Decrease)	
2021	
+10%	**(1,534)**
-10%	**1,534**
2020	
+10%	(1,412)
-10%	1,412

Impact on the profit after tax is estimated on the assumption that foreign exchange move by the same amount and all other variables are held constant and are based on a constant reporting date position.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates:

	Non-trading book								
2021	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 6 months RM'000**	**>6 - 12 months RM'000**	**>1 - 3 years RM'000**	**Over 3 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
ASSETS									
Cash and short-term funds	7,855,635	-	-	-	-	-	206,173	-	8,061,808
Securities purchased under resale agreements	610,005	609,993	978,383	591,256	-	-	11,321	-	2,800,958
Deposits and placements with banks and other financial institutions	-	2,324,957	-	-	-	-	1,553	-	2,326,510
Financial assets at FVTPL	-	-	-	-	-	-	-	52,093	52,093
Financial assets at FVOCI	5,002	298,527	75,459	203,070	358,716	4,593,219	53,531	-	5,587,524
Financial investments at amortised cost	6,000	258,049	106,003	415,713	2,266,645	1,062,359	1,120,422	-	5,235,191
Financing and advances	61,908,727	952,997	324,197	47,634	704,444	10,361,833	(39,931)	-	74,259,901
Other assets	-	-	-	-	-	-	411,224	-	411,224
Derivative assets	-	-	-	-	-	56,994	-	68,326	125,320
Statutory deposits with BNM	-	-	-	-	-	-	20,000	-	20,000
Deferred tax assets	-	-	-	-	-	-	110,860	-	110,860
Right of use assets	-	-	-	-	-	-	2,528	-	2,528
Property, plant and equipment	-	-	-	-	-	-	3,452	-	3,452
Intangible assets	-	-	-	-	-	-	3,528	-	3,528
TOTAL ASSETS	70,385,369	4,444,523	1,484,042	1,257,673	3,329,805	16,074,405	1,904,661	120,419	99,000,897

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

	Non-trading book								
2021	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	>1 - 3 years RM'000	Over 3 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
LIABILITIES									
Deposits from customers	17,337,988	17,292,381	11,783,387	11,841,670	1,072,672	22,543	12,310,562	-	71,661,203
Deposits and placements of banks and other financial institutions	900,560	1,856,543	500,242	633,037	125,389	3,998,393	12,451	-	8,026,615
Investment accounts	396,670	124,000	385,000	1,201,000	4,331,767	4,203,665	152,828	-	10,794,930
Bills and acceptances payable	8,287	-	-	-	-	-	-	-	8,287
Other liabilities	-	-	-	-	-	-	1,160,202	-	1,160,202
Derivative liabilities	-	-	-	-	31,026	22,453	-	80,931	134,410
Recourse obligation on financing sold to Cagamas	-	-	-	-	749,951	-	3,634	-	753,585
Provision for tax and zakat	-	-	-	-	-	-	93,685	-	93,685
Lease liabilities	105	227	339	650	1,227	-	-	-	2,548
Subordinated obligations	-	-	250,000	-	500,000	-	4,573	-	754,573
TOTAL LIABILITIES	18,643,610	19,273,151	12,918,968	13,676,357	6,812,032	8,247,054	13,737,935	80,931	93,390,038
TOTAL EQUITY	-	-	-	-	-	-	5,610,859	-	5,610,859
TOTAL LIABILITIES AND EQUITY	18,643,610	19,273,151	12,918,968	13,676,357	6,812,032	8,247,054	19,348,794	80,931	99,000,897
On-balance sheet profit sensitivity gap	51,741,759	(14,828,628)	(11,434,926)	(12,418,684)	(3,482,227)	7,827,351			
Off-balance sheet profit sensitivity gap	-	-	-	-	(1,000,000)	(2,340,000)			
TOTAL PROFIT-SENSITIVITY GAP	51,741,759	(14,828,628)	(11,434,926)	(12,418,684)	(4,482,227)	5,487,351			

RHB ISLAMIC BANK BERHAD
(Incorporated in Malaysia)
Registration No. 200501003283 (680329-V)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

The table below summarises the Bank’s exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

	Non-trading book								
2020	Up to 1 month	>1 - 3 months	>3 - 6 months	>6 - 12 months	>1 - 3 years	Over 3 years	Non-profit sensitive	Trading book	Total
	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000
ASSETS									
Cash and short-term funds	2,078,933	-	-	-	-	-	183,521	-	2,262,454
Securities purchased under resale agreements	1,277,509	1,787,378	692,029	-	-	-	10,615	-	3,767,531
Deposits and placements with banks and other financial institutions	-	2,408,919	-	-	-	-	1,300	-	2,410,219
Financial assets at FVTPL	-	-	-	-	-	-	-	107,678	107,678
Financial assets at FVOCI	15,006	209,105	213,840	66,010	1,116,127	4,732,034	57,815	-	6,409,937
Financial investments at amortised cost	176,000	40,145	129,457	369,211	2,024,555	1,814,851	22,859	-	4,577,078
Financing and advances	54,262,717	855,398	398,934	100,712	674,941	10,274,188	221,454	-	66,788,344
Other assets	-	-	-	-	-	-	320,985	-	320,985
Derivative assets	-	-	-	-	-	8	-	215,971	215,979
Statutory deposits with BNM	-	-	-	-	-	-	12,000	-	12,000
Deferred tax assets	-	-	-	-	-	-	6,794	-	6,794
Right of use assets	-	-	-	-	-	-	4,750	-	4,750
Property, plant and equipment	-	-	-	-	-	-	3,944	-	3,944
Intangible assets	-	-	-	-	-	-	3,133	-	3,133
TOTAL ASSETS	57,810,165	5,300,945	1,434,260	535,933	3,815,623	16,821,081	849,170	323,649	86,890,826

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

	Non-trading book								
2020	Up to 1 month	>1 - 3 months	>3 - 6 months	>6 - 12 months	>1 - 3 years	Over 3 years	Non-profit sensitive	Trading book	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
LIABILITIES									
Deposits from customers	14,064,716	8,857,905	14,527,199	12,173,864	868,496	407,658	9,930,337	-	60,830,175
Deposits and placements of banks and other financial institutions	2,812,395	3,961,979	198,867	24,551	36,409	82,856	7,038	-	7,124,095
Investment accounts	176,000	39,331	134,832	-	3,199,038	5,180,108	111,549	-	8,840,858
Bills and acceptances payable	12,182	-	-	-	-	-	-	-	12,182
Other liabilities	-	-	-	-	-	-	785,816	-	785,816
Derivative liabilities	-	-	-	-	27,046	93,946	-	216,937	337,929
Recourse obligation on financing sold to Cagamas	-	1,000,000	-	1,250,000	749,951	-	23,809	-	3,023,760
Provision for tax and zakat	-	-	-	-	-	-	52,548	-	52,548
Lease liabilities	261	471	567	1,028	2,513	-	-	-	4,840
Subordinated obligations	-	-	-	-	250,000	500,000	4,514	-	754,514
TOTAL LIABILITIES	17,065,554	13,859,686	14,861,465	13,449,443	5,133,453	6,264,568	10,915,611	216,937	81,766,717
TOTAL EQUITY	-	-	-	-	-	-	5,124,109	-	5,124,109
TOTAL LIABILITIES AND EQUITY	17,065,554	13,859,686	14,861,465	13,449,443	5,133,453	6,264,568	16,039,720	216,937	86,890,826
On-balance sheet profit sensitivity gap	40,744,611	(8,558,741)	(13,427,205)	(12,913,510)	(1,317,830)	10,556,513			
Off-balance sheet profit sensitivity gap	-	-	-	-	(500,000)	(3,100,000)			
TOTAL PROFIT-SENSITIVITY GAP	40,744,611	(8,558,741)	(13,427,205)	(12,913,510)	(1,817,830)	7,456,513			

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk

Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds upon maturity, extensions of credit and working capital needs.

The Bank has adopted the BNM's liquidity standard on Liquidity Coverage Ratio, to ensure maintenance of adequate stock of unencumbered high-quality liquid assets to survive the liquidity needs for 30 calendar day under liquidity stress condition. In July 2019, BNM has issued the final Net Stable Funding Ratio (NSFR) policy document, which will be effective from 1 July 2020 and banking institutions are expected to maintain a minimal NSFR of 100% at the Bank level.

On 24 March 2020, BNM issued a letter on Additional Measures to assist borrowers/customers affected by the COVID-19 outbreak which includes the relaxation on LCR and NSFR. Banking institutions were allowed to operate below the minimum LCR of 100% and the NSFR minimum requirement was lowered to 80%, and to restore to minimum 100% by 30 September 2021. Notwithstanding this, the LCR and NSFR at the Bank level have been maintained at above 100%.

The Bank seeks to project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

The Bank did not have any defaults of principal and profit or other breaches with respect to its borrowings, senior debt securities and subordinated obligations during the financial years ended 31 December 2021 and 2020.

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity:

2021	Up to 1 week	1 week to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	No specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS								
Cash and short-term funds	1,944,340	6,117,468	-	-	-	-	-	8,061,808
Securities purchased under resale agreements	-	614,146	613,074	982,322	591,416	-	-	2,800,958
Deposits and placements with banks and other financial institutions	-	-	2,326,510	-	-	-	-	2,326,510
Financial assets at FVTPL	-	-	-	-	-	52,093	-	52,093
Financial assets at FVOCI	-	5,107	298,527	76,101	205,056	5,002,733	-	5,587,524
Financial investments at amortised cost	-	1,111,014	260,002	106,236	417,805	3,340,134	-	5,235,191
Financing and advances	1,537,832	3,394,638	959,604	594,856	108,678	67,664,293	-	74,259,901
Other assets	232,917	136,431	-	-	-	-	41,876	411,224
Derivative assets	1,402	12,762	18,998	15,452	1,359	75,347	-	125,320
Statutory deposits with BNM	-	-	-	-	-	-	20,000	20,000
Deferred tax assets	-	-	-	-	-	-	110,860	110,860
Right of use assets	-	-	-	-	-	-	2,528	2,528
Property, plant and equipment	-	-	-	-	-	-	3,452	3,452
Intangible assets	-	-	-	-	-	-	3,528	3,528
TOTAL ASSETS	3,716,491	11,391,566	4,476,715	1,774,967	1,324,314	76,134,600	182,244	99,000,897

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity (continued):

2021	Up to 1 week	1 week to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	No specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
LIABILITIES								
Deposits from customers	18,189,289	11,120,912	17,453,497	11,869,894	11,918,392	1,109,219	-	71,661,203
Deposits and placements of banks and other financial institutions	349,886	550,675	1,858,505	500,243	633,109	4,134,197	-	8,026,615
Investment accounts	495	396,864	132,966	387,988	1,341,184	8,535,433	-	10,794,930
Bills and acceptances payable	8,287	-	-	-	-	-	-	8,287
Other liabilities	-	951,963	9,337	-	43,788	3,253	151,861	1,160,202
Derivative liabilities	2,440	6,727	31,903	20,179	1,515	71,646	-	134,410
Recourse obligation on financing sold to Cagamas	-	-	-	3,634	-	749,951	-	753,585
Provision for taxation and zakat	-	-	-	-	-	-	93,685	93,685
Lease liabilities	-	105	227	339	650	1,227	-	2,548
Subordinated obligations	-	-	-	254,573	-	500,000	-	754,573
TOTAL LIABILITIES	18,550,397	13,027,246	19,486,435	13,036,850	13,938,638	15,104,926	245,546	93,390,038
TOTAL EQUITY	-	-	-	-	-	-	5,610,859	5,610,859
TOTAL LIABILITIES AND EQUITY	18,550,397	13,027,246	19,486,435	13,036,850	13,938,638	15,104,926	5,856,405	99,000,897

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity (continued):

2020	Up to 1 week	1 week to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	No specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS								
Cash and short-term funds	1,214,532	1,047,922	-	-	-	-	-	2,262,454
Securities purchased under resale agreements	1,141,809	137,862	1,794,444	693,416	-	-	-	3,767,531
Deposits and placements with banks and other financial institutions	-	-	2,410,219	-	-	-	-	2,410,219
Financial assets at FVTPL	-	-	-	-	-	107,678	-	107,678
Financial assets at FVOCI	-	15,311	209,212	213,863	66,545	5,905,006	-	6,409,937
Financial investments at amortised cost	-	173,765	40,379	130,306	368,739	3,863,889	-	4,577,078
Financing and advances	1,057,085	3,346,676	897,816	541,977	137,404	60,807,386	-	66,788,344
Other assets	219,192	50,701	-	-	-	-	51,092	320,985
Derivative assets	27,861	15,026	47,199	70,567	4,107	51,219	-	215,979
Statutory deposits with BNM	-	-	-	-	-	-	12,000	12,000
Deferred tax assets	-	-	-	-	-	-	6,794	6,794
Right of use assets	-	-	-	-	-	-	4,750	4,750
Property, plant and equipment	-	-	-	-	-	-	3,944	3,944
Intangible assets	-	-	-	-	-	-	3,133	3,133
TOTAL ASSETS	3,660,479	4,787,263	5,399,269	1,650,129	576,795	70,735,178	81,713	86,890,826

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity (continued):

2020	Up to 1 week	1 week to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	No specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
LIABILITIES								
Deposits from customers	14,551,514	9,124,727	8,948,059	14,555,135	12,325,774	1,324,966	-	60,830,175
Deposits and placements of banks and other financial institutions	1,491,052	1,322,801	3,967,519	198,867	24,576	119,280	-	7,124,095
Investment accounts	-	178,713	39,382	135,215	-	8,487,548	-	8,840,858
Bills and acceptances payable	12,182	-	-	-	-	-	-	12,182
Other liabilities	430,655	179,529	9,023	1,249	23,360	4,128	137,872	785,816
Derivative liabilities	17,984	14,506	58,771	71,629	3,129	171,910	-	337,929
Recourse obligation on financing sold to Cagamas	-	-	1,011,223	-	1,258,961	753,576	-	3,023,760
Provision for taxation and zakat	-	-	-	-	-	-	52,548	52,548
Lease liabilities	-	261	471	567	1,028	2,513	-	4,840
Subordinated obligations	-	-	-	4,514	-	750,000	-	754,514
TOTAL LIABILITIES	16,503,387	10,820,537	14,034,448	14,967,176	13,636,828	11,613,921	190,420	81,766,717
TOTAL EQUITY	-	-	-	-	-	-	5,124,109	5,124,109
TOTAL LIABILITIES AND EQUITY	16,503,387	10,820,537	14,034,448	14,967,176	13,636,828	11,613,921	5,314,529	86,890,826

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The following table presents the cash outflows for the Bank's financial liabilities by remaining contractual maturities on an undiscounted basis. The balances in the table below will not agree to the balances reported in the statement of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and profit payments:

2021	Up to 1 month	1 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
LIABILITIES							
Deposits from customers	29,326,314	29,489,862	12,124,602	1,202,434	26,902	-	72,170,114
Deposits and placements of banks and other financial institutions	899,472	2,360,904	634,174	126,909	4,029,274	11,397	8,062,130
Investment accounts	398,092	573,122	1,297,260	4,653,221	2,168,647	2,839,978	11,930,320
Bills and acceptances payable	8,287	-	-	-	-	-	8,287
Other financial liabilities	951,963	9,337	43,788	3,253	-	-	1,008,341
Derivative liabilities:							
- Gross settled derivatives:							
- Inflow	(1,795,904)	(5,731,134)	(163,512)	(33,941)	(509,088)	-	(8,233,579)
- Outflow	1,805,467	5,799,003	170,520	50,693	528,855	-	8,354,538
- Net settled derivatives	1,054	9,059	14,486	48,464	11,354	-	84,417
Recourse obligation on financing sold to Cagamas	-	9,169	9,169	768,290	-	-	786,628
Lease liabilities	120	639	735	1,427	-	-	2,921
Subordinated obligations	-	16,900	266,900	506,100	-	-	789,900
TOTAL FINANCIAL LIABILITIES	31,594,865	32,536,861	14,398,122	7,326,850	6,255,944	2,851,375	94,964,017

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The following table presents the cash outflows for the Bank's financial liabilities by remaining contractual maturities on an undiscounted basis. The balances in the table below will not agree to the balances reported in the statement of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and profit payments (continued):

2021	Up to 1 month	1 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Transaction-related contingent items	15,702	64,059	78,483	149,647	31,151	9,026	348,068
Short-term self-liquidating trade-related contingencies	10,056	17,847	-	-	-	-	27,903
Irrecoverable commitments to extend credit	2,899	397,517	1,574,253	1,235,566	2,131,753	4,738,263	10,080,251
Any commitments that are unconditionally cancellable at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	72,039	621,154	1,151,022	108,058	116,301	579,893	2,648,467
TOTAL COMMITMENTS AND CONTINGENCIES	100,696	1,100,577	2,803,758	1,493,271	2,279,205	5,327,182	13,104,689

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The following table presents the cash outflows for the Bank's financial liabilities by remaining contractual maturities on an undiscounted basis. The balances in the table below will not agree to the balances reported in the statement of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and profit payments (continued):

2020	Up to 1 month	1 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
LIABILITIES							
Deposits from customers	23,687,473	23,805,748	12,444,831	940,596	498,690	-	61,377,338
Deposits and placements of banks and other financial institutions	2,814,717	4,173,552	25,213	38,115	62,618	20,850	7,135,065
Investment accounts	179,368	174,657	-	3,211,566	4,092,380	1,421,159	9,079,130
Bills and acceptances payable	12,182	-	-	-	-	-	12,182
Other financial liabilities	609,918	8,453	24,123	4,471	73	907	647,945
Derivative liabilities:							
- Gross settled derivatives:							
- Inflow	(1,545,691)	(5,391,641)	(158,112)	(444,149)	(32,770)	(475,145)	(8,047,508)
- Outflow	1,577,372	5,542,669	170,119	477,984	50,693	503,509	8,322,346
- Net settled derivatives	3,165	12,749	20,677	82,509	51,783	16,309	187,192
Recourse obligation on financing sold to Cagamas	-	1,057,718	1,285,953	786,659	-	-	3,130,330
Lease liabilities	287	1,136	1,113	2,704	-	-	5,240
Subordinated obligations	-	16,900	16,900	299,300	510,800	-	843,900
TOTAL FINANCIAL LIABILITIES	27,338,791	29,401,941	13,830,817	5,399,755	5,234,267	1,487,589	82,693,160

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The following table presents the cash outflows for the Bank's financial liabilities by remaining contractual maturities on an undiscounted basis. The balances in the table below will not agree to the balances reported in the statement of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and profit payments (continued):

2020	Up to 1 month	1 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Transaction-related contingent items	24,730	48,566	51,121	151,625	39,788	5,595	321,425
Short-term self-liquidating trade-related contingencies	13,054	10,957	-	-	-	-	24,011
Irrecoverable commitments to extend credit	1,543	23,793	155,355	2,242,046	2,125,124	4,282,482	8,830,343
Any commitments that are unconditionally cancellable at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	204,850	660,709	1,138,963	95,147	103,111	207,436	2,410,216
TOTAL COMMITMENTS AND CONTINGENCIES	244,177	744,025	1,345,439	2,488,818	2,268,023	4,495,513	11,585,995

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk

(i) Maximum exposure to credit risk

The maximum exposure to credit risk at the statement of financial position is the amounts on the statement of financial position as well as off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

The table below shows the credit exposure of the Bank that are subject to impairment:

	2021	2020
	RM'000	RM'000
Credit risk exposure relating to on-balance sheet assets:		
Short-term funds (exclude cash in hand)	**8,050,387**	2,250,672
Securities purchased under resale agreements	**2,800,958**	3,767,531
Deposits and placements with banks and other financial institutions	**2,326,510**	2,410,219
Financial assets at FVOCI	**5,587,524**	6,409,937
Financial investments at amortised cost	**5,235,191**	4,577,078
Financing and advances	**74,259,901**	66,788,344
Other financial assets	**368,361**	240,557
	98,628,832	86,444,338
Credit risk exposure relating to off-balance sheet assets:		
Commitments and contingencies	**13,104,689**	11,585,995
Total maximum credit risk exposure that are subject to impairment	**111,733,521**	98,030,333

The table below shows the credit exposure of the Bank that are not subject to impairment:

	2021	2020
	RM'000	RM'000
Financial assets at FVTPL	**52,093**	107,678
Derivative assets	**125,320**	215,979
	177,413	323,657

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(ii) Collaterals

The tangible securities acceptable by the Bank are as follows:

(a) Fixed deposits, Commodity Murabahah Deposit-i, negotiable Islamic negotiable instrument of deposits, foreign currency deposits and cash deposits/margins;
(b) Land and/or buildings;
(c) Vessels and automobiles;
(d) Equities, Collective Investment Scheme and debt securities;
(e) Other tangible business assets, such as inventory and equipment.

The Bank also accepts non-tangible securities as support, such as guarantees from individuals, corporates and institutions, bank guarantees, debentures, assignment of contract proceeds, which are subject to internal guidelines on eligibility.

The outstanding balance for financing and advances for which no allowances is recognised because of collateral as at 31 December 2021 amounted to RM29.4 million (2020: RM39.1 million).

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements mitigate credit risk) held for financing and advances balances as at 31 December 2021 for the Bank is 82.4% (2020: 76.4%). The financial effect of collateral held for the remaining on-balance sheet assets are insignificant.

The following table shows the financing and advances that are credit-impaired and related collateral held:

2021	**Gross impaired outstanding**	**Credit losses**	**Net carrying amount**	**Collateral value over gross outstanding**
	RM'000	**RM'000**	**RM'000**	**%**
Financing and advances	**385,800**	**(183,176)**	**202,624**	**74.0**
2020				
Financing and advances	435,207	(179,605)	255,602	76.0

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iii) Credit exposure by stage

Financial assets of the Bank is classified into three stages as below:

Stages	Description
Stage 1: 12 months ECL - not credit impaired	For credit exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.
Stage 2: Lifetime ECL - not credit impaired	For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised.
Stage 3: Lifetime ECL - credit impaired	Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognised.

For further details on the stages, refer to accounting policy Note 18.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iv) Credit quality

The Bank assesses credit quality of financing and advances using internal rating techniques tailored to the various categories of products and counterparties. These techniques have been developed internally and combine statistical analysis with credit officer's judgement.

Credit quality description is summarised as follows:

Credit Quality	Description
Sovereign	Exposures directly from government bodies including exposure guaranteed by government
Good	Exposures exhibit strong capacity to meet financial commitments with no cause of concern to the Bank
Fair	Exposures exhibit fairly acceptable capacity to meet financial commitments and may require varying degrees of concern to the Bank
No Rating	Counterparties which do not satisfy the criteria to be rated based on internal credit grading system
Credit impaired	When one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows have occurred

The credit quality of financial assets other than financing and advances are determined based on the ratings of counterparties as defined by Moody's or equivalent ratings of other international rating agencies as defined below:

Credit Quality	Ratings
Sovereign	Sovereign credit rating
Good	Aaa to A3
Fair	Baa1 to Baa3
No Rating	Unrated
Credit impaired	Default

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iv) Credit quality (continued)

The following table shows an analysis of the credit exposure by stages, together with the ECL allowance provision:

2021	Gross Carrying Amount Sovereign RM'000	Good RM'000	Fair RM'000	No rating RM'000	Credit-impaired RM'000	Total RM'000	Provision for credit loss RM'000
General Approach							
Short-term funds (exclude cash)	7,402,242	434,308	173	213,750	-	8,050,473	(86)
Stage 1	7,402,242	434,308	173	213,750	-	8,050,473	(86)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Securities purchased under resale agreements	-	2,800,958	-	-	-	2,800,958	-
Stage 1	-	2,800,958	-	-	-	2,800,958	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Deposits and placements with banks and other financial institutions	2,001,467	283,375	-	41,668	-	2,326,510	-
Stage 1	2,001,467	283,375	-	41,668	-	2,326,510	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Financial assets at FVOCI	4,030,307	1,542,226	-	14,991	-	5,587,524	(2,337)
Stage 1	3,973,260	1,542,226	-	14,991	-	5,530,477	(2,337)
Stage 2	57,047	-	-	-	-	57,047	-
Stage 3	-	-	-	-	-	-	-
Financial investments at amortised cost	1,906,858	164,330	-	2,065,068	1,105,024	5,241,280	(6,089)
Stage 1	1,769,529	164,330	-	1,866,457	-	3,800,316	(4,312)
Stage 2	137,329	-	-	198,611	-	335,940	(1,777)
Stage 3	-	-	-	-	1,105,024	1,105,024	-
Financing and advances	6,126,698	56,041,057	11,803,777	510,848	385,800	74,868,180	(606,491)
Stage 1	6,126,698	53,321,736	10,618,329	423,290	-	70,490,053	(170,709)
Stage 2	-	2,719,321	1,185,448	87,558	-	3,992,327	(252,606)
Stage 3	-	-	-	-	385,800	385,800	(183,176)
	21,467,572	61,266,254	11,803,950	2,846,325	1,490,824	98,874,925	(615,003)

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iv) Credit quality (continued)

The following table shows an analysis of the credit exposure by stages, together with the ECL allowance provision (continued):

2020	Gross Carrying Amount Sovereign RM'000	Good RM'000	Fair RM'000	No rating RM'000	Credit-impaired RM'000	Total RM'000	Provision for credit loss RM'000
General Approach							
Short-term funds (exclude cash)	1,655,874	413,103	2,231	179,694	-	2,250,902	(230)
Stage 1	1,655,874	413,103	2,231	179,694	-	2,250,902	(230)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Securities purchased under resale agreements	-	3,767,531	-	-	-	3,767,531	-
Stage 1	-	3,767,531	-	-	-	3,767,531	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Deposits and placements with banks and						-	
other financial institutions	1,931,457	442,551	-	36,211	-	2,410,219	-
Stage 1	1,931,457	442,551	-	36,211	-	2,410,219	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Financial assets at FVOCI	4,670,138	1,739,799	-	-	-	6,409,937	(2,001)
Stage 1	4,527,023	1,739,799	-	-	-	6,266,822	(2,001)
Stage 2	143,115	-	-	-	-	143,115	-
Stage 3	-	-	-	-	-	-	-
Financial investments at amortised cost	1,928,590	185,797	-	2,467,383	-	4,581,770	(4,692)
Stage 1	1,882,915	185,797	-	1,844,070	-	3,912,782	(4,557)
Stage 2	45,675	-	-	623,313	-	668,988	(135)
Stage 3	-	-	-	-	-	-	-
Financing and advances	6,327,498	52,111,788	7,986,823	348,604	435,207	67,209,920	(531,260)
Stage 1	6,327,498	46,869,083	7,078,875	228,063	-	60,503,519	(156,636)
Stage 2	-	5,242,705	907,948	120,541	-	6,271,194	(195,019)
Stage 3	-	-	-	-	435,207	435,207	(179,605)
	16,513,557	58,660,569	7,989,054	3,031,892	435,207	86,630,279	(538,183)

Other financial assets for the Bank of RM368,361,000 (2020: RM240,557,000) are non-rated and short-term in nature, of which no provision for credit loss is provided.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iv) Credit quality (continued)

Credit risk exposure analysed by industry in respect of the Bank's financial assets, including commitments and contingencies, are set out below:

2021	Short-term funds, and deposits and placements with banks and other financial institutions ^	Securities purchased under resale agreements	Financial assets at FVTPL	Financial assets at FVOCI	Financial investments at amortised costs @	Financing and advances #	Other financial assets *	Commitments and contingencies	Total
	RM'000	RM'000	RM'000	RM'000	RM'000		RM'000	RM'000	RM'000
Agriculture, hunting, forestry and fishing	-	-	-	-	165,905	1,483,061	-	240,226	1,889,192
Mining and quarrying	-	-	-	-	-	90,179	2,457	43,807	136,443
Manufacturing	-	-	-	15,008	-	2,468,546	449	881,508	3,365,511
Electricity, gas and water	-	-	-	120,397	-	567,098	-	647,681	1,335,176
Construction	-	-	-	364,417	527,631	5,176,223	3	1,479,759	7,548,033
Wholesale and retail trade and restaurant and hotel	-	-	-	117,570	137,329	3,015,463	53	1,037,097	4,307,512
Transport, storage and communication	-	-	-	470,385	256,828	6,403,776	-	599,503	7,730,492
Finance, insurance, real estate and business services	973,274	2,800,958	-	2,046,480	3,464,471	5,618,476	122,358	1,424,561	16,450,578
Government and government agencies	9,403,709	-	52,093	2,453,267	689,116	3,236,761	50,000	-	15,884,946
Others	-	-	-	-	-	46,625,421	318,361	6,750,547	53,694,329
	10,376,983	2,800,958	52,093	5,587,524	5,241,280	74,685,004	493,681	13,104,689	112,342,212

^ Excludes stage 1 expected credit losses amounting to RM86,000.
@ Excludes stage 1 and stage 2 expected credit losses amounting to RM6,089,000.
# Excludes stage 1 and stage 2 expected credit losses amounting to RM423,315,000 and negative fair value changes amounting to RM1,788,000.
* Other financial assets include other assets amounting to RM368,361,000 and derivative assets amounting to RM125,320,000.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iv) Credit quality (continued)

Credit risk exposure analysed by industry in respect of the Bank's financial assets, including commitments and contingencies, are set out below (continued):

2020	Short-term funds, and deposits and placements with banks and other financial institutions ^ RM'000	Securities purchased under resale agreements RM'000	Financial assets at FVTPL RM'000	Financial assets at FVOCI RM'000	Financial investments at amortised costs @ RM'000	Financing and advances # RM'000	Other financial assets * RM'000	Commitments and contingencies RM'000	Total RM'000
Agriculture, hunting, forestry and fishing	-	-	-	21,393	102,634	1,446,854	-	277,739	1,848,620
Mining and quarrying	-	-	-	-	-	114,929	-	38,506	153,435
Manufacturing	-	-	-	-	-	2,068,573	-	819,194	2,887,767
Electricity, gas and water	-	-	-	140,428	-	226,174	-	135,505	502,107
Construction	-	-	-	397,967	354,199	4,829,877	-	1,920,870	7,502,913
Wholesale and retail trade and restaurant and hotel	-	-	-	30,138	-	2,162,302	-	840,981	3,033,421
Transport, storage and communication	-	-	-	806,796	241,982	5,202,608	-	628,102	6,879,488
Finance, insurance, real estate and business services	1,073,790	3,767,531	-	1,663,689	2,724,975	5,668,587	215,979	1,190,495	16,305,046
Government and government agencies	3,587,331	-	107,678	3,349,526	1,157,980	3,432,112	50,000	-	11,684,627
Others	-	-	-	-	-	41,878,299	190,557	5,734,603	47,803,459
	4,661,121	3,767,531	107,678	6,409,937	4,581,770	67,030,315	456,536	11,585,995	98,600,883

^ Excludes stage 1 expected credit losses amounting to RM230,000.
@ Excludes stage 1 and stage 2 expected credit losses amounting to RM4,692,000.
# Excludes stage 1 and stage 2 expected credit losses amounting to RM351,655,000 and positive fair value changes amounting to RM109,684,000.
* Other financial assets include other assets amounting to RM240,557,000 and derivative assets amounting to RM215,979,000.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iv) Credit quality (continued)

Credit risk exposure analysed by geographical in respect of the Bank's financial assets, including commitments and contingencies, are set out below:

2021	Short-term funds, and deposits and placements with banks and other financial institutions ^	Securities purchased under resale agreements	Financial assets at FVTPL	Financial assets at FVOCI	Financial investments at amortised costs @	Financing and advances #	Other financial assets *	Commitments and contingencies	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Southeast Asia	10,343,035	2,800,958	52,093	5,587,524	5,241,280	74,519,144	493,681	13,104,689	112,142,404
Malaysia	10,312,365	2,800,958	52,093	5,587,524	5,241,280	74,431,011	493,681	13,104,689	112,023,601
Other Southeast Asia	30,670	-	-	-	-	88,133	-	-	118,803
Other Asia	8,292	-	-	-	-	144,229	-	-	152,521
Europe	3,046	-	-	-	-	14,017	-	-	17,063
America	22,610	-	-	-	-	4,841	-	-	27,451
Africa	-	-	-	-	-	2,729	-	-	2,729
Others	-	-	-	-	-	44	-	-	44
	10,376,983	2,800,958	52,093	5,587,524	5,241,280	74,685,004	493,681	13,104,689	112,342,212

^ Excludes stage 1 expected credit losses amounting to RM86,000.
@ Excludes stage 1 and stage 2 expected credit losses amounting to RM6,089,000.
# Excludes stage 1 and stage 2 expected credit losses amounting to RM423,315,000 and negative fair value changes amounting to RM1,788,000.
* Other financial assets include other assets amounting to RM368,361,000 and derivative assets amounting to RM125,320,000.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iv) Credit quality (continued)

Credit risk exposure analysed by geographical in respect of the Bank's financial assets, including commitments and contingencies, are set out below (continued):

2020	Short-term funds, and deposits and placements with banks and other financial institutions ^	Securities purchased under resale agreements	Financial assets at FVTPL	Financial assets at FVOCI	Financial investments at amortised costs @	Financing and advances #	Other financial assets *	Commitments and contingencies	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Southeast Asia	4,620,406	3,767,531	107,678	6,409,937	4,581,770	66,867,887	456,536	11,585,995	98,397,740
Malaysia	4,475,165	3,767,531	107,678	6,409,937	4,581,770	66,773,743	456,536	11,585,995	98,158,355
Other Southeast Asia	145,241	-	-	-	-	94,144	-	-	239,385
Other Asia	25,338	-	-	-	-	140,708	-	-	166,046
Europe	3,023	-	-	-	-	13,936	-	-	16,959
America	12,354	-	-	-	-	4,985	-	-	17,339
Africa	-	-	-	-	-	2,740	-	-	2,740
Others	-	-	-	-	-	59	-	-	59
	4,661,121	3,767,531	107,678	6,409,937	4,581,770	67,030,315	456,536	11,585,995	98,600,883

^ Excludes stage 1 expected credit losses amounting to RM230,000.
@ Excludes stage 1 and stage 2 expected credit losses amounting to RM4,692,000.
# Excludes stage 1 and stage 2 expected credit losses amounting to RM351,655,000 and positive fair value changes amounting to RM109,684,000.
* Other financial assets include other assets amounting to RM240,557,000 and derivative assets amounting to RM215,979,000.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(v) Write-off policy

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will be written back as bad debts recovered in the income statement.

The contractual amount outstanding on financing and advances and securities portfolio that were written off during the financial year ended 31 December 2021, and are still subject to enforcement activities was RM3.0 million (2020: RM6.5 million) for the Bank.

(vi) Modification of contractual cash flows

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognised, the resulting modification loss is recognised as net modification loss in the income statements as disclosed in Note 29, with a corresponding decrease in the gross carrying value of the asset. If the modification involved a concession that the Bank would not otherwise consider, the instrument is considered to be credit impaired and is considered forborne.

ECL for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk. These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification.

Although financing and advances may be modified for non-credit reasons, a significant increase in credit risk may occur. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from stage 3 or stage 2 to stage 1. This is only the case for assets which have been monitored for consecutive six months observation period or more, excluding borrowers under moratorium repayment during the year due to COVID-19 pandemic.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(vii) Sensitivity analysis

The Bank has performed ECL sensitivity assessment on financing and advances based on the changes in key variables, such as private consumption, unemployment rates, inflation and KLIBOR-3M, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the ECL of the Bank.

The table below outlines the effect of ECL on the changes in key variables used while other variables remain constant:

2021	**Changes**	**Increase/(Decrease) in ECL**	
		RM'000	**RM'000**
(a) Retail			
Private consumption	+/- 100bps	**(3,688)**	**3,868**
Unemployment rates	+/- 50bps	**9,476**	**(8,774)**
Inflation	+/- 50bps	**2,244**	**(2,198)**
(b) Non-retail			
Private consumption	+/- 100bps	**(4,946)**	**4,129**
KLIBOR-3M	+/- 25bps	**6,403**	**(6,740)**

2020	Changes	Increase/(Decrease) in ECL	
		RM'000	RM'000
(a) Retail			
Private consumption	+/- 50bps	(6,141)	6,462
Unemployment rates	+/- 10bps	9,510	(8,871)
Inflation	+/- 5bps	2,020	(1,677)
(b) Non-retail			
Private consumption	+/- 50bps	(8,602)	8,183
KLIBOR-3M	+/- 25bps	6,911	(7,030)

Retail comprises substantially household sector as disclosed in Note 8(iv) under financing and advances by economic sector.

Non-retail comprises other than household sector as disclosed in Note 8(iv) under financing and advances by economic sector.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value of financial instruments

The Bank analyses its financial instruments measured at fair value into three categories as described below:

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

Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

The table below analyses financial instruments carried at fair value analysed by level within the fair value hierarchy:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2021				
Financial assets				
Financial assets at FVTPL:				
- money market instruments	**-**	**52,093**	**-**	**52,093**
Financial assets at FVOCI:	**-**	**5,587,524**	**-**	**5,587,524**
- money market instruments	**-**	**1,838,487**	**-**	**1,838,487**
- unquoted securities	**-**	**3,749,037**	**-**	**3,749,037**
Derivative assets	**-**	**125,320**	**-**	**125,320**
	-	**5,764,937**	**-**	**5,764,937**
Financial liabilities				
Derivative liabilities	**-**	**134,410**	**-**	**134,410**
2020				
Financial assets				
Financial assets at FVTPL:				
- money market instruments	-	107,678	-	107,678
Financial assets at FVOCI:	-	6,409,937	-	6,409,937
- money market instruments	-	2,122,209	-	2,122,209
- unquoted securities	-	4,287,728	-	4,287,728
Derivative assets	-	215,979	-	215,979
	-	6,733,594	-	6,733,594
Financial liabilities				
Derivative liabilities	-	337,929	-	337,929

There were no transfers between Level 1 and 2 during the financial year.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair Value of financial instruments (continued)

(i) Valuation techniques

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include quoted securities.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Bank then determines fair value based upon valuation techniques that use market parameters including but not limited to yield curves, volatilities and foreign exchange rates as inputs. The majority of valuation techniques employ only observable market data. These would include certain bonds, government bonds, corporate debt securities and derivatives.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). This category includes non-transferable and non-tradable perpetual sukuk and impaired securities.

45 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of each financial assets and liabilities presented on the statement of financial position of the Bank approximates the carrying amount as at the reporting date, except for the following:

2021	**Carrying value RM'000**	**Fair value RM'000**
Financial assets		
Financial investments at amortised cost	**5,235,191**	**5,503,390**
Financing and advances	**74,259,901**	**74,843,222**
Financial liabilities		
Deposits from customers	**71,661,203**	**71,799,387**
Deposits and placements of banks and other financial institutions	**8,026,615**	**8,011,281**
Investment accounts	**10,794,930**	**10,840,573**
Recourse obligation on financing sold to Cagamas	**753,585**	**764,061**
Subordinated obligations	**754,573**	**766,586**

2020		
Financial assets		
Financial investments at amortised cost	4,577,078	4,673,280
Financing and advances	66,788,344	67,608,304
Financial liabilities		
Deposits from customers	60,830,175	60,838,727
Deposits and placements of banks and other financial institutions	7,124,095	7,118,564
Investment accounts	8,840,858	9,047,106
Recourse obligation on financing sold to Cagamas	3,023,760	3,179,978
Subordinated obligations	754,514	781,204

45 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The following table analyses within the fair value hierarchy of the Bank's assets and liabilities not measured at fair value but for which fair value is disclosed:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2021				
Financial assets				
Financial investments at amortised cost	**-**	**2,080,531**	**3,422,859**	**5,503,390**
Financing and advances	**-**	**74,843,222**	**-**	**74,843,222**
Financial liabilities				
Deposits from customers	**-**	**71,799,387**	**-**	**71,799,387**
Deposits and placements of banks and other financial institutions	**-**	**8,011,281**	**-**	**8,011,281**
Investment accounts	**-**	**10,840,573**	**-**	**10,840,573**
Recourse obligation on financing sold to Cagamas	**-**	**764,061**	**-**	**764,061**
Subordinated obligations	**-**	**766,586**	**-**	**766,586**
2020				
Financial assets				
Financial investments at amortised cost	-	2,164,935	2,508,345	4,673,280
Financing and advances	-	67,608,304	-	67,608,304
Financial liabilities				
Deposits from customers	-	60,838,727	-	60,838,727
Deposits and placements of banks and other financial institutions	-	7,118,564	-	7,118,564
Investment accounts	-	9,047,106	-	9,047,106
Recourse obligation on financing sold to Cagamas	-	3,179,978	-	3,179,978
Subordinated obligations	-	781,204	-	781,204

45 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The fair values are based on the following methodologies and assumptions:

(i) Cash and short-term funds and deposits and placements with banks and other financial institutions

For cash and short-term funds and deposits and placements with banks and other financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For deposits and placements with maturities of six months and above, estimated fair value is based on discounted cash flows using prevailing money market profit rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

(ii) Securities purchased under resale agreements

The fair values of securities purchased under resale agreements with maturities of less than six months approximate the carrying values. For securities purchased under resale agreements with maturities of six months and above, the estimated fair values are based on discounted cash flows using prevailing market rates for the remaining term to maturity.

(iii) Financial assets at FVTPL, financial assets at FVOCI and financial investments at amortised cost

The estimated fair value for financial assets at FVTPL, financial assets at FVOCI and financial investments at amortised cost is based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been assessed by reference to market indicative yield or net tangible asset backing of the investee. Where discounted cash flow technique is used, the estimated future cash flows are discounted using the prevailing market rates for a similar instrument at the date of statement of financial position.

(iv) Financing and advances

For floating rate financing, the carrying value is generally a reasonable estimate of fair value.

For fixed rate financing, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of financing with similar credit risk and maturities.

The fair values of impaired financing are represented by their carrying value, net of impairment allowance.

(v) Other assets and liabilities

The carrying value less any estimated impairment allowance for financial assets and liabilities included in 'other assets and liabilities' are assumed to approximate their fair values as these items are not materially sensitive to the shift in market profit rates.

(vi) Deposits from customers

For deposits from customers with maturities of less than six months, the carrying amounts are reasonable estimates of their fair values. For deposits with maturities of six months and above, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

(vii) Deposits and placements of banks and other financial institutions, investment accounts and bills and acceptances payable.

The estimated fair values of deposits and placements of banks and other financial institutions, investment accounts and bills and acceptances payable with maturities of less than six months approximate the carrying values. For items with maturities of six months and above, the fair values are estimated based on discounted cash flows using prevailing money market profit rates with similar remaining period to maturity.

45 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The fair values are based on the following methodologies and assumptions (continued):

(viii) Recourse obligation on financing sold to Cagamas

For amounts due to Cagamas with maturities of less than one year, the carrying amounts are a reasonable estimate of their fair values. For amounts due to Cagamas with maturities of more than one year, fair value is estimated based on discounted cash flows using prevailing money market profit rates with similar remaining period to maturity.

(ix) Lease liabilities

The estimated fair value of lease liabilities with maturities of less than six months approximate the carrying values. For other lease liabilities with maturities of six months or more, the fair values are estimated based on discounted cash flows using prevailing market rates of incremental borrowings.

(x) Subordinated obligations

The estimated fair value of subordinated obligations is generally based on quoted and observable market prices at the date of statement of financial position.

(xi) Credit related commitments and contingencies

The net fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risks and attract fees in line with market prices for similar arrangements. They are not presently sold nor traded. The fair value may be represented by the present value of fees expected to be received, less associated costs.

(xii) Foreign exchange and profit rate related contracts

The fair values of foreign exchange and profit rate related contracts are the estimated amounts the Bank would receive to sell or pay to transfer the contracts at the date of statement of financial position.

46 IBOR REFORM

Following the financial crisis, the reform and replacement of benchmark profit rates such as Kuala Lumpur Interbank Offered Rate ('KLIBOR'), London Interbank Offered Rate denominated in USD ('USD LIBOR') and other inter-bank offered rates ('IBORs') has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes. The Bank has designated hedge relationships where hedged items and/or hedging instruments has reference to IBORs. The Bank's risk exposure that is directly affected by the IBOR reform through its fair value hedges predominantly comprises exposures to KLIBOR and USD LIBOR. These fair value hedges are designated using profit rate swaps, for changes attributable to the respective current benchmark profit rates, which are MYR KLIBOR and Secured Overnight Financing Rate ('SOFR').

As part of the reforms noted above:

- BNM introduced the Malaysia Overnight Rate ('MYOR') as the new alternative reference rate, which will run in parallel with the existing KLIBOR, providing the market with the flexibility to choose either MYOR or KLIBOR as the reference rate for pricing of financial instruments. On 1 January 2023, BNM will discontinue the publication of the 2- and 12-month KLIBOR tenors, which are the least referenced rates in the market for financial contracts. The remaining one-, three- and six-month KLIBOR tenors, which continue to reflect an active underlying market, will be reviewed in the second half of 2022. The Financial Markets Committee ('FMC') will engage the International Swaps and Derivatives Association ('ISDA') to ensure continuity of KLIBOR derivatives contracts in the event of a temporary or permanent discontinuation of KLIBOR publication.

- The UK Financial Conduct Authority ('FCA') has decided to no longer compel panel banks to participate in the USD LIBOR submission process after the end of 2021 and to cease oversight of these benchmark profit rates.

The secured overnight financing rate ('SOFR') is expected to replace the USD LIBOR, and regulatory authorities and private sector working groups, continue to discuss alternative benchmark rates for USD LIBOR.

The Group Asset and Liability Committee oversees the Bank's IBOR transition plan. The transition plan considers changes to systems, processes, risk management and valuation models, as well as managing tax and accounting implications. The Bank continues to monitor market developments in relation to the transition and their impact on the Bank's financial assets and liabilities to ensure that there are no unexpected consequences or disruptions from the transition.

As at 31 December 2021, the Bank holds the following financial instruments which are referenced to the current benchmark profit rates and have yet to transition to an alternative profit rate benchmark:

	Nominal amount	
	Assets	**Liabilities**
	RM'000	**RM'000**
(a) Derivative asset/liabilities		
i. Profit rate swaps		
KLIBOR	**2,300,000**	**1,500,000**
ii. Cross currency swaps		
USD LIBOR	**425,748**	**425,748**
KLIBOR	**423,375**	**423,375**
	849,123	**849,123**

46 IBOR REFORM (CONTINUED)

As at 31 December 2021, the Bank holds the following financial instrument which are referenced to the current benchmark profit rates and have yet to transition to an alternative profit rate benchmark (continued):

	Carrying amount	
	Assets	Liabilities
	RM'000	RM'000
(b) Deposits and placement with banks and other financial institutions		
KLIBOR	2,102,585	-
(c) Financing and advances		
KLIBOR	3,871,209	-
(d) Investment accounts		
KLIBOR	-	9,795,538

RHB ISLAMIC BANK BERHAD
(Incorporated in Malaysia)
Registration No. 200501003283 (680329-V)

STATEMENT BY DIRECTORS PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, Dato' Mohamad Nasir Ab Latif and Dato' Adissadikin Ali, being two of the Directors of RHB Islamic Bank Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 6 to 125 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2021 and financial performance of the Bank for the financial year ended on 31 December 2021 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 25 February 2022.

DATO' MOHAMAD NASIR AB LATIF
CHAIRMAN

DATO' ADISSADIKIN ALI
CHIEF EXECUTIVE OFFICER/
MANAGING DIRECTOR

Kuala Lumpur

STATUTORY DECLARATION PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT 2016

I, Khairul Hakeem Mohamed Sahari, the Officer primarily responsible for the financial management of RHB Islamic Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 6 to 125 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declaration Act, 1960.

KHAIRUL HAKEEM MOHAMED SAHARI
(MIA Membership No: 44413)

Subscribed and solemnly declared by the abovenamed Khairul Hakeem Mohamed Sahari at Kuala Lumpur in Malaysia on 25 February 2022.

Before me:

PESURUHJAYA SUMPAH
No. W 540
Dr. T. YOKHESWAREM
PhD., MBA.
1-1-2022 - 31-12-2024
MALAYSIA

COMMISSIONER FOR OATHS
Kuala Lumpur

Unit A11-1 & 2, Megan Avenue 1,
No. 189, Jalan Tun Razak,
50400 Kuala Lumpur.

pwc

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF RHB ISLAMIC BANK BERHAD
(Incorporated in Malaysia)
Registration No. 200501003283 (680329-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of RHB Islamic Bank Berhad ("the Bank") give a true and fair view of the financial position of the Bank as at 31 December 2021, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 December 2021, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 6 to 125.

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' 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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF RHB ISLAMIC BANK BERHAD (CONTINUED)
(Incorporated in Malaysia)
Registration No. 200501003283 (680329-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 Report of the Shariah Committee, but does not include the financial statements of the Bank and our auditors' report thereon.

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

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

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

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF RHB ISLAMIC BANK BERHAD (CONTINUED)
(Incorporated in Malaysia)
Registration No. 200501003283 (680329-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

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

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

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

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

(d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF RHB ISLAMIC BANK BERHAD (CONTINUED)
(Incorporated in Malaysia)
Registration No. 200501003283 (680329-V)

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS PLT	LEE TZE WOON KELVIN
LLP0014401-LCA & AF 1146	03482/01/2024 J
Chartered Accountants	Chartered Accountant

Kuala Lumpur
25 February 2022