Deutsche Bank (Malaysia) Berhad
(Company No. 312552-W)
(Incorporated in Malaysia)
and its subsidiaries

Unaudited Condensed Interim Financial Statements for the Financial Period ended 30 June 2018

Domiciled in Malaysia
Registered office:
Level 18, Menara IMC No. 8 Jalan Sultan Ismail 50250 Kuala Lumpur

Consolidated Statements of Financial Position
As at 30 June 2018 - Unaudited

	Note	Group 30 June 2018 RM'000	Group 31 December 2017 RM'000	Bank 30 June 2018 RM'000	Bank 31 December 2017 RM'000
Assets					
Cash and short term funds		4,494,993	3,416,228	4,494,993	3,416,228
Deposits and placements of banks and other financial institutions		120,000	333,033	120,000	333,033
Reverse repurchase agreements		-	69,042	-	69,042
Financial securities	13	3,153,313	1,447,393	3,153,313	1,447,393
Loans, advances and financing	14	2,307,058	2,391,753	2,307,058	2,391,753
Other assets	15	2,037,352	1,752,189	2,037,352	1,752,189
Tax recoverable		9,224	10,149	9,224	10,149
Statutory deposit with Bank Negara Malaysia		20,000	100,000	20,000	100,000
Investments in subsidiary companies		-	-	20	20
Property, plant and equipment		3,723	4,090	3,723	4,090
Deferred tax assets		26,982	27,299	26,982	27,299
Total assets		12,172,645	9,551,176	12,172,665	9,551,196
Liabilities and shareholders' funds					
Deposits from customers	16	4,806,102	4,627,017	4,806,122	4,627,037
Deposits and placements of banks and other financial institutions	17	3,280,221	658,943	3,280,221	658,943
Other liabilities	18	2,166,253	2,446,461	2,166,253	2,446,461
Total liabilities		10,252,576	7,732,421	10,252,596	7,732,441
Share capital		531,362	531,362	531,362	531,362
Reserves		1,233,707	1,287,393	1,233,707	1,287,393
Proposed dividend		155,000	-	155,000	-
Shareholders' funds		1,920,069	1,818,755	1,920,069	1,818,755
Total liabilities and shareholders' funds		12,172,645	9,551,176	12,172,665	9,551,196
Commitments and contingencies	26	111,481,144	108,969,319	111,481,144	108,969,319

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements for the Group and the Bank for the year ended 31 December 2017.

Consolidated Statements Of Profit Or Loss And Other Comprehensive Income For The Financial Period Ended 30 June 2018 - Unaudited

		Group and Bank			
		Half year ended		Three months ended	
	Note	30 June 2018 RM'000	30 June 2017 RM'000	30 June 2018 RM'000	30 June 2017 RM'000
Interest income	19	147,122	119,941	74,350	61,162
Interest expense	20	(41,366)	(37,146)	(19,427)	(18,411)
Net interest income		105,756	82,795	54,923	42,751
Net income from Islamic Banking Operations	27	1,809	1,289	897	656
Non-interest income	21	107,839	133,058	23,976	53,271
Operating income		215,404	217,142	79,796	96,678
Other operating expenses	22	(91,797)	(69,651)	(47,967)	(36,409)
Operating profit		123,607	147,491	31,829	60,269
Allowance (made) / written back for impairment	23	(1,298)	2,935	333	291
Profit before tax		122,309	150,426	32,162	60,560
Tax expense		(29,786)	(37,302)	(7,496)	(15,467)
Net profit for the period		92,523	113,124	24,666	45,093
Other comprehensive income:					
Movement in fair value reserve (debt securities)					
Net change in fair value		3	-	(101)	-
Net amount transferred to profit or loss		67	-	28	-
Tax expense on other comprehensive income		(16)	-	18	-
Other comprehensive income for the period		54	-	(55)	-
Total comprehensive income for the period		92,577	113,124	24,611	45,093
Earnings per share (sen)		53.3 sen	65.2 sen	14.2 sen	26.0 sen

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements for the Group and the Bank for the year ended 31 December 2017.

Consolidated Statements Of Changes In Equity
For The Financial Period Ended 30 June 2018

Group and Bank	Note	Share capital RM'000	Share premium RM'000	Other reserves RM'000	Retained profits RM'000	Total reserves RM'000	Proposed dividend RM'000	Total RM'000
		<---Attributable to owner of the Bank---						--->
		<---Non-distributable---		--->	Distributable			
At 1 January 2018		531,362	-	13,558	1,273,835	1,287,393	-	1,818,755
Adjustment on initial application of MFRS 9, net of tax	12	-	-	46	8,691	8,737	-	8,737
Adjusted balance at 1 January 2018		531,362	-	13,604	1,282,526	1,296,130	-	1,827,492
Net profit for the period		-	-	-	92,523	92,523	-	92,523
Other comprehensive income for the period		-	-	54	-	54	-	54
Total comprehensive income for the period		-	-	54	92,523	92,577	-	92,577
Transfer pursuant to BNM revised policy*		-	-	24,442	(24,442)	-	-	-
Proposed dividend		-	-	-	(155,000)	(155,000)	155,000	-
At 30 June 2018		531,362	-	38,100	1,195,607	1,233,707	155,000	1,920,069
At 1 January 2017		173,599	357,763	188,280	1,035,787	1,581,830	-	1,755,429
Transfer of share premium to share capital		357,763	(357,763)	-	-	(357,763)	-	-
Transfer of reserve fund to retained profits		-	-	(174,722)	174,722	-	-	-
Net profit/ Total comprehensive income for the period		-	-	-	113,124	113,124	-	113,124
Dividend paid		-	-	-	(147,039)	(147,039)	-	(147,039)
At 30 June 2017		531,362	-	13,558	1,176,594	1,190,512	-	1,721,514

* Bank Negara Malaysia ("BNM") had on 2 February 2018 issued a revised policy document on Financial Reporting which requires all banking institutions to maintain in aggregate, Stage 1 and 2 provisions and regulatory reserve of no less than 1% of all credit exposures, net of Stage 3 provision. During the financial period ended 30 June 2018, the Group and the Bank has transferred RM24,442,000 from its retained profits to other reserves pursuant to the Revised Policy Document.

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements for the Group and the Bank for the year ended 31 December 2017

Condensed Consolidated Statements Of Cash Flows
For The Financial Period Ended 30 June 2018

	Group and Bank	
	30 June 2018 RM'000	30 June 2017 RM'000
Profit before taxation	122,309	150,426
Adjustments for non-operating and non-cash items	384	394
Operating profit before working capital changes	122,693	150,820
Changes in working capital:		
Net changes in operating assets	(1,745,780)	655,185
Net changes in operating liabilities	2,520,155	(1,163,425)
Income tax paid	(31,319)	(25,541)
Net cash generated from / (used in) operations	865,749	(382,961)
Cash flows from investing activities:		
Purchase of plant and equipment	(17)	(613)
Proceeds from disposal of plant and equipment	-	100
Net cash used in investing activities	(17)	(513)
Cash flows from financing activities:		
Dividend paid	-	(147,039)
Net cash used in financing activities	-	(147,039)
Net increase/ (decrease) in cash and cash equivalents	865,732	(530,513)
Cash and cash equivalents at beginning of the period	3,749,261	4,609,578
Cash and cash equivalents at end of the period	4,614,993	4,079,065
Analysis of cash and cash equivalents:		
Cash and short-term funds	4,494,993	3,579,065
Deposits and placements of banks and other financial institutions	120,000	500,000
Cash and cash equivalents at end of the period	4,614,993	4,079,065

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements for the Group and the Bank for the year ended 31 December 2017.

Explanatory Notes To The Interim Financial Statements
For The Financial Period Ended 30 June 2018

1. Basis of preparation

The unaudited interim financial statements for the financial period ended 30 June 2018 have been prepared under the historical cost convention except for reverse repurchase agreements, financial securities and derivative financial instruments which are stated at fair values.

The unaudited interim financial statements have been prepared in accordance with MFRS 134, *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board ("MASB"). The unaudited interim financial statements should be read in conjunction with the audited annual financial statements for the Group and the Bank for the financial year ended 31 December 2017. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group and the Bank since the year ended 31 December 2017.

The unaudited interim financial statements incorporated those activities relating to the Islamic banking business. Islamic banking business refers generally to the acceptance of deposits under the principles of Shariah.

The significant accounting policies and methods of computation applied in the unaudited interim financial statements are consistent with those adopted in the most recent audited annual financial statements for the year ended 31 December 2017, except for the adoption of the following Malaysian Financial Reporting Standard ("MFRS"), Amendments to MFRSs and IC Interpretation that have been issued by the Malaysian Accounting Standard Board ("MASB"):

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS15, *Revenue from Contract Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

1. Basis of preparation (continued)

The following are accounting standards, amendments and interpretations of the MFRS framework that have been issued by MASB but have not been adopted by the Group and the Bank:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits - Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123*, Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group and the Bank plan to apply the abovementioned standards, amendments and interpretations, where applicable:

- from the annual period beginning on 1 January 2019 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2019; and

- from the annual period beginning on 1 January 2021 for the accounting standard that is effective for annual periods beginning on or after 1 January 2021.

1. Basis of preparation (continued)

The initial application of the accounting standards, amendments and interpretations are not expected to have any material financial impact to the current period and prior period financial statements of the Group and the Bank except as mentioned in the subsequent paragraphs:

MFRS 16, *Leases*

MFRS 16 replaces the guidance in MFRS 117, *Leases,* IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The Group and the Bank are currently assessing the financial impact that may arise from the adoption of MFRS 16.

2. Audit report

The audit report on the audited annual financial statements of the Group and the Bank for the financial year ended 31 December 2017 was not subject to any qualification.

3. Seasonality or Cyclicality of Operations

The business operations of the Group and the Bank are not subject to material seasonal or cyclical fluctuations.

4. Unusual Items Due to Their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group and of the Bank for the financial period ended 30 June 2018.

5. Changes in Estimates

There were no significant changes in estimates of amounts reported in prior financial years that have a material effect on the financial results and position of the Group and the Bank for the financial period ended 30 June 2018.

6. Issuance and Repayment of Debt and Equity Securities

There were no issuance and repayment of debt and equity securities during the financial period ended 30 June 2018.

7. Dividend Paid

No dividend was paid during the financial period ended 30 June 2018. The final dividend recommended by the Directors in respect of the financial year ended 31 December 2017 is 89.3 sen per ordinary share totalling RM155,000,000. The shareholders approved the proposed dividend, and the dividend was paid on 11 July 2018.

8. Material Events

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

9. Changes in the composition of the Group

There were no changes in the composition of the Group for the financial period ended 30 June 2018.

10. Review of Performance

The Bank recorded profit before taxation for the financial period ended 30 June 2018 of RM122.3 million compared to RM150.4 million for the previous corresponding period. Operating income decreased by RM1.7 million (-0.8%) from RM217.1 million to RM215.4 million, primarily driven by lower non-interest income of RM107.8 million against RM133.1 million in the previous corresponding period, offset by increased in net interest income by RM23.0 million from RM82.8 million to RM105.8 million. Operating expenses increased by RM22.1 million (+31.7%) from RM69.7 million to RM91.8 million mainly attributed to higher intercompany charges.

Total assets registered an increase of RM2.7 billion or 28.4% from RM9.5 billion as at 31 December 2017 to RM12.2 billion as at 30 June 2018. The Bank's total common equity tier 1 ratio and total capital ratio remained strong at 17.2% and 17.7%, respectively.

11. Prospects

Global growth is expected to close marginally higher in 2018, as fundamentals remain supportive and economies of most major markets are growing above potential rates. The economic momentum in the US remains very strong whilst financial condition remains accommodative, combined with tax cuts and increasing government spending, the US economy growth is anticipated to accelerate in 2018. Whilst at the Eurozone, economy is expected to grow modestly in 2018 weighed down by the tightening of financial conditions and the risk of disruptive trade war. Locally, the Malaysia economy is expected to remain resilient and remain on steady growth path supported by external demand and strong private consumption growth, boosted by the reduction of Goods and Services Tax to 0% in the short term.

The Bank remains competitive with the solid frameworks around capital and liquidity management, risk controls and enhanced internal processes. We continue to be relentless in our commitment towards client centricity and in driving product innovation to deliver sustainable performance.

The Bank looks forward to contribute to the economic growth and wellbeing of the communities which we operate and to create positive impact for our clients, investors, employees and society at large.

12. Changes in significant accounting policies

MFRS 9 Financial Instruments

MFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces MFRS 139 *Financial Instruments: Recognition and Measurement*.

The following table summarises the impact, net of tax, of transition to MFRS 9 on the opening balance of reserves and retained earnings:

RM'000	Note	Impact of adopting MFRS 9 on opening balance
Fair value reserve (Other reserves)		
Reclassification of financial securities (debt) from FVTPL to FVOCI	(i)	58
Recognition of expected credit losses ("ECL") under MFRS 9 for debt financial assets at FVOCI	(ii)	2
Related tax		(14)
Impact at 1 January 2018		46
Retained profits		
Reclassification of financial securities (debt) from FVTPL to FVOCI	(i)	(58)
Recognition of expected credit losses under MFRS 9	(ii)	(5,693)
Reversal of MFRS 139 impairment		17,186
Related tax		(2,744)
Impact at 1 January 2018		8,691

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

i. Classification and measurement of financial assets and financial liabilities

MFRS 9 largely retains the existing requirements in MFRS 139 for the classification and measurement of financial liabilities. However, it eliminates the previous MFRS 139 categories for financial assets of held to maturity ("HTM"), loans and receivables ("L&R") and available for sale ("AFS").

The adoption of MFRS 9 has not had a significant effect on the Bank accounting policies related to financial liabilities and derivative financial instruments. The impact of MFRS 9 on the classification and measurement of financial assets is set out below.

Under MFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or fair value through profit or loss ("FVTPL"). The classification of financial assets under MFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

12. Changes in significant accounting policies (continued)

MFRS 9 Financial Instruments (continued)

i. Classification and measurement of financial assets and financial liabilities (continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

12. Changes in significant accounting policies (continued)

MFRS 9 Financial Instruments (continued)

i. Classification and measurement of financial assets and financial liabilities (continued)

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see (ii) below). Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

12. Changes in significant accounting policies (continued)

MFRS 9 Financial Instruments (continued)

i. Classification and measurement of financial assets and financial liabilities (continued)

The effect of adopting MFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

The following table and the accompanying notes below explain the original measurement categories under MFRS 139 and the new measurement categories under MFRS 9 for each class of the Bank financial assets as at 1 January 2018.

RM'000	Original classification under MFRS 139	New classification under MFRS 9	Original carrying amount under MFRS 139	New carrying amount under MFRS 9
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	3,749,261	3,749,254
Reverse repurchase agreements	FVTPL-HFT	FVTPL	69,042	69,042
Financial securities				
- Debt securities	FVTPL-HFT	FVTPL– debt securities	1,265,566	1,265,566
- Debt securities	FVTPL-HFT	FVOCI – debt securities	180,236	180,236
- Equity securities	Available-for-sale	FVOCI – equity securities	1,591	1,591
Loans, advances and financing	Loans and receivables	Amortised cost	2,391,753	2,403,255
Derivatives Assets	FVTPL-HFT	FVTPL	1,302,496	1,302,496
Statutory deposit with Bank Negara Malaysia	Loans and receivables	Amortised cost	100,000	100,000
Total financial assets			9,059,945	9,071,440

12. Changes in significant accounting policies (continued)

MFRS 9 Financial Instruments (continued)

i. Classification and measurement of financial assets and financial liabilities (continued)

The following table reconciles the carrying amounts under MFRS 139 to the carrying amounts under MFRS 9 on transition to MFRS 9 on 1 January 2018.

RM'000	MFRS 139 carrying amount 31 December 2017	Reclassification	Remeasurement	MFRS 9 carrying amount 1 January 2018
Financial assets:				
Amortised Cost				
Cash and cash equivalents	3,749,261	-	(7)	3,749,254
Loans and advances to customers	2,391,753	-	11,502	2,403,255
Statutory deposit with Bank Negara Malaysia	100,000	-	-	100,000
Total amortised cost	**6,241,014**	**-**	**11,495**	**6,252,509**
Available for sale				
Financial securities – equity	1,591	(1,591)	-	-
Total available for sale	**1,591**	**(1,591)**	**-**	**-**
FVTPL				
Reverse repurchase agreements	69,042	-	-	69,042
Derivatives Assets	1,302,496	-	-	1,302,496
Financial securities – debt	1,445,802	(180,236)	-	1,265,566
Total FVTPL	**2,817,340**	**(180,236)**	**-**	**2,637,104**
FVOCI - debt				
Financial securities – debt	-	180,236	-	180,236
Total FVOCI - debt	**-**	**180,236**	**-**	**180,236**
FVOCI - equity				
Financial securities – equity	-	1,591	-	1,591
Total FVOCI - equity	**-**	**1,591**	**-**	**1,591**

12. Changes in significant accounting policies (continued)

MFRS 9 Financial Instruments (continued)

i. Classification and measurement of financial assets and financial liabilities (continued)

The following table reconciles the closing impairment allowance for financial assets in accordance with MFRS 139 and the opening ECL allowance determined in accordance with MFRS 9 as at 1 January 2018.

RM'000	MFRS 139 carrying amount 31 December 2017	Reclassification	Remeasurement	MFRS 9 carrying amount 1 January 2018
Cash and cash equivalents	-	-	7	7
Loans and advances to customers	17,186	-	(11,502)	5,684
Total	**17,186**	**-**	**(11,495)**	**5,691**

ii. Impairment of financial assets

MFRS 9 replaces the 'incurred loss' model in MFRS 139 with an 'expected credit loss' (ECL) model. The new impairment model applies to all debt instruments that are measured at amortized cost or FVOCI, and to off balance sheet lending commitments such as loan commitments and financial guarantees (hereafter collectively referred to as "Financial Assets").

Staged Approach to the Determination of Expected Credit Losses

MFRS 9 introduces a three stage approach to impairment for Financial Assets that are performing at the date of origination or purchase. This approach is summarised as follows:

– Stage 1: The Bank recognizes a credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition.

– Stage 2: The Bank recognizes a credit loss allowance at an amount equal to lifetime expected credit losses (LTECL) for those Financial Assets which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default (LTPD) that represents the probability of default occurring over the remaining lifetime of the Financial Asset. Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

– Stage 3: The Bank recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a Probability of Default (PD) of 100 %, via the recoverable cash flows for the asset, for those Financial Assets that are credit-impaired. The Group's definition of default is aligned with the regulatory definition. The treatment of loans in Stage 3 remains substantially the same as the treatment of impaired loans under MFRS 139.

Financial Assets that are credit-impaired upon initial recognition are categorised within Stage 3 with a carrying value already reflecting the lifetime expected credit losses.

12. Changes in significant accounting policies (continued)

MFRS 9 Financial Instruments (continued)

ii. Impairment of financial assets (continued)

Significant Increase in Credit Risk

Under MFRS 9, when determining whether the credit risk (i.e., risk of default) of a Financial Asset has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information based on historical experience, credit risk assessment and forward-looking information (including macro-economic factors). The assessment of significant credit deterioration is key in determining when to move from measuring an allowance based on 12-month ECLs to one that is based on lifetime ECLs (i.e. Stage 1 to Stage 2).

Credit-impaired financial assets

The determination of whether a Financial Asset is credit impaired focusses exclusively on default risk, without taking into consideration the effects of credit risk mitigants such as collateral or guarantees. Specifically, a Financial Asset is credit impaired and in Stage 3 when:

- The Bank considers the obligor is unlikely to pay its credit obligations to the Bank. Determination may include forbearance actions, where a concession has been granted to the borrower or economic or legal reasons that are qualitative indicators of credit impairment; or
- Contractual payments of either principal or interest by the obligor are past due by more than 90 days.

For Financial Assets considered to be credit impaired, the ECL allowance covers the amount of loss the Bank is expected to suffer. Forecasts of future economic conditions when calculating ECLs are considered. The lifetime expected losses are estimated based on the probability-weighted present value of the difference between 1) the contractual cash flows that are due to the Bank under the contract; and 2) the cash flows that the Bank expects to receive.

Impact of the new impairment model

The Bank has determined the impact of the application of MFRS 9's impairment requirements at 1 January 2018 and results as follows:

RM'000	
Loss allowance at 31 December 2017 under MFRS 139	**17,186**
Reversal of loss allowance under MFRS 139	(17,186)
Impairment recognised at 1 January 2018 on:	
Cash and cash equivalent	7
Loan, advances and financing	5,684
Debt financial securities at FVOCI	2
Loss allowance at 1 January 2018 under MFRS 9	**5,693**

12. Changes in significant accounting policies (continued)

MFRS 9 Financial Instruments (continued)

ii. Impairment of financial assets (continued)

The following table show reconciliations from the opening to the closing balance of the loss allowance by class of financial assets.

RM'000	2018 12-month ECL	2018 Lifetime ECL not credit – impaired	2018 Lifetime ECL credit - impaired	2018 Total	2017 Total
Cash and cash equivalent					
Balance at 1 January	7	-	-	7	-
Transfer to 12-month ECL	-	-	-	-	-
Transfer to lifetime ECL not credit-impaired	-	-	-	-	-
Transfer to lifetime ECL credit-impaired	-	-	-	-	-
Net remeasurement of loss allowance	124	-	-	124	-
New Financial assets originated or purchased	14	-	-	14	-
Financial assets that have been derecognised	(7)	-	-	(7)	-
Write-offs	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Changes in models/risk parameters	-	-	-	-	-
Other movements	-	-	-	-	-
Balance at 30 June 2018 / 31 December 2017	138	-	-	138	-

12. Changes in significant accounting policies (continued)

MFRS 9 Financial Instruments (continued)

ii. Impairment of financial assets (continued)

RM'000	2018 12-month ECL	2018 Lifetime ECL not credit –impaired	2018 Lifetime ECL credit - impaired	2018 Purchased credit - impaired	2018 Total	2017 Individual	2017 Collective	2017 Total
Loans, advances and financing at amortised cost*								
Balance at 1 January	4,651	358	675	-	5,684	178	16,822	17,000
Transfer to 12-month ECL	139	(92)	(86)	-	(39)	-	-	-
Transfer to lifetime ECL not credit-impaired	(87)	809	-	-	722	-	-	-
Transfer to lifetime ECL credit- impaired	(144)	-	412	-	268	-	-	-
Net remeasurement of loss allowance	(223)	(950)	274	-	(899)	30	301	331
New Financial assets originated or purchased	1,322	59	-	-	1,381	-	-	-
Financial assets that have been derecognised	(265)	(68)	-	-	(333)	-	-	-
Write-offs	-	-	-	-	-	(130)	-	(130)
Recoveries of amounts previously written off	-	-	-	-	-	(15)	-	(15)
Changes in models/risk parameters	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-
Balance at 30 June 2018/ 31 December 2017	5,393	116	1,275	-	6,784	63	17,123	17,186

* The loss allowance in this table includes ECL on loan commitment and financial guarantees.

12. Changes in significant accounting policies (continued)

MFRS 9 Financial Instruments (continued)

ii. Impairment of financial assets (continued)

	2018				2017
RM'000	12-month ECL	Lifetime ECL not credit – impaired	Lifetime ECL credit - impaired	Total	Total
Debt financial securities at FVOCI (2017: debt available-for-sale financial securities)					
Balance at 1 January	2	-	-	2	-
Transfer to 12-month ECL	-	-	-	-	-
Transfer to lifetime ECL not credit-impaired	-	-	-	-	-
Transfer to lifetime ECL credit-impaired	-	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-	-
New Financial assets originated or purchased	69	-	-	69	-
Financial assets that have been derecognised	(2)	-	-	(2)	-
Write-offs	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Changes in models/risk parameters	-	-	-	-	-
Other movements	-	-	-	-	-
Balance at 30 June 2018 / 31 December 2017	69	-	-	69	-

13. Financial securities

	Group and Bank 30 June 2018 RM'000	Group and Bank 31 December 2017 RM'000
Debt securities at FVTPL		
Malaysian Government Securities	1,510,830	825,718
Malaysian Investment Issue	351,097	620,084
Treasury Bills	180,282	-
Cagamas bonds	275,198	-
Negotiable instruments of deposits	374,904	-
	2,692,311	1,445,802
Debt securities at FVOCI		
Malaysian Government Securities	239,205	-
Malaysian Investment Issue	120,296	-
Bank Negara Malaysia Bills	99,910	-
	459,411	-
Equity investments at FVOCI		
Unquoted shares in Malaysia	1,591	1,591
	3,153,313	1,447,393

14. Loans, advances and financing

At amortised cost	Group and Bank 30 June 2018 RM'000	Group and Bank 31 December 2017 RM'000
Overdrafts	122,544	112,348
Term loans - housing loans	11,384	12,494
- other term loans	264,580	203,638
Bills receivable	442,479	606,806
Trust Receipt	44,041	22,124
Claims on customers under acceptance credits	1,435,926	1,473,889
Staff loans	1,638	2,768
	2,322,592	2,434,067
Unearned interest	(8,750)	(25,128)
Gross loans, advances and financing	2,313,842	2,408,939
Allowance for impaired loans and financing		
- Collective assessment	-	(17,123)
- Individual assessment	-	(63)
- Expected credit loss	(6,784)	-
Net loans, advances and financing	2,307,058	2,391,753

14. Loans, advances and financing (continued)

The maturity structure of gross loans, advances and financing are as follows:

	Group and Bank	
	30 June 2018 RM'000	31 December 2017 RM'000
Maturing within one year	2,285,953	2,378,919
More than one to three years	15,660	15,588
More than three to five years	1,551	1,734
More than five years	10,678	12,698
	2,313,842	2,408,939

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

	Group and Bank	
	30 June 2018 RM'000	31 December 2017 RM'000
Domestic banking institutions	-	2,005
Domestic non-bank financial institutions	420,398	347,431
Domestic business enterprises	1,286,021	1,365,625
Government and statutory bodies	148,474	15,263
Individuals	13,022	74,066
Foreign entities	445,927	604,549
	2,313,842	2,408,939

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

	Group and Bank	
	30 June 2018 RM'000	31 December 2017 RM'000
Fixed rate		
- Other fixed rate loan / financing	6,063	2,768
Variable rate		
- Base lending rate plus	36,256	49,705
- Cost-plus	2,269,990	2,354,811
- Other variable rates	1,533	1,655
	2,313,842	2,408,939

14. Loans, advances and financing (continued)

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

	Group and Bank 30 June 2018 RM'000	Group and Bank 31 December 2017 RM'000
Malaysia	1,867,915	1,804,389
China	1,242	5,894
India	215,950	351,800
Turkey	220,397	226,522
Others	8,338	20,334
	2,313,842	2,408,939

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

	Group and Bank 30 June 2018 RM'000	Group and Bank 31 December 2017 RM'000
Mining and quarrying	3,536	-
Manufacturing	299,786	300,444
Construction	132,144	85,747
Wholesale & retail trade and restaurants & hotels	106,730	124,446
Transport, storage and communication	731,805	811,154
Finance, insurance and business services	878,345	997,819
Education, health and others	148,474	74,066
Household	13,022	15,263
	2,313,842	2,408,939

Movements in impaired loans, advances and financing are as follows:

	Group and Bank 30 June 2018 RM'000	Group and Bank 31 December 2017 RM'000
Balance at 1 January	2,032	2,634
Classified as impaired during the period/ year	847	504
Reclassified as non-impaired during the period/ year	(154)	(650)
Amount recovered	(186)	(326)
Amount written off	-	(130)
At 30 June 2018/ 31 December 2017	2,539	2,032
Gross impaired loans as a percentage of gross loans, advances and financing	0.11%	0.08%

14. Loans, advances and financing (continued)

Impaired loans, advances and financing analysed by economic sector and geographical distribution are as follows:

	Group and Bank 30 June 2018 RM'000	Group and Bank 31 December 2017 RM'000
Household (Malaysia)	2,539	2,032
	2,539	2,032

15. Other assets

	Group and Bank 30 June 2018 RM'000	Group and Bank 31 December 2017 RM'000
Interest / Income receivable	31,671	17,651
Margin placed with exchange	4,789	4,581
Derivatives	1,034,282	1,302,496
Other debtors, deposits and prepayments	966,610	427,461
	2,037,352	1,752,189

16. Deposits from customers

	Group		Bank	
	30 June 2018 RM'000	31 December 2017 RM'000	30 June 2018 RM'000	31 December 2017 RM'000
Demand deposits	4,220,035	4,030,598	4,220,055	4,030,618
Savings deposits	824	2,884	824	2,884
Fixed deposits	193,988	315,594	193,988	315,594
Other deposits	391,255	277,941	391,255	277,941
	4,806,102	4,627,017	4,806,122	4,627,037

The maturity structure of fixed deposits and other deposits are as follows:-

	Group and Bank 30 June 2018 RM'000	Group and Bank 31 December 2017 RM'000
Due within six months	467,278	406,600
More than six months to one year	1,541	78,827
More than five years	116,424	108,108
	585,243	593,535

16. Deposits from customers (continued)

The deposits are sourced from the following types of customers:

	Group		Bank	
	30 June 2018 RM'000	31 December 2017 RM'000	30 June 2018 RM'000	31 December 2017 RM'000
Business enterprises	3,781,296	3,663,481	3,781,316	3,663,501
Individuals	3,241	18,137	3,241	18,137
Foreign customers	133,942	200,568	133,942	200,568
Others	887,623	744,831	887,623	744,831
	4,806,102	4,627,017	4,806,122	4,627,037

17. Deposits and placements of banks and other financial institutions

	Group and Bank	
	30 June 2018 RM'000	31 December 2017 RM'000
Other financial institutions	3,280,221	658,943
	3,280,221	658,943

18. Other liabilities

	Group and Bank	
	30 June 2018 RM'000	31 December 2017 RM'000
Interest payable	3,219	2,342
Bills payable	39,224	59,402
Derivatives	1,311,230	1,576,409
Employee benefits	14,895	19,903
Other liabilities	797,685	788,405
	2,166,253	2,446,461

19. Interest income

	Group and Bank			
	Half year ended		Three months ended	
	30 June 2018 RM'000	30 June 2017 RM'000	30 June 2018 RM'000	30 June 2017 RM'000
Loans, advances and financing	52,718	34,894	27,749	16,974
Money at call and deposit placements with financial institutions	50,299	57,737	21,192	29,093
Reverse repurchase agreements	1,784	6,470	542	4,114
Financial securities	42,321	20,830	24,867	10,971
Others	-	10	-	10
	147,122	119,941	74,350	61,162

20. Interest expense

	Group and Bank			
	Half year ended		Three months ended	
	30 June 2018 RM'000	30 June 2017 RM'000	30 June 2018 RM'000	30 June 2017 RM'000
Deposits and placements of banks and other financial institutions	12,601	5,237	6,564	2,396
Deposits from customers	28,764	31,909	12,862	16,015
Repurchase agreement	1	-	1	-
	41,366	37,146	19,427	18,411

21. Non-interest income

	Group and Bank			
	Half year ended		Three months ended	
	30 June 2018 RM'000	30 June 2017 RM'000	30 June 2018 RM'000	30 June 2017 RM'000
Fee income:				
Commissions	4,888	7,710	2,396	2,900
Service charges and fees	12,311	14,769	5,506	7,378
Guarantee fees	2,103	1,964	1,051	1,165
	19,302	24,443	8,953	11,443
Fee expense:				
Commissions	(2,252)	(1,430)	(1,162)	(393)
Service charges and fees	(5,463)	(4,977)	(2,872)	(2,447)
	(7,715)	(6,407)	(4,034)	(2,840)
Net fee income	11,587	18,036	4,919	8,603
Net gains/ (loss) from financial instruments:				
Net gain/ (loss) arising from financial securities:				
Realised gain/ (loss)	11,553	10,400	(1,146)	1,395
Unrealised (loss)/ gain	(1,209)	521	(3,280)	(43)
Net gain/ (loss) arising from derivatives:				
Realised gain/ (loss)	36,421	(72,095)	55,349	(158,089)
Unrealised revaluation (loss)/ gain	(3,142)	(145,095)	5,313	29,697
Foreign exchange gain/ (loss)	45,897	314,744	(40,329)	169,095
Gross dividend income	45	45	45	45
(Loss)/ gain from disposal of plant and equipment	(6)	100	-	100
Other income:				
Other operating income, net	6,693	6,402	3,105	2,468
	96,252	115,022	19,057	44,668
	107,839	133,058	23,976	53,271

22. Other operating expenses

	Group and Bank			
	Half year ended		Three months ended	
	30 June 2018 RM'000	30 June 2017 RM'000	30 June 2018 RM'000	30 June 2017 RM'000
Personnel costs				
- Salaries, allowances and bonuses	23,766	24,199	11,734	11,668
- Others	13,547	8,828	8,363	5,554
Establishment costs				
- Rental	991	1,454	501	727
- Depreciation	384	494	186	241
- Others	3,388	2,491	2,138	1,583
Marketing expenses	1,081	929	410	346
Administration and general expenses				
- Intercompany expenses	40,108	23,445	20,513	11,976
- Communication	1,158	786	525	329
- Others	7,374	7,025	3,597	3,985
	91,797	69,651	47,967	36,409

The number of employees of the Group and the Bank at the end of the period was 215 (June 2017 – 228).

23. Allowance for impairment

	Group and Bank			
	Half year ended		Three months ended	
	30 June 2018 RM'000	30 June 2017 RM'000	30 June 2018 RM'000	30 June 2017 RM'000
Expected Credit Loss				
- Loans, advances and financing	(1,100)	-	472	-
- Cash and cash equivalent	(131)	-	(111)	-
- Debt financial securities at FVOCI	(67)	-	(28)	-
Loan, advances and financing:				
Individual assessment allowance				
- made during the period	-	(7)	-	(3)
- written back	-	12	-	2
Collective assessment allowance				
- recovered during the period	-	2,930	-	292
	(1,298)	2,935	333	291

24. Credit transactions and exposures with connected parties

	Group and Bank	
	30 June 2018 RM'000	31 December 2017 RM'000
Outstanding credit exposures with connected parties	459,300	408,470
Of which:		
Total credit exposures which is non-performing	-	-
Total credit exposures	11,681,573	9,732,066
Percentage of outstanding credit exposures to connected parties		
- as a proportion of total credit exposures	3.93%	4.20%
- as a proportion of capital base	27.82%	22.64%
which is non performing	0%	0%

25. Capital adequacy

	Group and Bank	
	30 June 2018 RM'000	31 December 2017 RM'000
Components of Tier 1 and Tier 2 capital are as follows:-		
Tier 1 capital		
Paid-up share capital	531,362	531,362
Other disclosed reserves	131	-
Retained profits	1,103,128	1,273,835
Less: Deferred tax assets	(27,299)	(27,299)
Total common equity tier 1(CET 1) / Total tier 1 capital	1,607,322	1,777,898
Tier 2 capital		
Expected credit losses (ECL)*	5,509	-
Collective assessment allowance#	-	12,486
Regulatory reserve	38,000	13,558
Total Capital / Capital base	1,650,831	1,803,942
Common equity tier 1(CET 1) / Tier 1 capital ratio	17.246%	21.331%
Total capital ratio	17.713%	21.645%

* Refers to ECL for Stage 1 and Stage 2.
# Excludes collective assessment allowance which is restricted from Tier 2 capital of the Bank of RM4,637,000 in 31 December 2017

25. Capital adequacy (continued)

The capital adequacy ratios of the Group and of the Bank are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework (Capital Components and Basel II – Risk-weighted Assets) reissued on 13 October 2015 and became effective from 1 January 2016. The Group and the Bank have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk. The minimum regulatory capital adequacy ratios before including capital conservation buffer and countercyclical capital buffer (CCyB) are 4.5% for CET1 Capital Ratio, 6.0% for Tier 1 Capital Ratio and 8.0% for Total Capital Ratio.

The capital conservation buffer required to be maintained in the form of CET1 Capital above the minimum regulatory capital adequacy ratios requirement will be phased-in as follow:

Calendar Year	Capital Conservation Buffer
2016	0.625%
2017	1.250%
2018	1.875%
2019 onwards	2.500%

The CCyB which is in a range of between 0% and 2.5% is not a requirement for exposure in Malaysia yet but may be applied by regulators in the future.

The breakdown of risk-weighted assets ("RWA") by each major risk category is as follows:

Risk Type		Risk Weighted Assets	
		30 June 2018 RM'000	31 December 2017 RM'000
1	Credit risk	5,358,144	4,697,225
2	Market risk	3,234,761	2,949,956
3	Operational risk	727,226	687,157
Total		9,320,131	8,334,338

26. Commitments and contingencies

The Off-Balance Sheet exposures and their related counterparty credit risk of the Group and of the Bank are as follows:

30 June 2018 Group and Bank	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000
Direct Credit Substitutes	-	-	-
Transaction Related Contingent Items	783,440	391,720	366,585
Short Term Self Liquidating Trade Related Contingencies	92,068	18,414	14,743
Foreign exchange related contracts			
One year or less	12,475,966	321,200	255,827
Over one year to five years	1,169,919	78,310	76,152
Over five years	310,475	34,152	17,076
Interest/Profit rate related contracts			
One year or less	422,438	2,044	1,087
Over one year to five years	941,044	209,355	205,009
Over five years	503,419	32,100	29,677
Equity related contracts			
One year or less	-	-	-
Over one year to five years	-	-	-
Over five years	-	-	-
Credit Derivative Contracts			
One year or less	-	-	-
Over one year to five years	-	-	-
Over five years	-	-	-
OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	90,596,413	1,430,252	337,807
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	738,594	369,297	369,297
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	3,447,368	689,474	689,474
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	-	-	-
Total	111,481,144	3,576,318	2,362,734

26. Commitments and contingencies (continued)

The Off-Balance Sheet exposures and their related counterparty credit risk of the Group and of the Bank are as follows (continued):

31 December 2017 Group and Bank	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000
Direct Credit Substitutes	-	-	-
Transaction Related Contingent Items	789,185	394,592	366,594
Short Term Self Liquidating Trade Related Contingencies	77,089	15,418	8,697
Foreign exchange related contracts			
One year or less	10,324,163	211,993	195,970
Over one year to five years	521,424	32,969	32,969
Over five years	310,475	34,152	17,076
Interest/Profit rate related contracts			
One year or less	493,754	1,592	966
Over one year to five years	1,018,769	214,936	208,671
Over five years	538,386	37,823	35,399
Equity related contracts			
One year or less	-	-	-
Over one year to five years	-	-	-
Over five years	-	-	-
Credit Derivative Contracts			
One year or less	-	-	-
Over one year to five years	-	-	-
Over five years	-	-	-
OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	91,265,175	1,524,326	305,035
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	575,451	287,725	287,725
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	3,055,448	611,090	599,730
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	-	-	-
Total	108,969,319	3,366,616	2,058,832

27. The operations of Islamic Banking

Statement of Financial Position
As at 30 June 2018 – Unaudited

	Note	Bank 30 June 2018 RM'000	31 December 2017 RM'000
Assets			
Cash and short term funds	(a)	167,815	115,686
Other assets		87	28
Total assets		167,902	115,714
Liabilities and shareholders' funds			
Deposits from customer	(b)	97,157	68,590
Other liabilities	(c)	35,830	11,429
Taxation		432	2,579
Total liabilities		133,419	82,598
Capital funds		25,000	25,000
Retained profits		9,483	8,116
Islamic banking funds		34,483	33,116
Total liabilities and Islamic banking funds		167,902	115,714
Commitments and contingencies		-	-

27. The operations of Islamic Banking (continued)

Statement Of Profit Or Loss And Other Comprehensive Income
For The Financial Period Ended 30 June 2018 - Unaudited

	Bank			
	Half year ended		Three months ended	
	30 June 2018 RM'000	30 June 2017 RM'000	30 June 2018 RM'000	30 June 2017 RM'000
Income derived from investment of Islamic banking funds	1,809	1,289	897	656
Total net income	1,809	1,289	897	656
Other operating expenses	(10)	(10)	(5)	(5)
Profit before taxation	1,799	1,279	892	651
Taxation	(432)	(307)	(214)	(156)
Profit and total comprehensive income for the period	1,367	972	678	495

Statement Of Changes In Islamic Banking Funds
For The Financial Period Ended 30 June 2018

Bank	Capital funds RM'000	Retained profits RM'000	Total RM'000
At 1 January 2018	25,000	8,116	33,116
Profit and total comprehensive income for the period	-	1,367	1,367
At 30 June 2018	25,000	9,483	34,483
At 1 January 2017	25,000	6,128	31,128
Profit and total comprehensive income for the period	-	972	972
At 30 June 2017	25,000	7,100	32,100

27. The operations of Islamic Banking (continued)

Statement Of Cash Flows
For The Financial Period Ended 30 June 2018

	Bank	
	30 June 2018 RM'000	30 June 2017 RM'000
Cash flows from operating activities		
Profit before taxation	1,799	1,279
Operating profit before working capital changes	1,799	1,279
Changes in working capital:		
Net changes in operating assets	(59)	(8)
Net changes in operating liabilities	52,968	127,996
Income tax paid	(2,579)	-
Net cash generated from operations	52,129	129,267
Net increase in cash and cash equivalents	52,129	129,267
Cash and cash equivalents at beginning of period	115,686	67,160
Cash and cash equivalents at end of period	167,815	196,427
Analysis of cash and cash equivalents:		
Cash and short term funds	167,815	196,427

27. The operations of Islamic Banking (continued)

Shariah Committee

The Shariah Committee was established under BNM's "Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions" (BNM/GPS1) to advise the Board of Directors on Shariah matters in its Islamic business operations and to provide technical assistance in ensuring the Islamic banking products and services offered by the Bank and the relevant documentation are in compliance with Shariah principles.

The Shariah Committee comprises of Dr Sheikh Hussein Hamed Sayed Hassan, Dr Muhammad Qaseem and Encik Mohd Hilmi bin Ramli.

Whilst the Shariah Governance Framework requires 5 Shariah Committee members, the Bank has sought and received approval from BNM to operate on 3 Shariah Committee members.

Basis of measurement

The financial statements of the Islamic banking business have been prepared on the basis consistent with that of the Group and of the Bank as disclosed in Note 1 to the financial statements of the Group and of the Bank.

(a) Cash and short term funds

	Bank	
	30 June 2018 RM'000	31 December 2017 RM'000
Cash and balances with banks and other financial institutions	167,815	115,686
	======	======

(b) Deposits from customer

	Bank	
	30 June 2018 RM'000	31 December 2017 RM'000
Non-Mudharabah		
Demand deposits	97,157	68,590
	======	======

(c) Other liabilities

	Bank	
	30 June 2018 RM'000	31 December 2017 RM'000
Bills payable	6	166
Others	35,824	11,263
	35,830	11,429
	======	=======

27. The operations of Islamic Banking (continued)

(d) Capital adequacy

The capital adequacy ratios of the Islamic banking business of the Bank are computed in accordance with the Capital Adequacy Framework for Islamic Banks (CAFIB). The Bank's Islamic banking business has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

Components of Tier I and Tier II Capital:

	Bank 30 June 2018 RM'000	Bank 31 December 2017 RM'000
Components of Tier I and Tier II capital are as follows:-		
Tier 1 capital		
Capital funds	25,000	25,000
Retained profits	8,116	8,116
Total common equity tier 1/ Total tier 1 capital	33,116	33,116
Total Tier 2 capital	-	-
Capital base	33,116	33,116
Common equity tier 1(CET 1) / Tier 1 capital ratio	514.224%	585.865%
Total capital ratio	514.224%	585.865%

The breakdown of risk-weighted assets ("RWA") by each major risk category is as follows:

Risk Type		Risk Weighted Assets	
		30 June 2018 RM'000	31 December 2017 RM'000
1	Credit risk	908	843
2	Market risk	1,815	1,687
3	Operational risk	3,717	3,123
Total		6,440	5,653