BORNEO HOUSING MORTGAGE FINANCE BERHAD
(Registration No: 195801000175 (025457-V))
(Incorporated in Malaysia)

REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

(In Ringgit Malaysia)

BORNEO HOUSING MORTGAGE FINANCE BERHAD
(Incorporated in Malaysia)

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BORNEO HOUSING MORTGAGE FINANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors of **BORNEO HOUSING MORTGAGE FINANCE BERHAD** have pleasure in submitting their report and the audited financial statements of the Economic Entity and of the Company for the financial year ended December 31, 2019.

PRINCIPAL ACTIVITIES

The Company, a financial institution with the primary objective of promoting home ownership, is principally engaged in providing end finance to house owners and other property owners and bridging finance to developers.

RESULTS OF OPERATIONS

The results of operations of the Economic Entity and of the Company for the financial year are as follows:

	Economic Entity RM	Company RM
Total comprehensive income for the year	10,832,204	10,812,044

In the opinion of the directors, the results of operations of the Economic Entity and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

Since the end of the previous financial year, the amounts of dividends declared by the Company are as follows:

(i) A final tax exempt (single-tier) dividend of RM10,000,000 was declared on August 30, 2019 in respect of the financial year ended December 31, 2018. The dividend was paid on December 19, 2019.

(ii) A final tax exempt (single tier) dividend of RM10,000,000 was declared on September 15, 2020 in respect of the financial year ended December 31, 2019.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year except as stated in the financial statements.

ISSUE OF SHARES AND DEBENTURES

The Company has not issued any new shares or debentures during the financial year.

SUBSEQUENT EVENTS

The details of such event are disclosed in Note 35 to the financial statements.

SHARE OPTIONS

No options have been granted by the Company to any parties during the financial year to take up unissued shares of the Company.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Company. As of the end of the financial year, there were no unissued shares of the Company under options.

OTHER STATUTORY INFORMATION

Before the financial statements of the Economic Entity and of the Company were prepared, the directors took reasonable steps:

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

(b) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including the value of current assets as shown in the accounting records of the Economic Entity and of the Company had been written down to an amount which the current assets might be expected so to realise.

At the date of this report, the directors are not aware of any circumstances:

(a) which would render the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Economic Entity and of the Company inadequate to any substantial extent; or

(b) which would render the values attributed to current assets in the financial statements of the Economic Entity and of the Company misleading; or

(c) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Economic Entity and of the Company misleading or inappropriate; or

(d) not otherwise dealt with in this report or the financial statements of the Economic Entity and of the Company which would render any amount stated in the financial statements misleading.

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

(a) any charge on the assets of the Economic Entity and of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; and

(b) any contingent liability of the Economic Entity and of the Company which has arisen since the end of the financial year.

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

In the opinion of the directors, no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of operations of the Economic Entity and of the Company for the financial year in which this report is made.

DIRECTORS

The directors of the Company in office during the financial year and during the period from the end of the financial year to the date of this report:

Tan Sri Datuk Amar (Dr) Haji Abdul Aziz Bin Haji Husain
Datuk Amar Haji Ahmad Tarmizi Bin Haji Sulaiman
Datuk Nordin Siman
Dionysia @ Audrey Binti Aloysius Kibat
Hasmawati Binti Sapawi (appointed on 16.12.2019)
Ahmad Rizal Bin Dahli (appointed on 16.12.2019)
Datu Junaidi Bin Hj. Reduan (retired on 1.12.2019)

DIRECTORS' INTERESTS

None of the directors in office at the end of the financial year held shares or had beneficial interests in the shares of the Company during or at the beginning and end of the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the directors of the Company has received or become entitled to receive any benefit (other than the benefit included in the aggregate of emoluments received or due and receivable by directors as disclosed in the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

During and at the end of the financial year, no arrangement subsisted to which the Company was a party whereby directors of the Company might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

INDEMNITY AND INSURANCE FOR DIRECTORS AND OFFICERS

During the financial year, the total amount of indemnity coverage and insurance premium paid, for the directors and the officers of the Economic Entity and of the Company, are RM10,000,000 and RM42,000 respectively.

SHAREHOLDERS

The Company is equally owned by the Sarawak State Financial Secretary, a body corporate constituted under the State Financial Secretary (Incorporation) Ordinance, 1948, and Warisan Harta Sabah Sdn. Bhd., a company wholly-owned by the State Government of Sabah.

AUDITORS

The auditors, Deloitte PLT, have indicated their willingness to continue in office.

AUDITORS' REMUNERATION

The amount payable as remuneration of the auditors for the year ended December 31, 2019 is as disclosed in Note 12 to the financial statements.

Signed on behalf of the Board, as approved by the Board
in accordance with a resolution of the Directors

TAN SRI DATUK AMAR (DR) HAJI ABDUL AZIZ BIN HAJI HUSAIN

DIONYSIA @ AUDREY BINTI ALOYSIUS KIBAT

Kota Kinabalu
September 15, 2020

Deloitte.

Deloitte PLT (LLP0010145-LCA)
Chartered Accountants (AF0080)
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INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF BORNEO HOUSING MORTGAGE FINANCE BERHAD
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Borneo Housing Mortgage Finance Berhad., which comprise the statements of financial position as at December 31, 2019 of the Economic Entity and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Economic Entity and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 9 to 66.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Economic Entity and of the Company as at December 31, 2019, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

We are independent of the Economic Entity and of the Company 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.

Information Other than the Financial Statements and Auditors' Report Thereon

The directors of the Company are responsible for the other information. The other information comprises the Directors' Report but does not include the financial statements of the Economic Entity and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Economic Entity and of the Company does not cover the Directors' Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Economic Entity and of the Company, our responsibility is to read the Directors' Report and, in doing so, consider whether the Directors' Report is materially inconsistent with the financial statements of the Economic Entity and of the Company 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 the Directors' Report, 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 Company are responsible for the preparation of financial statements of the Economic Entity and of the Company 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 Economic Entity and of the Company that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Conclude on the appropriateness of 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 Economic Entity's or the Company'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 Economic Entity and of the Company 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 Economic Entity or the Company to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Economic Entity to express an opinion on the financial statements of the Economic Entity. We are responsible for the direction, supervision and performance of the Economic Entity audit. We remain solely responsible for our audit opinion.

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

Other Matters

1. This report is made solely to the members of the Company, 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.

2. The financial statements of the Economic Entity and of the Company for the preceding financial year ended December 31, 2018 were audited by another firm of auditors who expressed an unmodified opinion on those financial statements on August 30, 2019.

DELOITTE PLT (LLP0010145-LCA)
Chartered Accountants (AF 0080)

WONG KING YU
Partner - 03194/06/2021 J
Chartered Accountant

Kota Kinabalu
September 15, 2020

BORNEO HOUSING MORTGAGE FINANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019

		Economic Entity		Company	
	Note	2019 RM	2018 RM	2019 RM	2018 RM
Interest/Profit income	5	57,414,172	51,868,581	57,414,172	51,868,581
Interest expense	6	(26,000,469)	(23,830,213)	(26,000,469)	(23,830,213)
Net interest income		31,413,703	28,038,368	31,413,703	28,038,368
Investment income	7	1,429,692	2,385,533	1,429,692	2,385,533
Other income	8	1,330,534	1,481,721	1,330,534	1,481,721
Net income		34,173,929	31,905,622	34,173,929	31,905,622
Other operating expenses					
Employee benefits expense	9	(8,410,415)	(8,067,132)	(8,410,415)	(8,067,132)
Depreciation and amortisation expense		(1,532,093)	(1,781,521)	(1,532,093)	(1,781,521)
Administrative expense		(4,789,533)	(5,074,842)	(4,789,533)	(5,074,842)
Other finance costs	10	(444,755)	(535,748)	(444,755)	(535,748)
		18,997,133	16,446,379	18,997,133	16,446,379
Allowance for impairment loss	11	(2,123,765)	(6,805,646)	(2,123,765)	(6,805,646)
Operating profit		16,873,368	9,640,733	16,873,368	9,640,733
Share of results of associates		20,160	68,335	-	-
Net profit before tax	12	16,893,528	9,709,068	16,873,368	9,640,733
Income tax expense	13	(6,061,324)	(6,331,123)	(6,061,324)	(6,331,123)
Net profit for the year		10,832,204	3,337,945	10,812,044	3,309,610
Other comprehensive loss	25	-	(1,085,379)	-	(1,085,379)
Total comprehensive income for the year		10,832,204	2,292,566	10,812,044	2,224,231
Profit attributable to Owners of the Company		10,832,204	3,337,945	10,812,044	3,309,610
Total comprehensive income attributable to Owners of the Company		10,832,204	2,292,566	10,812,044	2,224,231

The accompanying Notes form an integral part of the Financial Statements.

BORNEO HOUSING MORTGAGE FINANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019

	Note	Economic Entity 2019 RM	Economic Entity 2018 RM	Company 2019 RM	Company 2018 RM
Assets					
Cash and bank balances	14	4,156,855	1,827,261	4,156,855	1,827,261
Deposits and placements with financial institutions	15	45,463,903	20,460,927	45,463,903	20,460,927
Loan/financing receivables	16	1,073,614,485	1,047,050,538	1,073,614,485	1,047,050,538
Other receivables	17	920,191	862,248	920,191	862,248
Investments in associates	18	7,088,380	7,068,220	4,000,000	4,000,000
Property, plant and equipment	19	13,465,897	21,031,366	13,465,897	21,031,366
Right-of-use assets	20	7,875,091	-	7,875,091	-
Deferred tax assets	21	2,930,214	2,972,053	2,930,214	2,972,053
Total Assets		1,155,515,016	1,101,272,613	1,152,426,636	1,098,204,393
Liabilities					
Deposits from customers	22	568,015,689	527,832,634	568,015,689	527,832,634
Borrowings	23	34,921,723	28,264,144	34,921,723	28,264,144
Other payables	24	83,663,529	78,169,391	83,663,529	78,169,391
Accrued expenses		1,555,493	1,400,948	1,555,493	1,400,948
Provisions for gratuity and defined benefit obligations	25	5,521,685	5,351,922	5,521,685	5,351,922
Lease liabilities	26	1,259,619	-	1,259,619	-
Income tax payables		1,786,668	2,295,168	1,786,668	2,295,168
Total Liabilities		696,724,406	643,314,207	696,724,406	643,314,207
Equity attributable to owners of the Company					
Share capital	27	154,420,084	154,420,084	154,420,084	154,420,084
General reserves	28	106,499,884	102,499,884	106,499,884	102,499,884
Retained earnings	28	197,870,642	201,038,438	194,782,262	197,970,218
Total Equity		458,790,610	457,958,406	455,702,230	454,890,186
TOTAL EQUITY AND LIABILITIES		1,155,515,016	1,101,272,613	1,152,426,636	1,098,204,393

The accompanying Notes form an integral part of the Financial Statements.

BORNEO HOUSING MORTGAGE FINANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019

	Note	Share capital RM	Distributable Reserves General reserve RM	Distributable Reserves Retained earnings RM	Total RM
Economic Entity					
At January 1, 2018		154,420,084	101,499,884	209,745,872	465,665,840
Profit for the year		-	-	3,377,945	3,377,945
Other comprehensive income		-	-	(1,085,379)	(1,085,379)
Total comprehensive income for the year		-	-	2,292,566	2,292,566
Dividends	29	-	-	(10,000,000)	(10,000,000)
Transfer to general reserve		-	1,000,000	(1,000,000)	-
Balance as of December 31, 2018		154,420,084	102,499,884	201,038,438	457,958,406
Balance as of January 1, 2019		154,420,084	102,499,884	201,038,438	457,958,406
Profit and total comprehensive income for the year		-	-	10,832,204	10,832,204
Dividends	29	-	-	(10,000,000)	(10,000,000)
Transfer to general reserve		-	4,000,000	(4,000,000)	-
Balance as of December 31, 2019		154,420,084	106,499,884	197,870,642	458,790,610

(Forward)

BORNEO HOUSING MORTGAGE FINANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019 - (CONTINUED)

			Distributable Reserves		
	Note	**Share Capital RM**	**General Reserve RM**	**Retained earnings RM**	**Total RM**
Company					
At January 1, 2018		154,420,084	101,499,884	206,745,987	462,665,955
Profit for the year		-	-	3,309,610	3,309,610
Other comprehensive income		-	-	(1,085,379)	(1,085,379)
Total comprehensive income for the year		-	-	2,224,231	2,224,231
Dividends	29	-	-	(10,000,000)	(10,000,000)
Transfer to general reserve		-	1,000,000	(1,000,000)	-
Balance as of December 31, 2018		154,420,084	102,499,884	197,970,218	454,890,186
Balance as of January 1, 2019		154,420,084	102,499,884	197,970,218	454,890,186
Profit and total comprehensive income for the year		-	-	10,812,044	10,812,044
Dividends	29	-	-	(10,000,000)	(10,000,000)
Transfer to general reserve		-	4,000,000	(4,000,000)	-
Balance as of December 31, 2019		154,420,084	106,499,884	194,782,262	455,702,230

The accompanying Notes form an integral part of the Financial Statements.

BORNEO HOUSING MORTGAGE FINANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Economic Entity		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES				
Profit for the year	10,832,204	3,377,945	10,812,044	3,309,610
Adjustments for:				
Allowance/(reversal) for:				
Impairment loss on loan/ financing receivables	2,185,804	6,795,728	2,185,804	6,795,728
Impairment on bank guarantee	(42,681)	10,979	(42,681)	10,979
Impairment on staff loan	(20,057)	(345)	(20,057)	(345)
Depreciation of property, plant and equipment	1,220,950	1,781,521	1,220,950	1,781,521
Loss on disposal of property, plant and equipment	-	937	-	937
Property, plant and equipment written off	61	50	61	50
Income tax recognised	6,061,324	6,331,123	6,061,324	6,331,123
Defined benefit expense	561,873	460,119	561,873	460,119
Interest income	(1,122,307)	(2,078,148)	(1,122,307)	(2,078,148)
Depreciation of right-of-use assets	311,143	-	311,143	-
Other finance costs	444,755	535,748	444,755	535,748
Share of result of associates	(20,160)	(68,335)	-	-
Operating Profit Before Working Capital Changes	20,412,909	17,147,322	20,412,909	17,147,322
Movements in working capital:				
(Increase)/Decrease in deposits and placements with financial institutions with maturity more than one month	(2,976)	49,988,459	(2,976)	49,988,459
Increase in loan receivables	(28,749,751)	(40,145,845)	(28,749,751)	(40,145,845)
Increase in other receivables	(37,886)	(9,083)	(37,886)	(9,083)
Increase/(Decrease) in deposits from customers	40,183,055	(2,379,782)	40,183,055	(2,379,782)
Increase in other payables	5,536,819	1,719,962	5,536,819	1,719,962
Increase in accrued expense	154,545	67,043	154,545	67,043
Gratuity/Defined benefits paid	(392,110)	(1,097,571)	(392,110)	(1,097,571)
Cash Generated from Operations	37,104,605	25,290,505	37,104,605	25,290,505

(Forward)

BORNEO HOUSING MORTGAGE FINANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019 – (CONTINUED)

	Note	Economic Entity		Company	
		2019 RM	2018 RM	2019 RM	2018 RM
Interest paid		(383,628)	(535,748)	(383,628)	(535,748)
Income taxes paid		(6,992,500)	(7,407,317)	(6,992,500)	(7,407,317)
Income taxes refund		464,515	-	464,515	-
Net Cash From Operating Activities		30,192,992	17,347,440	30,192,992	17,347,440
CASH FLOWS FROM/ (USED IN) INVESTING ACTIVITIES					
Proceeds from disposal of property, plant and equipment		-	2,824	-	2,824
Purchase of property, plant and equipment		(302,783)	(1,014,534)	(302,783)	(1,014,534)
Interest received		1,122,307	2,078,148	1,122,307	2,078,148
Net Cash Generated From Investing Activities		819,524	1,066,438	819,524	1,066,438
CASH FLOWS FROM/ (USED IN) FINANCING ACTIVITIES					
Drawdown of revolving credits	30	3,000,000	-	3,000,000	-
Dividends paid		(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)
Repayment of lease liabilities	30	(279,374)	-	(279,374)	-
Interest paid		(61,127)	-	(61,127)	-
Net Cash Used In Financing Activities		(7,340,501)	(10,000,000)	(7,340,501)	(10,000,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS		23,672,015	8,413,878	23,672,015	8,413,878
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		13,563,117	5,149,239	13,563,117	5,149,239
CASH AND CASH EQUIVALENTS AT END OF YEAR	14	37,235,132	13,563,117	37,235,132	13,563,117

(Forward)

BORNEO HOUSING MORTGAGE FINANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019 – (CONTINUED)

Cash outflows for leases as a lessee

	Note	Economic Entity and Company 2019 RM
Included in net cash from operating activities:		
Payment relating to short-term leases	12	12,500
Included in net cash used in financing activities:		
Interest paid in relation to lease liabilities	10	61,127
Repayment of lease liabilities	30	279,374
Total cash outflows for leases		353,001

The accompanying Notes form an integral part of the Financial Statements.

BORNEO HOUSING MORTGAGE FINANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

1. GENERAL INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia.

The Company, a financial institution with the primary objective of promoting home ownership, is principally engaged in providing end finance to house owners and other property owners and bridging finance to developers.

The principal activities of the associates are as disclosed in Note 18.

The registered office of the Company is located at Lot 13499, 13500 & 13501, Section 65, Kuching Town Land District, Medan Hamizan, Jalan Tun Abdul Rahman Yaakub, 93050 Petra Jaya, Kuching, Sarawak, Malaysia.

The principal places of business of the Company is located at Menara Borneo Housing, Lot No. 48, Jalan Ikan Juara 2, Sadong Jaya, Karamunsing, 88100 Kota Kinabalu, Sabah, Malaysia and Lot 13499, 13500 & 13501, Section 65, Kuching Town Land District, Medan Hamizan, Jalan Tun Abdul Rahman Yaakub, 93050 Petra Jaya, Kuching, Sarawak, Malaysia.

The financial statements of the Company have been approved by the Board of Directors and were authorised for issuance on September 15, 2020.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Economic Entity and the Company have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards (“IFRS”) and the provisions of the Companies Act 2016 in Malaysia.

2.1 New and amended MFRS Standards that are effective for the current year

In the current year, the Economic Entity and the Company have applied a number of MFRS, amendments to MFRS and IC Interpretation issued by the Malaysian Accounting Standards Board (“MASB”) that are mandatorily effective for an accounting period that begins on or after January 1, 2019:

MFRS 16	Leases
Amendments to MFRS 9	Prepayment Features with Negative Compensation
Amendments to MFRS 119	Plan Amendment, Curtailment or Settlement
Amendments to MFRS 128	Long-term Interest in Associates and Joint Ventures
Amendments to MFRSs	Annual Improvements to MFRSs 2015 - 2017 Cycle
IC Interpretation 23	Uncertainty Over Income Tax Treatments

The adoption of these new MFRS, amendments to MFRS and IC Interpretation has had no material impact on the disclosures or on the amounts recognised in the financial statements except as discussed below:

Impact of initial application of MFRS 16 Leases

In the current year, the Economic Entity and the Company have applied MFRS 16 Leases (as issued by the MASB in April 2016) that is effective for annual periods that begin on or after January 1, 2019.

MFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 3. The impact of the adoption of MFRS 16 on the Economic Entity's and the Company's financial statements is described below.

The date of initial application of MFRS 16 for the Economic Entity and the Company is January 1, 2019.

The Economic Entity and the Company have applied MFRS 16 using the cumulative catch-up approach which:

- Requires the Economic Entity and the Company to recognise the cumulative effect of initially applying MFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- Does not permit restatement of comparatives, which continue to be presented under MFRS 117 and IC Interpretation 4.

(a) Impact of the new definition of a lease

The Economic Entity and the Company have made use of the practical expedient available on transition to MFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with MFRS 117 and IC Interpretation 4 will continue to be applied to those leases entered or changed before January 1, 2019.

The change in definition of a lease mainly relates to the concept of control. MFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in MFRS 117 and IC Interpretation 4.

The Economic Entity and the Company applied the definition of a lease and related guidance set out in MFRS 16 to all lease contracts entered into or changed on or after January 1, 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of MFRS 16, the Economic Entity and the Company have assess that the new definition in MFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Economic Entity and the Company.

(b) Impact on Lessee Accounting

(i) Former operating leases

MFRS 16 changes how the Economic Entity and the Company account for leases previously classified as operating leases under MFRS 117, which were off statements of financial position.

Applying MFRS 16, for all leases (except as noted below), the Economic Entity and the Company:

a) Recognises right-of-use assets and lease liabilities in the statements of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with MFRS 16;

b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the statements of profit or loss;

c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the statements of cash flows.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under MFRS 117 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under MFRS 16, right-of-use assets are tested for impairment in accordance with MFRS 136.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Economic Entity and the Company have opted to recognise a lease expense on a straight-line basis as permitted by MFRS 16. This expense is presented within 'administrative expense' in profit or loss.

The Economic Entity and the Company have used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying MFRS 117.

- The Economic Entity and the Company have applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Economic Entity and the Company have adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under MFRS 137 in the statements of financial position immediately before the date of initial application as an alternative to performing an impairment review.
- The Economic Entity and the Company have elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Economic Entity and the Company have excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Economic Entity and the Company have used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

(ii) Former finance leases

For leases that were classified as finance leases applying MFRS 117, the carrying amount of the leased assets and obligations under finance leases measured applying MFRS 117 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Economic Entity and the Company have elected to apply the low-value lease recognition exemption.

The right-of-use asset and the lease liability are accounted for applying MFRS 16 from January 1, 2019.

(c) Impact on Lessor Accounting

MFRS 16 does not change substantially how a lessor accounts for leases. Under MFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, MFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

(d) Financial impact of initial application of MFRS 16

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statements of financial position on January 1, 2019 is 4.53% per annum.

The following table shows the operating lease commitments disclosed applying MFRS 117 at December 31, 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statements of financial position at the date of initial application.

	RM
Operating lease commitments at December 31, 2018	-
Lease liabilities additionally recognised based on the initial application of MFRS 16	1,518,287
Lease liabilities recognised at January 1, 2019	1,518,287

Right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statements of financial position immediately before the date of initial application. Consequently, right-of-use assets and lease liabilities of RM1,518,287 were recognised on January 1, 2019.

Leasehold land previously classified as finance lease under MFRS 117 and previously presented within property, plant and equipment with net carrying amount of RM6,647,241, have been reclassified to right-of-use assets under MFRS 16 at date of initial application.

2.2 New and revised MFRS in issue but not yet effective

At the date of authorisation of these financial statements, the Economic Entity and the Company have not applied the following MFRS and amendments to MFRS that have been issued but are not yet effective:

MFRSs	Amendments to References to the Conceptual Framework in MFRS Standards[1]
MFRS 17	Insurance Contracts[4]
Amendments to MFRS 3	Definition of a Business[1]
Amendments to MFRS 3	Reference to the Conceptual Framework[3]
Amendments to MFRS 4	Extension of the Temporary Exemption from Applying MFRS 9[6]
Amendments to MFRS 7, MFRS 9 and MFRS 139	Interest Rate Benchmark Reform[1]
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to MFRS 16	Covid-19 - Related Rent Concessions[2]
Amendments to MFRS 17	Insurance Contracts[4]
Amendments to MFRS 101 and MFRS 108	Definition of Material[1]
Amendments to MFRS 101	Classification of Liabilities as Current or Non-current[4]
Amendments to MFRS 116	Property, Plant and Equipment - Proceeds before Intended Use[3]
Amendments to MFRS 137	Onerous Contract - Cost of Fulfilling a Contract[3]
Amendments to MFRSs	Annual Improvements to MFRS Standards 2018 - 2020[3]

1 Effective for annual periods beginning on or after January 1, 2020, with earlier application permitted.
2 Effective for annual periods beginning on or after June 1, 2020, with earlier application permitted, including in financial statements not authorised for issue at May 28, 2020.
3 Effective for annual periods beginning on or after January 1, 2022, with earlier application permitted.
4 Effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.
5 Effective for annual periods beginning on or after a date to be determined.
6 Effective on August 17, 2020

The directors anticipate that the abovementioned MFRS and amendments to MFRS will be adopted in the financial statements of the Economic Entity and the Company when they become effective and that the adoption of these MFRS and amendments to MFRS will have no material impact on the financial statements of the Economic Entity and the Company in the period of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Economic Entity and of the Company have been prepared on the historical cost basis unless otherwise indicated in the accounting policies stated below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Economic Entity and the Company take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of MFRS 2, leasing transactions that are within the scope of MFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in MFRS 102 or value in use in MFRS 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Economic Entity and the Company and the revenue can be reliably measured regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable taking into account contractually defined terms of payment and excluding taxes or duty.

(i) **Interest income**

Interest income is recognised in the statements of comprehensive income on an accrual basis using the effective interest method.

(ii) **Fee income**

Fee income such as the managing agency fee, loan processing fee and insurance commission are recognised at a point in time when the services have been rendered.

(iii) **Reminder and guarantee fee**

Fees earned for the provision of services over a period of time, such as reminder and guarantee fees, are accrued over the period.

Foreign Currency

The financial statements of the Economic Entity and of the Company are presented in the currency of the primary economic environment in which the Economic Entity and the Company operate (their functional currency). The financial statements are expressed in Ringgit Malaysia, which is the functional currency of the Economic Entity and of the Company, and also the presentation currency.

Transactions in currencies other than the functional currency of the Economic Entity and of the Company (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the year in which they arise except for exchange differences arising on the retranslation of non-monetary items carried at fair value in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, the exchange component of that gain or loss is also recognised in other comprehensive income.

Employee Benefits

(i) **Short-term Employee Benefits**

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

(ii) **Defined Contribution Plan**

The Economic Entity and the Company are required by law to make monthly contributions to the Employees' Provident Fund ("EPF"), a statutory defined contribution plan for all its eligible employees based on certain prescribed rates of the employees' salaries. The Economic Entity's and the Company's contributions to EPF are disclosed separately. The employees' contributions to EPF are included in salaries and wages. The said contributions are recognised as an expense when employees have rendered service entitling them to the contributions. The Economic Entity and the Company have no further payment obligations once these contributions have been paid.

(iii) **Defined Benefit Plans**

The Company operates an unfunded defined benefit plan for qualifying employees of its branches in Sabah and Sarawak. Under the plans, the employees are entitled to retirement benefits of one month final salary for each of service upon attaining the mandatory retirement age of sixty (60) or optional retirement age or passed away before attaining the retirement age. The amount payable under this plan will be net off the amount paid under the previous two retirement schemes, namely Staff Provident Fund and Gratuity Retrenchment Fund.

The Company has since ceased further contributions to the previous two retirement schemes and that the Staff Provident Fund had been transferred to Employees' Provident Fund in 2010, by virtue of the deed of dissolution and discharge dated January 25, 2010. However, contributions accrued under the Gratuity Retrenchment Fund will only be disbursed to the staff upon them attaining the mandatory retirement age of sixty (60) or optional retirement age or passed away before attaining the age.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation (derived using a discount rate based on the high quality corporate bond) at the reporting date reduced by the fair value of plan assets (if any), adjusted for an effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognised as expense in profit or loss. Past service costs are recognised when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognised as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognised immediately on other comprehensive income in the period in which they arise. Remeasurements are recognised in retained earnings within equity and are not reclassified to profit or loss in subsequent period.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity of expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Company's right to be reimbursed for some or all of the expenditure required to settle a defined benefit obligation is recognised as a separate asset at fair value when, and only when, reimbursement is virtually certain.

Borrowing Costs

All borrowing costs are recognised as an expense in the year in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statements of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability of the Economic Entity and of the Company for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences, unused tax losses and unused tax credits can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Economic Entity and the Company expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Economic Entity and the Company intend to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised as an expense or income in the statements of profit or loss, except when they relate to items that are recognised outside statements of profit or loss, in which case the tax is also recognised outside the statements of profit or loss.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses; if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method on the following bases:

Leasehold land	Remaining lease term
Buildings	2%
Motor vehicles	15%
Office equipment, furniture, fittings and office renovation	12.5% - 33.33%

The estimated useful lives, residual values and depreciation method of property, plant and equipment are reviewed at each year end, with the effect of any changes in estimates accounted for prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statements of profit or loss.

Leases

Accounting policies applied from January 1, 2019

(a) **As Lessee**

The Economic Entity and the Company assess whether a contract is or contains a lease, at inception of the contract. The Economic Entity and the Company recognise a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Economic Entity and the Company recognise the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Economic Entity and the Company use the incremental borrowing rate specific to the lessee.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statements of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability by using the effective interest method and by reducing the carrying amount to reflect the lease payments made.

The Economic Entity and the Company remeasure the lease liability and make a corresponding adjustment to the related right-of-use asset whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate, unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used; or
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Economic Entity and the Company did not make such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Economic Entity and the Company incur an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under MFRS 137, to the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Economic Entity and the Company expect to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statements of financial position.

The Economic Entity and the Company apply MFRS 136 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the profit or loss.

(b) **As Lessor**

Leases for which the Economic Entity and the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

When a contract includes lease and non-lease components, the Economic Entity and the Company apply MFRS 15 to allocate the consideration under the contract to each component.

Accounting policies applied until December 31, 2018

(a) **As Lessee**

Finance leases, which transfer to the Economic Entity and the Company substantially all the risks and rewards incidental to ownership of the leased item, are initially recognised as assets of the Economic Entity and of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statements of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the statements of profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Economic Entity's and the Company's general policy on borrowing cost.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the year in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(b) **As Lessor**

Lease where the Economic Entity and the Company retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

Rental income is accrued on a time proportion basis, by reference to the agreements entered into.

Impairment of Non-Financial Assets

At the end of the reporting period, the Economic Entity and the Company review the carrying amounts of assets (other than financial assets, which are dealt with in its respective policies) to determine if there is any indication that those assets may be impaired. If any such indication exists, the asset's recoverable amount, which is the higher of net selling price and value in use, is estimated.

Where it is not possible to estimate the recoverable amount of an individual asset, the Economic Entity and the Company estimate the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the statements of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is only reversed to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. A reversal is recognised immediately in the statements of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investments in Associates

An associate is an entity over which the Economic Entity has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Under the equity method, an investment in an associate is recognised initially in the consolidated statements of financial position at cost and adjusted thereafter to recognise the Economic Entity's share of the profit or loss and other comprehensive income of the associate. When the Economic Entity's share of losses of an associate exceeds the Economic Entity's interest in that associate (which includes any long-term interests that, in substance, form part of the Economic Entity's net investment in the associate), the Economic Entity discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Economic Entity has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Economic Entity's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Economic Entity's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of MFRS 136 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Economic Entity's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with MFRS 136 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount.

Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with MFRS 136 to the extent that the recoverable amount of the investment subsequently increases.

The Economic Entity discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Economic Entity retains an interest in the former associate and the retained interest is a financial asset, the Economic Entity measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with MFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Economic Entity accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Economic Entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the associate is disposed of.

When the Economic Entity reduces its ownership interest in an associate but the Economic Entity continues to use the equity method, the Economic Entity reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Economic Entity, profits and losses resulting from the transactions with the associate are recognised in the Economic Entity's consolidated financial statements only to the extent of interests in the associate that are not related to the Economic Entity.

Investment in associates are stated at cost less accumulated impairment losses, at the Company's separate financial statements. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts in included in profit or loss.

Provisions

Provisions are recognised when the Economic Entity and the Company have a present obligation (legal or constructive) as a result of a past event and it is probable that the Economic Entity and the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Financial Instruments

Financial assets and financial liabilities are recognised in the Economic Entity's and the Company's statements of financial position when the Economic Entity and the Company become a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(a) **Financial assets**

(i) **Initial recognition and measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI"), and fair value through profit or loss ("FVTPL").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Economic Entity's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Economic Entity has applied the practical expedient, the Economic Entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Economic Entity's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Economic Entity commits to purchase or sell the asset.

(ii) **Classification and subsequent measurement**

The Economic Entity and the Company classify all of its financial assets based on the business model for managing the assets and the asset's contractual cash flow characteristics, measured at either:

- Amortised cost;
- Fair value through other comprehensive income ("FVOCI"); or
- Fair value through profit or loss ("FVTPL").

Financial assets at amortised cost

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

Fair value through other comprehensive income ("FVOCI")

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. The changes in the fair value are recognised through other comprehensive income, except for the recognition of impairment losses measured using the expected credit loss models, interest income and foreign exchange gains or losses on the financial assets' amortised cost which are recognised in profit or loss. Interest earned whilst holding the assets are reported as 'interest income' using the effective interest method. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss. Equity instruments are normally measured at FVTPL. However, for non-traded equity instruments, with an irrevocable option at inception, the Economic Entity and the Company measure the changes through FVOCI (without recycling profit or loss upon derecognition). Such classification is determined on an instrument-by-instrument basis. When this election is used, fair value gains or losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Dividends earned whilst holding the equity investment are recognised in profit or loss when the right to the payment has been established.

Fair value through profit or loss ("FVTPL")

Financial assets that do not meet the criteria for amortised cost or FVOCI, including financial assets held-for-trading and derivatives, are measured at FVTPL. Upon derecognition, the gain or loss on a financial asset that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss. Interest earned whilst holding the assets are reported as 'interest income' using the effective interest method.

Business model assessment

The Economic Entity and the Company make an assessment of the objective of a business model in which an asset is held at a portfolio level which best reflects the way the business is managed and information is provided to management. The factors considered includes policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets. Other factors considered also include the frequency, volume and timing of sales in prior periods, how the asset's performance is evaluated and reported to key management personnel, and how risks are assessed and managed.

The SPPI test

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

(iii) **Impairment of financial assets**

The MFRS 9 impairment requirements are based on an expected credit loss ("ECL") model. The ECL model applies to financial assets measured at amortised cost or at FVOCI, irrevocable loan commitments and financial guarantee contracts, which include loans, advances and financing and debt instruments held by the Economic Entity and the Company. The ECL model also applies to contract assets under MFRS 15 Revenue from Contracts with Customers and lease receivables under MFRS 16 Leases.

Significant increase in credit risk

The assessment of significant deterioration since initial recognition is key in establishing the point of switching between the requirement to measure an allowance based on 12-month ECL and one that is based on lifetime ECL. The quantitative and qualitative assessments are required to estimate the significant increase in credit risk by comparing the risk of a default occurring on the financial assets as at reporting date with the risk of default occurring on the financial assets as at the date of initial recognition.

The following table shows the staging transfer criteria which the Economic Entity and the Company used to identify customers that has significantly increased in credit risk.

Stage	Credit Risk Status	Principal or Interest/Profit In Arrear
1	Not significantly increased in credit risk	0 - 3 months
2	Significantly increased in credit risk	4 - 5 months
3	Significantly increased in credit risk	6 months and above

The Economic Entity and the Company apply a three-stage approach based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL - not credit-impaired

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

Stage 2: Lifetime ECL - not credit-impaired

For exposures where there has been a significant increase in credit risk since initial recognition but that are not credit-impaired, a lifetime ECL will be recognised.

Stage 3: Lifetime ECL - credit-impaired

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

Definition of default

The Economic Entity and the Company consider a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations when:

- Principal or interest/profit or both on loan/financing receivables are in arrear for more than 6 months; or
- Principal or interest/profit or both on staff loans are in arrear for more than 1 month.

As a part of a qualitative assessment of whether a customer is in default, the Economic Entity and the Company also considers a variety of instances that may indicate unlikeliness to pay.

When such events occur, the Economic Entity and the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include borrower is insolvent or it is becoming probable that the borrower will enter bankruptcy.

ECL measurement

There are three main components to measure ECL which are a probability of default model ("PD"), a loss given default model ("LGD") and the exposure at default model ("EAD"). These parameters are derived from internally developed statistical models and adjusted to reflect forward-looking information as described below.

The 12-month and lifetime PD represent the expected point-in-time probability of default over the next 12 months and remaining lifetime of the financial instrument respectively, based on conditions existing at the reporting date and future economic conditions that affect credit risk. The LGD represents the expected loss if a default event occurs at a given time, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money. The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdown of a facility.

The 12-month ECL is equal to the discounted sum over the next 12 months of monthly PD multiplied by LGD and EAD. Lifetime ECL is calculated using the discounted sum of monthly PD over the remaining life multiplied by LGD and EAD. The discount rate used in the ECL measurement is the original effective interest rate or an approximation thereof.

For trade receivables and contract assets, the Economic Entity applies a simplified approach in calculating ECLs. Therefore, the Economic Entity does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Economic Entity has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Forward looking information

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

The carrying amount of the asset (other than debt instrument measured at FVOCI) is reduced through the use of an allowance account and the loss is recognised in profit or loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

The impairment loss for a debt instrument measured at FVOCI does not reduce the carrying amount of the financial asset which remains at fair value. Instead, an amount equal to the allowance that would arise if the asset was measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss.

The accumulated loss recognised in other comprehensive income is reclassified to the profit or loss upon the derecognition of the financial asset. For loan commitments and financial guarantee contracts, the loss allowance is recognised as expected credit losses on loan commitments and financial guarantees which is reported under 'other liabilities' in the statements of financial position.

Write-off policy

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

(iv) **Derecognition of financial assets**

The Economic Entity and the Company derecognise a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Economic Entity and the Company neither transfer nor retain substantially all the risks and rewards of ownership and continues to control the transferred asset, the Economic Entity and the Company recognise its retained interest in the asset and an associated liability for amounts it may have to pay. If the Economic Entity and the Company retain substantially all the risks and rewards of ownership of a transferred financial asset, the Economic Entity and the Company continue to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(b) **Financial liabilities and equity**

(i) **Classification as debt or equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

(ii) **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Economic Entity and the Company are recognised at the proceeds received, net of direct issue costs.

(iii) **Financial liabilities**

All financial liabilities of the Economic Entity and the Company are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

(iv) **Derecognition of financial liabilities**

The Economic Entity and the Company derecognise financial liabilities when, and only when, the Economic Entity's and the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Statements of Cash Flows

The Economic Entity and the Company adopt the indirect method in the preparation of the statements of cash flows.

Cash equivalents are short-term, highly liquid investments with maturities of one month or less from the date of acquisition and are readily convertible to cash with insignificant risk of changes in value.

4. CRITICAL JUDGEMENTS AND ESTIMATION UNCERTAINTY

In the application of the accounting policies of the Economic Entity and the Company, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(i) **Critical Judgements in Applying Accounting Policies**

In the process of applying the Economic Entity's and the Company's accounting policy, the management is of the opinion that there is no instance of application of judgement which is expected to have a significant effect on the amounts recognised in the financial statements.

(ii) **Key Sources of Estimation Uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

(a) Impairment losses on loan receivables

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

The use of macroeconomic factors which include, but is not limited to, interest rates, gross domestic product, inflation and property prices, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of estimation 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.

(b) Retirement benefit obligations

The cost of defined benefit plan is determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, expected rates of return of assets, future salary increases, mortality rates and future benefit increases.

Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds with at least an 'AA' rating or above, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the country. Future salary increases and benefit increases are based on expected future inflation rates for the country. Further details are disclosed in Note 25.

(c) Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie. an exit price) regardless of whether that price is directly observable or estimated under valuation technique.

When the fair values of financial assets and liabilities recorded in the statements of position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as current and expected future credit losses and market rates of interest. Further details about determination of fair value of the financial instruments are disclosed in Note 34.

(d) Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. this involves judgement regarding the future financial performance of the particular entity in which the deferred tax asset has been recognised. Further details are disclosed in Note 21.

5. INTEREST/PROFIT INCOME

	Economic Entity and Company	
	2019	2018
	RM	RM
Mortgage loan/financing receivables:		
End finance loans/financing	41,715,346	37,489,115
Bridging loans	11,407,708	11,021,434
Revolving loans	3,246,917	2,369,862
Term loans	1,020,521	966,573
	57,390,492	51,846,984
Unsecured loans receivable	23,680	21,597
	57,414,172	51,868,581

6. INTEREST EXPENSE

	Economic Entity and Company	
	2019	2018
	RM	RM
Deposits from:		
Customers	22,820,472	20,830,451
Supplementary Housing Loan Fund of the State Government of Sabah	2,145,870	2,004,088
Others	1,034,127	995,674
	26,000,469	23,830,213

7. INVESTMENT INCOME

	Economic Entity and Company	
	2019	2018
	RM	RM
Interest income from:		
Fixed and short-term deposits	1,122,307	2,078,148
Rental income	307,385	307,385
	1,429,692	2,385,533

The following is an analysis of investment income by category of assets.

	Economic Entity and Company	
	2019	2018
	RM	RM
Investment income from financial instruments measured at amortised cost	1,122,307	2,078,148
Investment income earned on non-financial assets	307,385	307,385
	1,429,692	2,385,533

8. OTHER INCOME

	Economic Entity and Company	
	2019	2018
	RM	RM
Fee income:		
Commission	758,382	833,889
Agency fees	246,073	260,272
Loan processing fees	30,150	26,890
	1,034,605	1,121,051
Income from financial instruments:		
Reminder and guarantee fees	129,873	265,863
Interest income from other staff loans	23,035	26,282
	152,908	292,145
Sundry income:		
Bad debts recovered	72,126	2,808
Others	70,895	65,717
	143,021	68,525
	1,330,534	1,481,721

9. EMPLOYEE BENEFITS EXPENSE

	Economic Entity and Company	
	2019	2018
	RM	RM
Wages and salaries	6,809,516	6,705,540
Employees Provident Fund contributions	1,012,157	874,859
Define benefit plan	561,873	460,119
Social Security contributions	26,869	26,614
	8,410,415	8,067,132

10. OTHER FINANCE COSTS

	Economic Entity and Company	
	2019	2018
	RM	RM
Interest expense of financial liabilities that are not at fair value through profit or loss:		
Interest on:		
Bank overdrafts	383,628	535,748
Lease liabilities	61,127	-
	444,755	535,748

11. ALLOWANCE FOR IMPAIRMENT LOSS

	Economic Entity and Company	
	2019	**2018**
	RM	**RM**
(a) Loan/financing receivables:		
Allowance/(Reversal) for impairment:		
Stage 1 - 12 months ECL	(29,431)	6,570
Stage 2 - Lifetime ECL not credit impaired	10,988	41,371
Stage 3 - Lifetime ECL credit impaired	2,204,247	6,747,787
	2,185,804	6,795,728
(b) Cash and bank:		
Allowance/(Reversal) for impairment:		
Stage 1 - 12 months ECL	699	(716)
Stage 2 - Lifetime ECL not credit impaired	-	-
Stage 3 - Lifetime ECL credit impaired	-	-
	699	(716)
(c) Bank guarantee:		
Allowance/(Reversal) for impairment:		
Stage 1 - 12 months ECL	16,843	13,563
Stage 2 - Lifetime ECL not credit impaired	-	-
Stage 3 - Lifetime ECL credit impaired	(59,524)	(2,584)
	(42,681)	10,979
Staff loan:		
Reversal of impairment:		
Stage 1 - 12 months ECL	(20,057)	(345)
Stage 2 - Lifetime ECL not credit impaired	-	-
Stage 3 - Lifetime ECL credit impaired	-	-
	(20,057)	(345)
Total allowance for impairment	2,123,765	6,805,646

12. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Economic Entity and Company	
	2019	**2018**
	RM	**RM**
Depreciation and amortisation expense:		
Property, plant and equipment (Note 19)	1,220,950	1,781,521
Right-of-use assets (Note 20)	311,143	-
Directors' remuneration:		
Non-executive directors:		
Fee	595,091	272,500
Other emoluments	42,383	49,266
Auditors' remuneration	60,000	50,000
Expenses relating to short-term leases	12,500	-
Property, plant and equipment written off	61	50
Loss on disposal of property, plant and equipment	-	937
Rental of premises	-	364,200

13. INCOME TAX EXPENSE

	Economic Entity		Company	
	2019	**2018**	**2019**	**2018**
	RM	**RM**	**RM**	**RM**
Income tax expense:				
Current year	8,000,000	8,316,000	8,000,000	8,316,000
Overprovision in prior year	(1,980,515)	(98,349)	(1,980,515)	(98,349)
Deferred tax expense/(credit) (Note 21):				
Relating to the origination/ (reversal) of temporary differences	7,258	(1,866,850)	7,258	(1,866,850)
Under/(Over)provision in prior year	34,581	(19,678)	34,581	(19,678)
	41,839	(1,886,528)	41,839	(1,886,528)
	6,061,324	6,331,123	6,061,324	6,331,123

The Economic Entity's and the Company's income tax is calculated at the statutory tax rate of 24% (2018: 24%) of the taxable profit for the year.

13. INCOME TAX EXPENSE - (CONTINUED)

A numerical reconciliation of income tax expense applicable to profit before tax at the statutory income tax expense at the effective tax rate is as follows:

	Economic Entity		Group	
	2019 RM	2018 RM	2019 RM	2018 RM
Profit before tax	16,893,528	9,709,068	16,873,368	9,640,733
Tax expense at the applicable tax rates of 24% (2018: 24%)	4,054,446	2,330,176	4,049,608	2,313,776
Tax effects of:				
Non-deductible expenses	3,957,650	4,135,374	3,957,650	4,135,374
Overprovision of income tax in prior year	(1,980,515)	(98,349)	(1,980,515)	(98,349)
Under/(Over)provision of deferred tax in prior year	34,581	(19,678)	34,581	(19,678)
Share of results of associates	(4,838)	(16,400)	-	-
Income tax expense recognised in profit or loss	6,061,324	6,331,123	6,061,324	6,331,123

14. CASH AND BANK BALANCES

	Economic Entity and Company	
	2019 RM	2018 RM
Cash and bank balances	4,157,966	1,827,673
Less: Allowance for impairment	(1,111)	(412)
	4,156,855	1,827,261
Allowance for impairment loss:		
Balance at beginning of year	412	1,128
Impairment loss recognised in profit or loss during the year	699	-
Reversal of impairment	-	(716)
Balance at end of year	1,111	412

Cash and cash equivalents comprise the following at the reporting date:

	Economic Entity and Company	
	2019 RM	2018 RM
Cash at banks and on hand	4,156,855	1,827,261
Deposits and placements maturing within one month (Note 15)	45,000,000	20,000,000
Bank overdrafts (Note 23)	(11,921,723)	(8,264,144)
	37,235,132	13,563,117

15. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Economic Entity and Company	
	2019	2018
	RM	RM
Deposits and placements maturing within one month (Note 14)	45,000,000	20,000,000
Deposits and placements maturing more than one month	463,903	460,927
	45,463,903	20,460,927

Deposits and placements are made for varying periods of between 1 day and 1 year depending on the cash requirements of the Economic Entity and the Company, and earn interest at the respective short-term deposit and placements rates.

The weighted average effective interest rate of the Economic Entity and the Company was 3.46% (2018: 3.67%) per annum.

16. LOAN/FINANCING RECEIVABLES

	Economic Entity and Company	
	2019	2018
	RM	RM
Mortgage loan/financing receivables:		
End-finance loans/financing	880,826,873	866,280,123
Bridging finance	151,442,921	146,098,768
Revolving credits	42,242,091	32,373,352
Term loans	13,178,385	14,278,462
	1,087,690,270	1,059,030,705
Unsecured loan receivables	978,252	888,066
Gross loan/financing receivables	1,088,668,522	1,059,918,771
Less:		
Allowance for impairment loss:		
Stage 1 - 12 months ECL	(75,693)	(105,124)
Stage 2 - Lifetime ECL not credit impaired	(69,835)	(58,847)
Stage 3 - Lifetime ECL credit impaired	(14,908,509)	(12,704,262)
	(15,054,037)	(12,868,233)
Net loan/financing receivables	1,073,614,485	1,047,050,538

The mortgage loan/financing receivables are mainly secured by freehold or leasehold properties amounting to RM2,134,739,655 (2018: RM2,015,963,957). The weighted average effective interest/profit rate of the Economic Entity and the Company is 5.74% (2018: 5.53%) per annum.

16. LOAN/FINANCING RECEIVABLES - (CONTINUED)

(a) The maturity structure of gross loan/financing receivables are as follows:

	Economic Entity and Company	
	2019	2018
	RM	RM
Maturing within one year	283,466,091	264,912,254
One year to three years	163,260,573	156,878,522
Three years to five years	161,365,259	161,942,251
Over five years	480,576,599	476,185,744
	1,088,668,522	1,059,918,771

(b) The exposure to credit risk for gross loan/financing receivables are as follows:

	Economic Entity and Company	
	2019	2018
	RM	RM
Stage 1	925,960,381	923,833,874
Stage 2	11,425,937	8,430,612
Stage 3	151,282,204	127,654,285
	1,088,668,522	1,059,918,771

(c) Movements in allowance for impairment of loan/financing receivables are as follows:

2019	Economic Entity and Company			
	Stage 1	Stage 2	Stage 3	
	12-months ECL RM	Lifetime ECL not credit impaired RM	Lifetime credit impaired RM	Total RM
As at January 1, 2019	105,124	58,847	12,704,262	12,868,233
Transferred to stage 1	53,655	(42,970)	(10,685)	-
Transferred to stage 2	(15,913)	15,913	-	-
Transferred to stage 3	(2,400)	(8,429)	10,829	-
Financial assets derecognised	(9,106)	(45)	(453,951)	(463,102)
New financial assets	11,912	18,618	1,492,722	1,523,252
Net remeasurement of allowances	(67,579)	27,901	1,165,332	1,125,654
At December 31	75,693	69,835	14,908,509	15,054,037

16. LOAN/FINANCING RECEIVABLES - (CONTINUED)

(c) Movements in allowance for impairment of loan/financing receivables are as follows - (Continued):

	Economic Entity and Company			
	Stage 1	Stage 2	Stage 3	
	12-months ECL RM	Lifetime ECL not credit impaired RM	Lifetime credit impaired RM	Total RM
As at January 1, 2018	98,554	17,476	20,708,349	20,824,379
Transferred to stage 1	32,295	(5,292)	(27,003)	-
Transferred to stage 2	(2,241)	2,241	-	-
Transferred to stage 3	(2,977)	-	2,977	-
Financial assets derecognised	(31,726)	(10,160)	(950,888)	(992,774)
New financial assets	8,636	2,052	2,669,011	2,679,699
Net remeasurement of allowances	2,583	52,530	5,053,690	5,108,803
Amount written off	-	-	(14,751,874)	(14,751,874)
At December 31	105,124	58,847	12,704,262	12,868,233

17. OTHER RECEIVABLES

	Economic Entity and Company	
	2019 RM	2018 RM
Other receivables	11,547	18,504
Net staff loans and advances	764,982	659,695
Deposits	143,662	184,049
	920,191	862,248

Staff loans and advances are unsecured and bears fixed interest rate ranging from 3% to 5.35% (2018: 3% to 5.35%) per annum.

	Economic Entity and Company	
	2019 RM	2018 RM
Gross staff loans and advances	769,708	684,478
Less:		
Allowance for impairment:		
Balance at beginning of year	(24,783)	(25,128)
Reversal of impairment loss	20,057	345
Balance at end of year	(4,726)	(24,783)
Net staff loans and advances	764,982	659,695

18. INVESTMENTS IN ASSOCIATES

	Economic Entity		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Unquoted shares - at cost	4,000,000	4,000,000	4,000,000	4,000,000
Share of post-acquisition reserves	3,088,380	3,068,220	-	-
	7,088,380	7,068,220	4,000,000	4,000,000

Details of associates are as follows:

Name of Company	Place of incorporation	Proportion of ownership interest and voting rights held by the Company 2019	2018	Principal Activities
BHMF Realty Sdn. Bhd.	Malaysia	40%	40%	Property development
Held through BHMF Realty Sdn. Bhd.:				
Cendana Emas Sdn. Bhd.	Malaysia	40%	40%	Investment holdings and property management

All of the above associates are accounted for using the equity method as set out in the accounting policies in Note 3 to the financial statements.

The summarised financial information below represents the amounts in associates' financial statements, prepared in accordance with MFRS standards.

BHMF Realty Sdn. Bhd. and its subsidiary

Summarised consolidated statements of financial position:

	2019 RM	2018 RM
Non-current assets	14,202,939	4,164,980
Current assets	3,688,138	13,656,717
Current liabilities	(170,128)	(151,148)
Net assets	17,720,949	17,670,549

18. INVESTMENTS IN ASSOCIATES - (CONTINUED)

Summarised consolidated statements of comprehensive income:

	2019 RM	2018 RM
Revenue	340,200	340,200
Profit before tax	112,453	275,913
Income tax expense	(62,053)	(105,076)
Profit for the year	50,400	170,837
Other comprehensive income	-	-
Total comprehensive income for the year	50,400	170,837

Summarised consolidated statements of cash flows:

	2019 RM	2018 RM
Net cash used in operating activities	(112,010)	(1,369,994)
Net cash from investing activities	167,588	302,568
Net cash inflow/(outflow)	55,578	(1,067,426)

Reconciliation of the summarised financial information presented above to the carrying amount of the Economic Entity's interest in associates

	2019 RM	2018 RM
Net assets at January 1	17,670,549	17,499,712
Profit for the year	50,400	170,837
Net assets at December 31	17,720,949	17,670,549
Interest in associates	40%	40%
	7,088,380	7,068,220

19. PROPERTY, PLANT AND EQUIPMENT

Economic Entity and Company

2019	Cost					
	At beginning of year RM	Effect of adoption of MFRS 16 RM	At beginning of year (Restated) RM	Additions RM	Write off RM	At end of year RM
Leasehold land	6,700,000	(6,700,000)	-	-	-	-
Buildings	14,402,290	-	14,402,290	-	-	14,402,290
Motor vehicles	1,130,457	-	1,130,457	5,400	-	1,135,857
Office equipment, furniture, fittings and renovation	9,968,632	-	9,968,632	297,383	(728,728)	9,537,287
Total	32,201,379	(6,700,000)	25,501,379	302,783	(728,728)	25,075,434

2019	Accumulated Depreciation					
	At beginning of year RM	Effect of adoption of MFRS 16 RM	At beginning of year (Restated) RM	Charge for the year RM	Write off RM	At end of year RM
Leasehold land	52,759	(52,759)	-	-	-	-
Buildings	1,913,174	-	1,913,174	288,042	-	2,201,216
Motor vehicles	736,791	-	736,791	177,894	-	914,685
Office equipment, furniture, fittings and renovation	8,467,289	-	8,467,289	755,014	(728,667)	8,493,636
Total	11,170,013	(52,759)	11,117,254	1,220,950	(728,667)	11,609,537

19. PROPERTY, PLANT AND EQUIPMENT - (CONTINUED)

Economic Entity and Company

2018	Cost				
	At beginning of year RM	Additions RM	Disposals RM	Write off RM	At end of year RM
Leasehold land	6,700,000	-	-	-	6,700,000
Buildings	14,402,290	-	-	-	14,402,290
Motor vehicles	1,130,457	-	-	-	1,130,457
Office equipment, furniture, fittings and renovation	9,025,658	1,014,534	(62,530)	(9,030)	9,968,632
Total	31,258,405	1,014,534	(62,530)	(9,030)	32,201,379

2018	Accumulated Depreciation				
	At beginning of year RM	Charge for the year RM	Disposals RM	Write off RM	At end of year RM
Leasehold land	45,222	7,537	-	-	52,759
Buildings	1,625,132	288,042	-	-	1,913,174
Motor vehicles	559,167	177,624	-	-	736,791
Office equipment, furniture, fittings and renovation	7,226,719	1,308,318	(58,768)	(8,980)	8,467,289
Total	9,456,240	1,781,521	(58,768)	(8,980)	11,170,013

19. PROPERTY, PLANT AND EQUIPMENT - (CONTINUED)

	Economic Entity and Company ← Carrying Amount →	
	2019 RM	2018 RM
Leasehold land	-	6,647,241
Buildings	12,201,074	12,489,116
Motor vehicles	221,172	393,666
Office equipment, furniture, fittings and renovation	1,043,651	1,501,343
Total	13,465,897	21,031,366

20. RIGHT-OF-USE ASSETS

Economic Entity and Company

2019	Leasehold land RM	Office building RM	Warehouse RM	Total RM
Cost				
Balance at beginning of year	-	-	-	-
Effect of adoption of MFRS 16	6,700,000	1,472,931	45,356	8,218,287
Balance at beginning of year (restated)	6,700,000	1,472,931	45,356	8,218,287
Addition	-	-	20,706	20,706
Balance at year end	6,700,000	1,472,931	66,062	8,238,993
Accumulated Depreciation				
Balance at beginning of year	-	-	-	-
Effect of adoption of MFRS 16	52,759	-	-	52,759
Balance at beginning of year (restated)	52,759	-	-	52,759
Charge for the year	7,537	280,558	23,048	311,143
Balance at year end	60,296	280,558	23,048	363,902
Carrying amount				
As of December 31, 2019	6,639,704	1,192,373	43,014	7,875,091

The Company leases several assets including leasehold land, office building and warehouse. The lease terms is 2 to 999 years.

21. DEFERRED TAX ASSETS

	Economic Entity and Company	
	2019	**2018**
	RM	**RM**
At January 1	2,972,053	1,085,525
Recognised in profit or loss (Note 13)	(41,839)	1,886,528
	2,930,214	2,972,053

The components and movements of deferred tax assets and liabilities during the financial year are as follows:

Deferred tax assets:

	Loan receivables RM	**Provision for gratuity and defined benefit obligation RM**	**Total RM**
At January 1, 2019	1,746,297	1,284,461	3,030,758
Recognised in profit or loss	-	40,743	40,743
At December 31, 2019	1,746,297	1,325,204	3,071,501
At January 1, 2018	27,540	1,176,959	1,204,499
Recognised in profit or loss	1,718,757	107,502	1,826,259
At December 31, 2018	1,746,297	1,284,461	3,030,758

Deferred tax liabilities:

	Property, plant and equipment RM	**Total RM**
At January 1, 2019	(58,705)	(58,705)
Recognised in profit or loss	(82,582)	(82,582)
At December 31, 2019	(141,287)	(141,287)
At January 1, 2018	(118,974)	(118,974)
Recognised in profit or loss	60,269	60,269
At December 31, 2018	(58,705)	(58,705)

22. DEPOSITS FROM CUSTOMERS

	Economic Entity and Company	
	2019	2018
	RM	RM
Fixed deposits	567,152,622	526,876,738
Savings deposits	863,067	955,896
	568,015,689	527,832,634

These deposits are sourced from the following types of customers:

	Economic Entity and Company	
	2019	2018
	RM	RM
State Government of Sarawak	430,000,000	380,000,000
State Government of Sabah	18,000,000	28,000,000
Corporate shareholder	6,497,235	6,253,270
State-owned enterprises and institutions	50,521,731	50,703,348
Associate	2,394,762	2,306,757
Other business enterprises and individuals	60,601,961	60,569,259
	568,015,689	527,832,634

The maturity structure of deposits from customers is as follows:

	Economic Entity and Company	
	2019	2018
	RM	RM
Within one year	567,089,568	527,618,109
More than one year	926,121	214,525
	568,015,689	527,832,634

Interest rates for these deposits range from 1.50% to 4.10% (2018: 1.50% to 4.15%) per annum.

23. BORROWINGS

	Economic Entity and Company	
	2019	2018
	RM	RM
Unsecured:		
Bank overdrafts (Note 14)	11,921,723	8,264,144
Revolving credit facility	23,000,000	20,000,000
	34,921,723	28,264,144

23. BORROWINGS - (CONTINUED)

As of December 31, 2019, the Economic Entity and the Company have the following banking facilities:

(a) Bank overdraft facilities obtained by the Company from five (2018: five) local financial institutions with a total approved limit of RM20,500,000 (2018: RM20,500,000). No security is being pledged for the bank overdraft facilities.

(b) Revolving credit facilities obtained by the Company from two (2018: two) local financial institutions with a total approved limit of RM40,000,000 (2018: RM20,000,000). No security is being pledged for the revolving credit facilities.

The effective interest rates for borrowings during the financial year are as follows:

	Economic Entity and Company	
	2019	**2018**
	%	**%**
Bank overdrafts	7.45 - 7.97	7.25 - 7.97
Revolving credit facility	4.00 - 5.40	4.54 - 4.87

24. OTHER PAYABLES

	Economic Entity and Company	
	2019	**2018**
	RM	**RM**
Amounts owing to associates	1,184,602	1,286,940
Amount owing to Supplementary Housing Loan Fund of the State Government of Sabah	74,350,244	69,183,781
Interest payable	2,862,301	3,131,835
Other payables	4,953,001	4,210,773
	83,350,148	77,813,329
Expected credit losses on bank guarantee at stage 1:		
Balance at beginning of year	356,062	345,083
(Reversal)/Charge for the year	(42,681)	10,979
Balance at end of year	313,381	356,062
	83,663,529	78,169,391

(a) **Amount owing to associates**

Amounts owing to associates mainly represents rental payable and management service fee received on behalf for the associates. The amount is unsecured, interest-free and repayable upon demand.

24. OTHER PAYABLES - (CONTINUED)

(b) Amount owing to the Supplementary Housing Loan Fund of the State Government of Sabah

The Supplementary Housing Loan Fund of the State Government of Sabah is established pursuant to an agreement entered between the State Government of Sabah and the Company on January 1, 1971. The Fund shall be managed by the Company and that the Fund shall be used to provide Supplementary Loans to state government officers and other employees of the Government for the purchase of residential houses.

The amount owing to the Supplementary Housing Loan Fund of the State Government of Sabah bears interest at 3.0% (2018: 3.0%) per annum.

(c) Other payables

Included in other payables are project management accounts of developers amounting to RM310,251 (2018: RM35,570).

25. PROVISION FOR GRATUITY AND DEFINED BENEFIT OBLIGATIONS

	Economic Entity and Company	
	2019	2018
	RM	RM
Provision for gratuity	65,210	126,575
Defined benefit obligations	5,456,475	5,225,347
	5,521,685	5,351,922

(a) Provision for gratuity

Movement in the provision for gratuity is as follows:

	Economic Entity and Company	
	2019	2018
	RM	RM
Balance at beginning of year	126,575	133,294
Benefits paid	(61,365)	(6,719)
Balance at end of year	65,210	126,575

This is in respect of Gratuity Retrenchment Fund. Contributions accrued under the Gratuity Retrenchment Fund will only be disbursed to the staff upon them attaining the mandatory retirement age of sixty (60) or optional retirement age or passed away before attaining the retirement age.

(b) Defined benefit obligations

The Company operates an unfunded defined benefit plan for qualifying employees of its branches in Sabah and Sarawak. Under the plans, the employees are entitled to retirement benefits of one month final salary for each year of service upon attaining the mandatory retirement age of sixty (60) or optional retirement age or passed away before attaining the retirement age.

The following tables summarise the components of net benefit expense recognised in profit or loss, other comprehensive income and the amount recognsed in the statements of financial position of the plan.

25. PROVISION FOR GRATUITY AND DEFINED BENEFIT OBLIGATIONS - (CONTINUED)

(b) Defined benefit obligations - (Continued)

Benefit Liability

Changes in present value of defined benefit obligations are as follows:

	Economic Entity and Company	
	2019	2018
	RM	RM
Balance at beginning of year	5,225,347	4,770,701
Included in profit or loss:		
Current service cost	293,846	214,458
Interest cost	268,027	245,661
Balance at end of year	561,873	460,119
Included in other comprehensive income:		
Re-measurement	-	1,085,379
Benefits paid by the Company	(330,745)	(1,090,852)
Balance at end of year	5,456,475	5,225,347

Net Benefit Expense

	Economic Entity and Company	
	2019	2018
	RM	RM
Current service costs	293,846	214,458
Interest cost on benefits obligations	268,027	245,661
Net benefit expense, included in employee benefits expense (Note 9)	561,873	460,119

The cost of defined benefit plan and the present value of the obligations are determined using actuarial valuation. The actuarial valuation involved making various assumptions.

The principal assumptions used in determining employee defined benefit liabilities are shown below:

	Economic Entity and Company	
	2019	2018
	%	%
Discount rate	5.30	5.30
Expected rate of salary increase	4.00	4.00

The average duration of the defined benefit obligations at the reporting date is 15.5 years (2018: 15.5 years).

26. LEASE LIABILITIES

	Economic Entity and Company	
	2019	2018
	RM	RM
Maturity analysis:		
Year 1	296,311	-
Year 2	297,295	-
Year 3	293,719	-
Year 4	307,035	-
Year 5	65,259	-
	1,259,619	-

The weighted average lessees incremental borrowing rate applied to lease liabilities is 4.53% per annum.

27. SHARE CAPITAL

	Economic Entity and Company			
	No. of ordinary shares		2019	2018
			RM	RM
Issued and fully paid				
Ordinary shares	126,420,084	126,420,084	154,420,084	154,420,084

All ordinary shares are equally eligible to receive dividends and the repayment of capital and carry one vote per share at the shareholders meeting of the Company.

28. GENERAL RESERVES AND RETAINED EARNINGS

	Economic Entity		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
Distributable reserves:				
General reserve	106,499,884	102,499,884	106,499,884	102,499,884
Retained earnings	197,870,642	201,038,438	194,782,262	197,970,218
	304,370,526	303,358,322	301,282,146	300,470,102

General reserve

General reserve represents amount set aside out of the profits of the Company which shall, at the discretion of the directors, be application for meeting contingencies, repair and maintenance of any works connected with the business of the Company, for equalising dividends, for special dividend or bonus, or such other purposes for which the profits of the Company may lawfully be applied.

Retained earnings

The entire retained earnings of the Company as of December 31, 2019 is available for distribution as single tier tax-exempt dividend to the shareholders of the Company.

29. DIVIDENDS

	Economic Entity and Company	
	2019	**2018**
	RM	**RM**
Final tax exempt (single tier) dividend for 2018: 7.91 sen per share	10,000,000	-
Final tax exempt (single tier) dividend for 2017: 7.91 sen per share	-	10,000,000
	10,000,000	10,000,000

Subsequent to the financial year end, the directors at the Company's Board of Directors' meeting on September 15, 2020, declared a final tax-exempt dividend (single tier) dividend of RM10,000,000 in respect of the financial year ended December 31, 2019. The dividend has not been included as a liability in the financial statements in view of the dividend has not been approved as of the end of the financial year.

30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Economic Entity's and Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Economic Entity's and Company's statements of cash flows as cash flows from financing activities.

Economic Entity and Company

	Note	1.1.2019 RM	Effect of adoption of MFRS 16 RM	1.1.2019 (restated) RM	Net financing cash flows RM	New lease arrangement RM	31.12.2019 RM
Borrowings - revolving credit	23	20,000,000	-	20,000,000	3,000,000	-	23,000,000
Lease liabilities	26	-	1,518,287	1,518,287	(279,374)	20,706	1,259,619
		20,000,000	1,518,287	21,518,287	2,720,626	20,706	24,259,619

	Note	1.1.2018 RM	Net financing cash flows RM	31.12.2018 RM
Borrowings - revolving credit	23	20,000,000	-	20,000,000

31. RELATED PARTY TRANSACTIONS

The Company is equally owned by the Sarawak State Financial Secretary, a body corporate constituted under the State Financial Secretary (Incorporation) Ordinance, 1948, and Warisan Harta Sabah Sdn. Bhd., a company wholly-owned by the State Government of Sabah.

Significant transactions undertaken between the Economic Entity and the Company and related parties are as follows:

	Economic Entity and Company	
	2019	**2018**
	RM	**RM**
Rental received from corporate shareholder	300,785	300,785
Interest payable to:		
Corporate shareholder	(243,965)	(47,059)
Associates	(88,004)	(127,375)
Supplementary Housing Loan Fund of the State Government of Sabah	(2,145,870)	(2,004,088)
Interest receivable from:		
Supplementary Housing Loan Fund of the State Government of Sabah	246,073	260,181
Office rental payable to associate	(316,200)	(316,200)

The related parties transactions are negotiated based on terms and obligations agreed between the Economic Entity and the Company and the related parties.

Compensation of key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Economic Entity and of the Company either directly or indirectly. The compensation of key management personnel are as follows:

	Economic Entity and Company	
	2019	**2018**
	RM	**RM**
Short-term employee benefits	534,798	492,375
Defined contribution plan	164,395	75,662
	699,193	568,037

32. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Economic Entity and the Company make various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

	Economic Entity and Company	
	2019	**2018**
	RM	**RM**
Loans commitment not yet recognised in the financial statements:		
End finance	74,456,491	83,523,174
Bridging, term loans and revolving loans	45,653,770	74,969,483
Guarantees issued	5,177,612	3,724,459
	125,287,873	162,217,116

Guarantees issued are given to other parties on behalf of customers, mainly as a guarantee for the due performance of the customer's obligations under the Housing Developers (control and Licensing) Enactment 1978 with legal recourse with its customers. These guarantees are partially secured by fixed deposits placed with the Company and thus no material losses are anticipated as a result of these guarantees issued.

33. OPERATING LEASE ARRANGEMENTS

The Economic Entity and the Company as lessors

Operating leases, in which the Economic Entity and the Company are the lessors, relate to the lease of the building owned by the Economic Entity and the Company with lease terms of 2 years.

Maturity analysis of operating lease payments:

	2019	**2018**
	RM	**RM**
Year 1	300,785	300,785
Year 2	75,196	75,196
	375,981	375,981

Rental income recognised as investment income during the financial year is disclosed in Note 7.

34. FINANCIAL INSTRUMENTS

Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

	Economic Entity and Company	
	2019	**2018**
	RM	**RM**
Financial assets		
Amortised cost:		
Cash and bank balances	4,156,855	1,827,261
Deposits and placements with financial institutions	45,463,903	20,460,927
Loan/financing receivables	1,073,614,485	1,047,050,538
Other receivables	920,191	862,248
Financial liabilities		
Amortised cost:		
Deposits from customers	568,015,689	527,832,634
Borrowings	34,921,723	28,264,144
Other payables	83,663,529	78,169,391
Accrued expenses	1,555,493	1,400,948
Lease liabilities	1,259,619	-

Financial Risk Management Objectives and Policies

The Economic Entity and the Company are exposed to financial risks arising from their operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk and interest rate risk.

The Board of Directors reviews and agrees policies and procedures for the management of these risks, which influence the primary objective of the Economic Entity and the Company's capital management which are executed by the management.

It is, and has been throughout the current and previous financial year, the Economic Entity's policy that no trading in derivatives for speculative purposes shall be undertaken.

There has been no change to the Economic Entity's exposure to these financial risks or the manner in which it manages and measures the risks.

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Economic Entity and the Company. The Economic Entity and the Company deal with creditworthy counterparties and would endeavour to obtain sufficient collateral for the loans granted, as a means of mitigating the risk of financial loss from defaults. Credit exposure is controlled by the counterparty limits that are reviewed and approved by the Board of Directors.

The Economic Entity and the Company do not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Economic Entity and the Company defines counterparties having similar characteristics if they are related entities. Concentration of credit risks did not exceed 5% of gross monetary assets at any time during the year. The credit risk on liquid funds (investment in the form of fixed deposits and money market instruments) is limited because the counterparties are banks and financial institution with high credit-ratings.

Credit risk management - (Continued)

Exposure to credit risk

The maximum amount the Economic Entity and the Company could be forced to settle under the financial guarantee contract disclosed in Note 32. The full guaranteed amount can claimed by the counterparty to the guarantee is RM5.18 million (2018: RM3.72 million) and such financial guarantees are partially secured by fixed deposits placed with the Economic Entity and the Company. Based on expectations at the end of the reporting period, the Economic Entity and the Company consider that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The carrying amount of financial assets recorded in the financial statements, grossed up for any allowances for losses, and the exposure to defaults from financial guarantees above, represents the Economic Entity and the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Liquidity and cash flow risks management

Liquidity risk is the risk that the Economic Entity or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Economic Entity and the Company's short, medium and long-term funding and liquidity management requirements. The Economic Entity and the Company manage liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowings facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

As at the reporting date, the Economic Entity and the Company have at their disposal undrawn bank overdraft and revolving credit loan facilities of RM25.6 million (2018: RM12.2 million) and deposit placements with financial institutions of RM45 million (2018: RM20 million), totalling RM70.6 million (2018: RM32.2 million) to further reduce liquidity risk. In addition, a significant portion of the financial liabilities are deposits from shareholders and state governments, insurance companies, amounts owing to shareholders and Supplementary Housing Loan Fund of the State Government of Sabah (Note 22 and Note 24). The directors believe that the shareholders would continue to support the Company by rolling over their deposit placements and that the probability of them withdrawing the deposits is remote.

Analysis of financial instruments by remaining contractual maturities

The following table details the Economic Entity and the Company's liquidity analysis for its non-derivative financial liabilities. The table below has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date in which the Economic Entity and the Company can be required to pay.

Liquidity and cash flow risks management - (Continued)

Analysis of financial instruments by remaining contractual maturities - (Continued)

Economy Entity and Company

2019	**Effective interest rate %**	**On demand or within one year RM**	**One year to five years RM**	**Over five years RM**	**Total RM**
Financial liabilities:					
Deposits from customers	1.50 - 4.10	567,089,568	926,121	-	568,015,689
Borrowings	4.00 - 7.97	34,921,723	-	-	34,921,723
Other payables	3.00 - 7.00	75,607,566	-	-	75,607,566
Other payables	-	8,055,963	-	-	8,055,963
Accrued expenses	-	1,555,493	-	-	1,555,493
Lease liabilities	4.53	345,000	1,030,550	-	1,375,550
		687,575,313	1,956,671	-	689,531,984
2018					
Financial liabilities:					
Deposits from customers	1.50 - 4.15	527,618,109	214,525	-	527,832,634
Borrowings	4.54 - 7.97	28,264,144	-	-	28,264,144
Other payables	3.00 - 7.00	70,377,339	-	-	70,377,339
Other payables	-	7,792,052	-	-	7,792,052
Accrued expenses	-	1,400,948	-	-	1,400,948
		635,452,592	214,525	-	635,667,117

Interest rate risk management

Interest rate risk is the risk that the fair value or future cash flows of the Economic Entity and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Economic Entity and the Company's exposure to interest rate risk arises primarily from its deposits and placements with financial institutions, loan receivables, deposits from customers, borrowings and other payables.

The Economic Entity and the Company's policy is to manage its interest cost by maintaining a mix of fixed and floating rate borrowings and by spreading out the timing of interest rate fixing. In addition, the Economic Entity and the Company's interest bearing financial liabilities are hedged by interest-bearing financial assets, such as deposits and placements with financial institutions and loans receivables.

Sensitivity analysis for interest rate risk

At the reporting date, if interest rates had been 50 basis points higher/lower, with all other variables held constant, the Economic Entity's and the Company's profit net of tax would have been RM1.51 million (2018: RM1.39 million) lower/higher respectively, arising mainly as a result of the Economic Entity's and the Company's exposure to interest rates on their variable rate financial assets and financial liabilities. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

Capital risk management

The primary objective of the Economic Entity and the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The capital structure of the Economic Entity and the Company consist of net debt (deposits from customers, borrowings and lease liabilities) and equity of the Economic Entity and the Company (comprising issued capital, other reserves and retained earnings).

	Economic Entity		**Company**	
	2019	**2018**	**2019**	**2018**
	RM	**RM**	**RM**	**RM**
Deposits from customers	568,015,689	527,832,634	568,015,689	527,832,634
Borrowings	34,921,723	28,264,144	34,921,723	28,264,144
Lease liabilities	1,259,619	-	1,259,619	-
Net debt	604,197,031	556,096,778	604,197,031	556,096,778
Equity attributable to the owners	458,790,610	457,958,406	455,762,230	454,890,186
Capital and net debt	1,062,987,641	1,014,055,184	1,059,959,261	1,010,986,964
Gearing ratio	57%	55%	57%	55%

The Economic Entity and the Company manage their capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Economic Entity and the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2019 and December 31, 2018.

The Economic Entity and the Company are not subject to any externally imposed capital requirements.

The Company is required to maintain a borrowing limit (75% of mortgage loans) in order to comply with the requirement under Article 89 of its Articles of Association. As at December 31, 2019, deposits from customers and borrowings represent 56% (2018: 53%) of mortgage loans/financing of the Company.

Fair Values of Assets and Liabilities

(a) **Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not approximation of fair value**

The fair value of financial assets and liabilities by classes that are not carried at fair value and whose carrying amounts are not approximation of fair value are as follows:

		Economic Entity and Company			
		2019		2018	
	Note	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets:					
Loan receivables		1,073,614,485	1,060,276,192	1,047,050,538	1,028,693,830

(b) **Assets and liabilities not carried at fair value but for which fair value is disclosed**

The following table shows an analysis of the Economic Entity and the Company's assets and liabilities not measured at fair value at December 31, 2019 and December 31, 2018 but which fair value is disclosed:

	Economic Entity and Company			
	Fair value measurements at the reporting date using			
	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
2019				
Financial assets:				
Loan receivables	-	1,060,276,192	-	1,060,276,192
2018				
Financial assets:				
Loan receivables	-	1,028,690,830	-	1,028,690,830

Loan receivables

The fair values disclosed in the table above are estimated by discounting expected future cash flows of the assets at market rates or interest.

(c) **Financial instruments that are not carried at fair value of investment and whose carrying amounts are reasonable approximation of fair value**

The following are classes of financial instruments that are not carried at fair values and whose carrying amounts are reasonable approximation of fair value:

	Note
Cash and bank balances	14
Deposits and placements with financial institution	15
Other receivables	17
Deposits from customers	22
Borrowings	23
Other payables	24
Lease liabilities	26

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values due to short-term maturities of these instruments.

35. SUBSEQUENT EVENT

The recent outbreak of Coronavirus ("COVID-19") since end 2019 has seen significant cases increased worldwide which prompted the World Health Organisation to declare it as a pandemic on March 11, 2020. A series of precautionary and control measures have been and continued to be implemented across the world. The Malaysian Government had also imposed the Movement Control Order ("MCO") from March 18, 2020 to May 3, 2020 and was subsequently revised to the Conditional Movement Control Order ("CMCO") on May 4, 2020 to June 9, 2020. The CMCO was replaced with the Recovery Movement Control Order ("RMCO") from June 10, 2020 to August 31, 2020 and further extended to December 31, 2020 with nearly all social, economic and religious activities set to restart while adhering to strict social distancing protocols and safety measures which have been set by the Government. These restrictions are expected to disrupt business operations and eventually will have material adverse effects on Malaysia's economy for 2020.

For the Economic Entity's and the Company's financial statements for the financial year ended December 31, 2019, the Covid-19 outbreak and the related impacts are considered non-adjusting events in accordance with MFRS 110 Events after the Reporting Period. Consequently, there is no impact on the recognition and measurement of assets and liabilities as at December 31, 2019.

The outbreak of COVID-19 has resulted in quarantines, employments disruptions and general market uncertainties. In line with measures announced by Bank Negara Malaysia on March 24, 2020 to support those impacted by COVID-19, the Economic Entity and the Company have automatically granted a six-month's moratorium on loan repayments from April 1, 2020 to September 30, 2020 to its eligible borrowers. As of the date of this report, the Economic Entity and the Company did not experience any significant adverse impact. Nevertheless, the Economic Entity and the Company will continue to monitor the impact of COVID-19 on the Economic Entity and the Company operational and financial performance as it will depend on future developments, including the duration and spread of the outbreak and related restrictions, all of which are highly uncertain and cannot be predicted.

36. COMPARATIVE FIGURES

Certain comparative figures of the Economic Entity and the Company have been reclassified to conform with the current year's presentation.

	As previously stated RM	Reclassification RM	As reclassified RM
Statements of financial position			
Other payables	79,570,339	(1,400,948)	78,169,391
Accrued expenses	-	1,400,948	1,400,948

BORNEO HOUSING MORTGAGE FINANCE BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

The directors of **BORNEO HOUSING MORTGAGE FINANCE BERHAD** state that, in their opinion, the accompanying financial statements are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Economic Entity and of the Company as of December 31, 2019 and of the financial performance and cash flows of the Economic Entity and of the Company for the year ended on that date.

Signed in accordance with a resolution of the Directors,

TAN SRI DATUK AMAR (DR) HAJI ABDUL AZIZ BIN HAJI HUSAIN

DIONYSIA @ AUDREY BINTI ALOYSIUS KIBAT

Kota Kinabalu
September 15, 2020

DECLARATION BY THE OFFICER PRIMARILY RESPONSIBLE FOR THE FINANCIAL MANAGEMENT OF THE COMPANY

I, **BONG SAY MAN,** the officer primarily responsible for the financial management of **BORNEO HOUSING MORTGAGE FINANCE BERHAD,** do solemnly and sincerely declare that the accompanying financial statements are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

BONG SAY MAN

Subscribed and solemnly declared by the abovenamed **BONG SAY MAN** at **KOTA KINABALU** in the State of **SABAH** this 15th day of September, 2020.

Before me,

WONG KEE YU JP
391218-12-5043
Unit No. A921, 9th Floor,
Jesselton Merdeka, Phase 1,
Jalan Tun Razak, 88000
Kota Kinabalu, Sabah

JUSTICE OF THE PEACE
JAKSA PENDAMAI
Ref.JP 96/22
MAJAPS NO. 108
WONG KEE YU
ATII (M)
SABAH, MALAYSIA

COMMISSIONER FOR OATHS