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MAYBANK ISLAMIC BERHAD
(787435-M)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2016

787435-M

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

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**Maybank Islamic Berhad
(Incorporated in Malaysia)**

Directors' report

The directors have pleasure in presenting their report together with the audited financial statements of Maybank Islamic Berhad ("the Bank") for the financial year ended 31 December 2016.

Principal activities

The Bank is principally engaged in the business of Islamic Banking and the provision of related financial services.

There were no significant changes in the principal activities during the financial year.

Results

	RM'000
Profit before taxation and zakat	1,781,770
Taxation and zakat	(444,043)
Profit for the year	<u>1,337,727</u>

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in Notes 8 and 25 to the financial statements and the statement of changes in equity.

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

Performance review

The Bank posted profit before tax and zakat of RM1,781.8 million for the financial year ended 31 December 2016, an increase of RM143.8 million or 9% compared to the previous corresponding year.

The Bank's allowance for impairment on financing and advances increased by RM125.3 million to RM381.8 million due to higher individual allowance made during the financial year ended 31 December 2016. The Bank's financing loss coverage ratio with Regulatory Reserve stood at 118.44% as at 31 December 2016.

Total income grew by RM1,007.7 million or 14% to RM8,062.0 million from previous corresponding period, comprising of income derived from investment of depositors funds, income derived from investment account funds and income derived from investment of shareholder's funds of RM6,132.9 million, RM1,613.8 million and RM315.4 million respectively.

**Maybank Islamic Berhad
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Performance review (cont'd.)

The Bank's gross financing and advances increased by RM18.8 billion to RM149.9 billion as compared to RM131.1 billion recorded in previous financial year. As at 31 December 2016, total funding increased by 12% contributed by Investment Account which grew by RM13.8 billion to close at RM31.5 billion compared to RM17.7 billion in the last financial year. Total customer deposits slightly increased by 0.8%, recorded at RM106.6 billion against RM105.8 billion in the previous financial year.

The Bank's capital position continued to be strong and well above regulatory requirements as reflected by its Common Equity Tier I and Tier I Capital Ratio of 13.992% and Total Capital Ratio of 18.553%.

Prospects

Malaysia's real GDP growth is expected to see a slight expansion in growth to 4.4% in 2017 (2016: +4.2%) underpinned by sustained consumer spending, stronger growth in public and private investments and a rebound in Government consumption expenditure. Growth in public and private investments will be driven by the rollout of existing and new major infrastructure and investment projects. The Overnight Policy Rate (OPR) is also expected to remain unchanged at 3.00% in 2017 aimed at supporting domestic demand. Loans and financing growth for Malaysia has tapered further to 5%-5.5% in 2016 from 7%-8% in 2015, on the back of easing household loans growth. The Bank's financing growth is expected to be in line with Islamic industry financing.

Despite the expectations of continued challenging economic conditions in 2017, the Bank remains positive on the prospects for Islamic banking both domestically and globally. The Bank is determined to continue its growth strategy, albeit on a conscious note, with increased emphasis and vigilance on asset quality and liquidity management, in ensuring stability and sustainability. An integral part of the key strategic priorities for 2017 would focus on enhancing the Bank's global brand visibility and deepening its existing regional presence, via the pursuit of more headline deals and participation in international conferences and thought leadership programs. The Bank would also look to take on a more leadership role in promoting Islamic Social Finance via its Zakat and Waqaf initiatives.

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Dividends

The amounts of dividend paid by the Bank since 31 December 2015 were as follows:

RM'000

In respect of the financial year ended 31 December 2015 as reported in the directors' report of that year:

Final tax exempt (single-tier) dividend of RM2.14 per share on 263,958,750 ordinary shares, paid on 7 April 2016

564,872

In respect of the financial year ended 31 December 2016:

Interim tax exempt (single-tier) dividend of RM2.12 per share on 263,958,750 ordinary shares, paid on 29 August 2016

559,592

At the forthcoming Annual General Meeting, a final tax-exempt (single tier) dividend in respect of the financial year ended 31 December 2016 of RM2.76 per share on 281,556,000 ordinary shares, amounting to a dividend payable of RM777,094,560 will be proposed for the shareholder's approval.

The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholder, will be accounted for in equity as an appropriation of retained profits in the next financial year ending 31 December 2017.

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Maybank Group Employee Share Scheme

The Maybank Group Employees' Share Scheme ("ESS") is governed by the by-laws approved by the parent's i.e. Malayan Banking Berhad ("Maybank")'s shareholders at an Extraordinary General Meeting held on 13 June 2011. The ESS has been implemented on 23 June 2011 and is in force for a maximum period of seven (7) years from the effective date for eligible employees and executive directors within Maybank Group.

The maximum number of ordinary shares of RM1 each in Maybank available under the ESS should not exceed 10% of the total number of issued and paid-up capital of Maybank at any point of time during the duration of the scheme.

Issues of share capital

During the current financial year, the Bank increased its issued and paid-up share capital from RM263,958,750 to RM281,556,000 via the issuance of 17,597,250 new ordinary shares of RM1.00 each at a premium of RM30.80 per shares to Maybank on the basis of one new share for every fifteen existing ordinary shares held.

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Directors

The directors of the Bank in office since the date of the last report and at the date of this report are:

Dato' Seri Ismail bin Shahudin	(demised on 30 July 2016)
En Zainal Abidin bin Jamal	
Dato' Dr Muhammad Afifi al-Akiti	
En Dali bin Sardar	
Dato' Zulkiflee Abbas Abdul Hamid	(appointed on 11 April 2016)
En Nor Hizam bin Hashim	(appointed on 18 October 2016)
Tan Sri Datuk Dr Hadenan bin A. Jalil	(retired with effect from 6 April 2016)
Tan Sri Ahmad Fuzi Abdul Razak	(resigned with effect from 27 September 2016)

Directors' benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Bank was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors from the Bank or the holding company or the fixed salary of a full time employee of the holding company as disclosed in Note 28 to the financial statements and from related corporations) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

Directors' interests

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares and options over shares in the holding company, Maybank, during the financial year were as follows:

	----- Number of ordinary shares of RM1 each -----			
	1.1.2016	Acquired	Issued pursuant to DRP*	31.12.2016
Dato' Seri Ismail bin Shahudin ^	26,951	-	-	26,951
Dato' Zulkiflee Abbas Abdul Hamid	28,509	-	1,466	29,975

^ Demised on 30 July 2016.

None of the other directors in office at the end of the financial year had any interest in shares in the Bank or other related corporations during the financial year.

*DRP is defined as Dividend Reinvestment Plan.

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Rating by external rating agency

Details of the Bank's ratings are as follows:

Rating agency	Date	Rating classification	Rating received
RAM Ratings Services Berhad ("RAM")	14 December 2016	Long-term Financial Institution Rating	AAA
		Short-term Financial Institution Rating	P1
		Outlook (Long Term)	Stable
Malaysian Rating Corporation Berhad	11 October 2016	Long-term Financial Institution Rating	AAA
		Short-term Financial Institution Rating	MARC-1
		Outlook (Long Term)	Stable

Other statutory information

- (a) Before the statement of financial position and income statement of the Bank were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad financing and the making of allowance for doubtful financing and satisfied themselves that all known bad financing had been written off and that adequate allowance had been made for doubtful financing; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Bank which would render:
- (i) the amount written off for bad financing or the amount of the allowances for doubtful financing in the financial statements of the Bank inadequate to any substantial extent; and
 - (ii) the values attributed to current assets in the financial statements of the Bank misleading.

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Other statutory information (cont'd.)

- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements the Bank which would render any amount stated in the financial statements misleading.
- (e) At the date of this report, there does not exist:
 - (i) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Bank which has arisen since the end of the financial year other than those arising in the normal course of business of the Bank.
- (f) In the opinion of the directors:
 - (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Bank to meet its obligations as and when they fall due; and
 - (ii) no item or transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Bank for the financial year in which this report is made.

Compliance with Bank Negara Malaysia's Guidelines on Financial Reporting

In the preparation of the financial statements, the directors have taken reasonable steps to ensure that Bank Negara Malaysia's Guidelines on financial reporting have been complied with, including those as set out in the Guidelines on Financial Reporting for Islamic Financial Institutions and the Guidelines on Classification and Impairment Provisions for Financing.

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Significant and subsequent events

There were no significant events during the year.

There are no significant adjusting events after the statement of financial position's date up to the date when the financial statements are authorised for issue.

Shariah Committee

The operation of the Bank is governed by Section 28 and 29 of the Islamic Financial Services Act 2013 ("IFSA"), which stipulates that "any licensed institution shall at all times ensure that its aims and operations, business, affairs and activities are in compliance with Shariah and in accordance with the advice or ruling of Shariah Advisory Council ("SAC"), specify standards on Shariah matters in respect of the carrying on of its business, affair or activity" and Section IV of BNM's "Guidelines on the Governance of Shariah Committee for The Islamic Financial Institutions" known as the Shariah Governance Framework ("SGF") (which supersedes the BNM/GPS 1), which stipulates that "Every Islamic institution is required to establish a Shariah Committee".

Based on the above, the duties and responsibilities of the Bank's Shariah Committee are to advise on the overall Islamic Banking operations of the Bank's business in order to ensure compliance with the Shariah requirements.

The roles of the Shariah Committee in monitoring the Bank's activities include:

- (a) To advise the Board on Shariah matters in its business operations;
- (b) To endorse Shariah Compliance Manual;
- (c) To endorse and validate relevant documentations;
- (d) To assist related parties on Shariah matters for advice upon request;
- (e) To advise on matters to be referred to the SAC;

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Shariah Committee (cont'd.)

- (f) To provide written Shariah opinion; and
- (g) To assist the SAC on reference for advice.

Zakat obligation

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

Auditors

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 23 February 2017.


En Zainal Abidin bin Jamal
Kuala Lumpur, Malaysia


En Dali bin Sardar

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Statement by directors

Pursuant to Section 169(15) of the Companies Act, 1965

We, En Zainal Abidin bin Jamal and En Dali bin Sardar, being two of the directors of Maybank Islamic Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 17 to 152 are properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 December 2016 and of the results and the cash flows of the Bank for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 23 February 2017.


En Zainal Abidin bin Jamal

Kuala Lumpur, Malaysia



En Dali bin Sardar

Statutory declaration

Pursuant to Section 169(16) of the Companies Act, 1965

I, Dato' Mohamed Rafique Merican bin Mohd Wahiduddin Merican, being the officer primarily responsible for the financial management of Maybank Islamic Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 17 to 152 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.

Subscribed and solemnly declared by
the abovenamed Dato' Mohamed Rafique Merican
bin Mohd Wahiduddin Merican
at Kuala Lumpur in the Federal
Territory on 23 February 2017


Dato' Mohamed Rafique Merican
bin Mohd Wahiduddin Merican

Before me,

Lot 350, 3rd Floor, Wisma MBI,
Jalan Raja Chulan,
50200 Kuala Lumpur.



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Shariah Committee's report

In the Name of Allah, The Compassionate, The Most Merciful

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

Assalamualaikum Warahmatullahi Wabarakatuh

To the shareholders, depositors and customers of Maybank Islamic Berhad (the "Bank"):

We, the members of the Shariah Committee of the Bank (the "Committee"), do hereby confirm that we have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank from 1 January 2016 until 31 December 2016. During the year, the Shariah Committee had convened 11 times (with an addition of another 7 special sittings) and all members have satisfied the minimum attendance requirement required as per Appendix 5: Operation Procedures for the Shariah Committee of the BNM's Shariah Governance Framework which requires a Shariah Committee member to attend at least 75% of the Shariah Committee meetings held in each financial year.

We have provided the Shariah advisory services on various aspects to the Bank in order to ensure compliance with applicable Shariah principles as well as the relevant resolutions and rulings made by the Shariah Advisory Councils of the regulatory bodies.

The Bank has carried out Shariah audit performed by Internal Audit Division and Shariah review by Shariah Review and Compliance throughout the organisation and the reports were deliberated in the Committee meetings. The Committee hereby confirms that appropriate efforts have been taken to rectify the Shariah gaps, and the Bank has also implemented several mechanism(s) to prevent similar Shariah gaps from recurring. Moreover, the Bank has organised a region wide Shariah training program to enhance Shariah compliance awareness throughout the organisation.

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

We are of the opinion that:

- (a) The new products, business initiatives and enhanced processes introduced by the Bank during the year ended 31 December 2016, that we have reviewed are in compliance with the Shariah rules and principles;
- (b) The contracts, transactions and dealings entered into by the Bank during the year ended 31 December 2016, that we have reviewed are in compliance with the Shariah rules and principles;

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Shariah Committee's report (cont'd.)

- (c) The main funding sources and investments of the Bank disclosed to us conform to the basis that had been approved by us in accordance with the Shariah rules and principles;
- (d) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles; and
- (e) The Shariah non-compliance events and disposal of any earnings from prohibited sources/means by the Bank during the year ended 31 December 2016 had been channeled to the donation/charity fund as disclosed in Note 40; and
- (f) The financial statements of the Bank for the year ended 31 December 2016 together with the calculation of Zakat disclosed to us are in compliance with the Shariah rules and principles.

We beg Allah the Almighty to Grant us all the Success and Straight-Forwardness and Allah Knows Best.



Assoc. Prof. Dr. Aznan Hasan
Chairman of the Committee



Assoc. Prof. Dr. Ahcene Lahsasna
Member of the Committee

Kuala Lumpur, Malaysia
23 February 2017

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**Independent auditors' report to the member of
Maybank Islamic Berhad
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Report on the audit of the financial statements

Opinion

We have audited the financial statements of Maybank Islamic Berhad ("the Bank"), which comprise the statement of financial position as at 31 December 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 17 to 152.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and 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 1965, 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 Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and IESBA Code.

Information other than the financial statements and auditors' report thereon

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

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

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**Independent auditors' report to the member of
Maybank Islamic Berhad (cont'd.)
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Information other than the financial statements and auditors' report thereon (cont'd.)

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

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

Responsibilities of the directors for the financial statements

The directors of the Bank are responsible for the preparation of financial statements of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Bank that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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**Independent auditors' report to the member of
Maybank Islamic Berhad (cont'd.)
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Auditors' responsibilities for the audit of the financial statements (cont'd.)

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

- ▶ Identify and assess the risks of material misstatement of the financial statements of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.

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**Independent auditors' report to the member of
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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.

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

Other matters

This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



Ernst & Young
AF: 0039
Chartered Accountants



Dato' Megat Iskandar Shah Bin Mohamad Nor
No. 3083/07/17(J)
Chartered Accountant

Kuala Lumpur, Malaysia
23 February 2017

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Statement of financial position as at 31 December 2016

	Note	31.12.2016 RM'000	31.12.2015 RM'000
Assets			
Cash and short-term funds	5	15,535,992	8,815,504
Deposits and placements with banks and other financial institutions	6	651,558	-
Financial investments portfolio	7	8,972,105	9,327,813
Financing and advances	8	148,523,310	130,166,349
Derivative assets	9	515,554	497,905
Other assets	10	4,506,551	3,673,991
Statutory deposit with Bank Negara Malaysia	11	3,070,000	3,834,000
Deferred tax assets	18	19,487	36,892
Total assets		181,794,557	156,352,454
Liabilities			
Deposits from customers	12	106,604,492	105,786,215
Investment accounts of customers	13	31,544,587	17,657,893
Deposits and placements of banks and other financial institutions	14	30,342,006	21,344,573
Bills and acceptances payable		53,220	33,556
Financial liabilities at fair value through profit or loss	15	902,091	-
Derivative liabilities	9	535,161	587,772
Other liabilities	16	91,739	138,883
Provision for taxation and zakat	17	98,090	9,011
Subordinated sukuk	19	2,534,496	2,527,960
Total liabilities		172,705,882	148,085,863
Equity attributable to equity holder of the Bank			
Share capital	20	281,556	263,959
Reserves	21	8,807,119	8,002,632
		9,088,675	8,266,591
Total liabilities and shareholder's equity		181,794,557	156,352,454
Commitments and contingencies	34	52,067,915	49,648,320

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

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Income statement
For the year ended 31 December 2016

	Note	31.12.2016 RM'000	31.12.2015 RM'000
Income derived from investment of depositors' funds	22	6,132,907	6,536,316
Income derived from investment of investment account funds	23	1,613,812	213,931
Income derived from investment of shareholder's funds	24	315,364	304,131
Allowances for losses on financing and advances	25	<u>(381,836)</u>	<u>(256,527)</u>
Total distributable income		7,680,247	6,797,851
Profit distributed to depositors	26	(3,463,225)	(3,795,088)
Profit distributed to investment account holders		<u>(1,079,875)</u>	<u>(115,983)</u>
Total net income		3,137,147	2,886,780
Overhead expenses	27	(1,233,110)	(1,135,056)
Finance cost	29	<u>(122,267)</u>	<u>(113,781)</u>
Profit before taxation and zakat		1,781,770	1,637,943
Taxation	30	(427,444)	(416,478)
Zakat		<u>(16,599)</u>	<u>(8,979)</u>
Profit for the year attributable to equity holder of the Bank		<u>1,337,727</u>	<u>1,212,486</u>
Earnings per share attributable to equity holder of the Bank - basic/diluted (sen)	31	<u>495.5</u>	<u>480.3</u>

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

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Statement of comprehensive income
For the year ended 31 December 2016

	Note	31.12.2016 RM'000	31.12.2015 RM'000
Profit for the year		1,337,727	1,212,486
Other comprehensive income/(loss):			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net gain/(loss) on financial investments available-for-sale		66,616	(6,500)
Income tax relating to components of other comprehensive income	18	<u>(17,387)</u>	<u>1,625</u>
Other comprehensive income/(loss) for the financial year		<u>49,229</u>	<u>(4,875)</u>
Total comprehensive income for the year, net of tax		<u>1,386,956</u>	<u>1,207,611</u>
Total comprehensive income attributable to:			
Equity holder of the Bank		<u>1,386,956</u>	<u>1,207,611</u>

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

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**Maybank Islamic Berhad
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**Statement of changes in equity
For the year ended 31 December 2016**

	←----- Non-distributable ----->						Distributable		Total equity RM'000
	Share capital (Note 20) RM'000	Share premium (Note 21) RM'000	Equity contribution from the holding company (Note 21) RM'000	Statutory reserve (Note 21) RM'000	AFS reserve (Note 21) RM'000	Profit equalisation reserve (Note 21) RM'000	Regulatory reserve (Note 21) RM'000	Retained profits (Note 21) RM'000	
At 1 January 2016	263,959	4,658,232	1,697	409,672	(104,493)	34,456	430,249	2,572,819	8,266,591
Profit for the year	-	-	-	-	-	-	-	1,337,727	1,337,727
Other comprehensive income	-	-	-	-	49,229	-	-	-	49,229
Total comprehensive income for the year	-	-	-	-	49,229	-	-	1,337,727	1,386,956
Issue of ordinary shares	17,597	541,995	-	-	-	-	-	-	559,592
Dividend on ordinary shares (Note 32)	-	-	-	-	-	-	-	(1,124,464)	(1,124,464)
Transfer from profit equalisation reserve	-	-	-	-	-	(34,456)	-	34,456	-
Transfer (from)/to regulatory reserve	-	-	-	-	-	-	(36,549)	36,549	-
Total transactions with shareholder	17,597	541,995	-	-	-	(34,456)	(36,549)	(1,053,459)	(564,872)
At 31 December 2016	281,556	5,200,227	1,697	409,672	(55,264)	-	393,700	2,857,087	9,088,675

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Maybank Islamic Berhad
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Statement of changes in equity
For the year ended 31 December 2016 (cont'd.)

	←----- Non-distributable ----->						Distributable		
	Share capital (Note 20) RM'000	Share premium (Note 21) RM'000	Equity contribution from the holding company (Note 21) RM'000	Statutory reserve (Note 21) RM'000	AFS reserve (Note 21) RM'000	Profit equalisation reserve (Note 21) RM'000	Regulatory reserve (Note 21) RM'000	Retained profits (Note 21) RM'000	Total equity RM'000
At 1 January 2015	246,362	4,099,343	1,697	409,672	(99,618)	34,456	274,500	2,262,558	7,228,970
Profit for the year	-	-	-	-	-	-	-	1,212,486	1,212,486
Other comprehensive loss	-	-	-	-	(4,875)	-	-	-	(4,875)
Total comprehensive income for the year	-	-	-	-	(4,875)	-	-	1,212,486	1,207,611
Issue of ordinary shares	17,597	558,889	-	-	-	-	-	-	576,486
Dividend on ordinary shares (Note 32)	-	-	-	-	-	-	-	(746,476)	(746,476)
Transfer (from)/to regulatory reserve	-	-	-	-	-	-	155,749	(155,749)	-
Total transactions with shareholder	17,597	558,889	-	-	-	-	155,749	(902,225)	(169,990)
At 31 December 2015	263,959	4,658,232	1,697	409,672	(104,493)	34,456	430,249	2,572,819	8,266,591

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

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of cash flows
For the year ended 31 December 2016

	31.12.2016 RM'000	31.12.2015 RM'000
Cash flows from operating activities		
Profit before taxation and zakat	1,781,770	1,637,943
Adjustments for:		
Amortisation of premium less accretion of discount	(125,463)	(89,427)
Allowances for losses on financing and advances	553,247	330,143
Unrealised losses/(gains) on revaluation of derivatives	24,788	(944)
Unrealised (gains)/losses on revaluation of financial investments at fair value through profit or loss	(44)	4,633
Unrealised gains on revaluation of financial liabilities at fair value through profit or loss	(15,069)	-
Gains on sale of financial investments available-for-sale	(25,297)	(4,487)
Gains on sale of financial investments at fair value through profit or loss	(2,820)	(11,811)
Losses/(gains) on foreign exchange translations	169,846	(182,026)
Share options granted under ESS	1,007	1,520
Operating profit before working capital changes	<u>2,361,965</u>	<u>1,685,544</u>
Change in deposits and placements with banks and other financial institutions	(651,558)	-
Change in cash and short-term funds with original maturity of more than three months	103,515	(304,778)
Change in financial investments portfolio	575,949	14,275
Change in financing and advances	(18,910,209)	(22,767,253)
Change in derivative assets and liabilities	(95,048)	(13,518)
Change in other assets	(832,558)	(1,149,400)
Change in statutory deposit with Bank Negara Malaysia	764,000	(56,000)
Change in deposits from customers	818,276	6,090,942
Change in deposits and placements of banks and other financial institutions	8,827,587	(4,946,859)
Change in investment accounts of customers	13,886,694	17,657,893
Change in financial liabilities at fair value through profit or loss	917,160	-
Change in bills and acceptances payable	19,664	27,609
Change in other liabilities	74,115	171,481
Cash used in operations	<u>7,859,552</u>	<u>(3,590,064)</u>
Taxes and zakat paid	(354,945)	(455,280)
Net cash generated from/(used in) operating activities	<u>7,504,607</u>	<u>(4,045,344)</u>

Maybank Islamic Berhad
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Statement of cash flows
For the year ended 31 December 2016 (cont'd.)

	Note	31.12.2016 RM'000	31.12.2015 RM'000
Cash flows from financing activities			
Proceeds from issuance of shares		559,592	576,486
Dividend paid		(1,124,464)	(746,476)
Dividend paid for Subordinated sukuk		(115,732)	(113,450)
Net cash used in financing activities		<u>(680,604)</u>	<u>(283,440)</u>
Net increase/(decrease) in cash and cash equivalents		6,824,003	(4,328,784)
Cash and cash equivalents at beginning of year		<u>8,510,726</u>	<u>12,839,510</u>
Cash and cash equivalents at end of year		<u>15,334,729</u>	<u>8,510,726</u>
Cash and cash equivalents comprise:			
Cash and short term funds	5	15,535,992	8,815,504
Deposits and placements with banks and other financial institutions		651,558	-
		<u>16,187,550</u>	<u>8,815,504</u>
Less:			
Cash and short-term funds with original maturity of more than three months		(852,821)	(304,778)
Cash and cash equivalents at end of year		<u>15,334,729</u>	<u>8,510,726</u>

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

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 December 2016

1. Corporate information

The Bank is principally engaged in the business of Islamic Banking and the provision of related financial services. There were no significant changes in these activities during the financial year.

The Bank is a public limited liability company, incorporated on 5 September 2007 and domiciled in Malaysia. The registered office of the Bank is located at 15th Floor, Tower A Dataran Maybank, 1, Jalan Maarof, 59000 Kuala Lumpur.

The holding company of the Bank is Malayan Banking Berhad ("Maybank"), a licensed bank incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

These financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 23 February 2017.

2. Basis of preparation and presentation of the financial statements

The financial statements of the Bank have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS"), and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements of the Bank have been prepared under the historical cost basis unless otherwise indicated in the summary of significant accounting policies disclosed in Note 3.

The Bank presents the statement of financial position in the order of liquidity.

Financial assets and financial liabilities are offset and the net amounts are reported in the statement of financial position of the Bank only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the income statement of the Bank unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

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

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

3. Summary of significant accounting policies

(i) Financial assets

(a) Date of recognition

All financial assets are initially recognised on the trade date i.e. the date that the Bank becomes a party to the contractual provision of the instruments. This includes regular way trades, purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

(b) Initial recognition and subsequent measurement

All financial assets are measured initially at their fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss. Financial assets within the scope of MFRS 139 are classified as financial assets at fair value through profit or loss, financing and advances and financial investments available-for-sale. The classification of financial assets at initial recognition depends on the purpose and the management's intention for which the financial assets were acquired and their characteristics. The Bank determines the classification of financial assets at initial recognition, in which the details are disclosed below.

Included in financial assets are the following:

(1) Financial assets at Fair Value Through Profit or Loss ("FVTPL")

Financial assets at FVTPL include financial assets held-for-trading ("HFT") and financial assets designated at FVTPL upon initial recognition. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by MFRS 139.

For financial assets designated at FVTPL, upon initial recognition the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

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

(i) Financial assets (cont'd.)

(b) Initial recognition and subsequent measurement (cont'd.)

**(1) Financial assets at Fair Value Through Profit or Loss ("FVTPL")
(cont'd.)**

Included in financial assets designated at FVTPL are derivatives (including separated embedded derivatives) and debt securities.

Subsequent to initial recognition, financial assets held-for-trading and financial assets designated at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recognised in the income statement under the caption of 'other operating income'.

(2) Financing and receivables

Financing and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified in this category include cash and bank balances and financing and advances. These financial assets are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective yield method, less accumulated impairment losses.

(3) Financial investments available-for-sale ("AFS")

Financial investments AFS are financial assets that are not classified in any of the two (2) preceding categories.

Financial investments AFS include equity and debt securities. Financial investments in this category are intended to be held for an indefinite period of time and which may be sold in response to liquidity needs or changes in market conditions.

After initial recognition, financial investments AFS are subsequently measured at fair value. Unrealised gains and losses are recognised directly in other comprehensive income and in the 'unrealised holding reserves', except for impairment losses, foreign exchange gains or losses on monetary financial assets and profit income calculated using the effective profit method are recognised in the income statement. Dividends on financial investments AFS are recognised in the income statement when the Bank's right to receive payment is established. When the Bank derecognises financial investments AFS, the cumulative unrealised gain or loss previously recognised in the 'unrealised holding reserves' is reclassified to the income statement under the caption of 'other operating income'.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

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

(i) Financial assets (cont'd.)

(c) Derecognition

A financial asset is derecognised when:

- (1) The rights to receive cash flows from the financial asset have expired; or
- (2) The Bank has transferred its rights to receive cash flows from the financial asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement; and either:
 - (i) the Bank has transferred substantially all the risks and rewards of the financial asset, or
 - (ii) the Bank has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset.

When the Bank has transferred its rights to receive cash flows from a financial asset or has entered into a "pass through" arrangement, they evaluate to what extent they have retained the risks and rewards of ownership. When the Bank has neither transferred nor retained substantially all the risks and rewards of the financial asset and have not transferred control of the financial asset, the Bank continues to recognise the transferred financial asset to the extent of the Bank's continuing involvement in the financial asset. In that case, the Bank also recognises an associated financial liability. The transferred financial asset and associated financial liability are measured on a basis that reflect the rights and obligations that the Bank has retained.

(d) Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset, including security or a group of securities (other than financial assets at FVTPL) is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event(s) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

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

(i) Financial assets (cont'd.)

(d) Impairment of financial assets (cont'd.)

Evidence of impairment may include indications that the customer or a group of customers experiencing significant financial difficulty, the probability that they will enter bankruptcy or other reorganisation, default or delinquency in profit or principal payments or where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults.

(1) Financing and receivables

(i) Financing and advances

Classification of financing and advances as impaired

Financing and advances are classified as impaired when:

- principal or profit or both are past due more than three (3) months; or
- financing in arrears for less than three (3) months exhibit indications of credit weaknesses; or
- an impaired financing has been rescheduled or restructured, the financing will continue to be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of six (6) months; or
- default occurs for repayments scheduled on intervals of three (3) months or longer.

Impairment Process – Individual Assessment

The Bank assesses if objective evidences of impairment exist for financing and advances which are deemed to be individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the carrying amount of the financing and advances and the present value of the estimated future cash flows discounted at the original effective yield/profit rate of the financing and advances. The carrying amount of the financing and advances is reduced through the use of an impairment allowance account and the amount of the impairment loss is recognised in the income statement.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

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

(i) Financial assets (cont'd.)

(d) Impairment of financial assets (cont'd.)

(1) Financing and receivables (cont'd.)

(i) Financing and advances (cont'd.)

Impairment Process – Collective Assessment

Financing and advances which are not individually significant and that have been individually assessed with no evidence of impairment loss are grouped together for collective impairment assessment. These financing and advances are grouped within similar credit risk characteristics for collective assessment, whereby data from the financing portfolio (such as credit quality, levels of arrears, credit utilisation, financing to collateral ratios etc.) and concentrations of risks (such as the performance of different individual groups) are taken into consideration.

Future cash flows in a group of financing and advances that are collectively evaluated for impairment are estimated based on the historical loss experience of the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that do not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for a group of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Impairment Process – Subsequent Measurement

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 written back by adjusting the allowances for impairment losses on financing and advances account.

Maybank Islamic Berhad
(Incorporated in Malaysia)

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

(i) Financial assets (cont'd.)

(d) Impairment of financial assets (cont'd.)

(1) Financing and receivables (cont'd.)

(i) Financing and advances (cont'd.)

Impairment Process – Written-off accounts

When there is no realistic prospect of future recovery, the financing and advances are written off against the related allowance for impairment. Such financing and advances are written-off after the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts which previously written-off are recognised in the income statement under the caption of 'allowances for impairment losses on financing and advances'.

(ii) Other receivables

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Bank consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced through the use of an impairment allowance account and the amount of the impairment loss is recognised in the income statements.

If in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in the income statements.

Maybank Islamic Berhad
(Incorporated in Malaysia)

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

(i) Financial assets (cont'd.)

(d) Impairment of financial assets (cont'd.)

(2) Financial investments available-for-sale ("AFS")

For financial investments AFS, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as financial investments AFS, the objective evidence would include a "significant" or "prolonged" decline in the fair value of the investment below its cost. The Bank treats "significant" generally as 25% and "prolonged" generally as four consecutive quarters. When there is evidence of impairment, the cumulative loss (which is measured as the difference between the acquisition cost and the current fair value, less any accumulated impairment loss on that investment previously recognised in the income statement) that had been recognised in other comprehensive income is reclassified from equity to income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

For unquoted equity securities carried at cost, impairment loss is measured as the difference between the securities' carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar securities.

The amount of impairment loss for unquoted equity securities is recognised in the income statement and such impairment losses are not reversed subsequent to its recognition until actual cash is received.

For quoted equity securities, its impairment losses are not reversed subsequent to its recognition until such equities are disposed.

In the case of debt instruments classified as financial investments AFS, the impairment is assessed based on the same criteria as other AFS financial investments . However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any accumulated impairment loss on that investment previously recognised in the income statement.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

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

(i) Financial assets (cont'd.)

(d) Impairment of financial asset (cont'd.)

(2) Financial investments available-for-sale ("AFS") (cont'd.)

Future profit income continues to be accrued based on the reduced carrying amount of asset by using the rate of profit which is used to discount the future cash flows for the purpose of measuring the impairment loss. If in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

(e) Reclassification of financial assets

The Bank may choose to reclassify non-derivative assets out of the financial assets at FVTPL category, in rare circumstances, where the financial assets are no longer held for the purpose of selling or repurchasing in the short term. In addition, the Bank may also choose to reclassify financial assets that would meet the definition of financing and receivables out of the financial assets at FVTPL or financial investments AFS if the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Reclassifications are made at fair value as at the reclassification date, whereby the fair value becomes the new cost or amortised cost, as applicable.

For a financial asset reclassified out of the financial investments AFS, any previous gain or loss on that asset that has been recognised in equity is amortised to the income statement over the remaining life of the asset using the effective yield method. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective yield method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the income statement.

Reclassification is at the election of management, and is determined on an instrument-by-instrument basis. The Bank did not reclassify any financial instrument into the FVTPL category after initial recognition or reclassify any financial instrument out of financial investments AFS during the current and previous financial year.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

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

(ii) Financial liabilities

(a) Date of recognition

All financial liabilities are initially recognised on the trade date i.e. the date that the Bank becomes a party to the contractual provision of the instruments. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(b) Initial recognition and subsequent measurement

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. All financial liabilities are measured initially at fair value plus directly attributable transaction costs, except in the case of financial liabilities at FVTPL.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

(1) Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities HFT and financial liabilities designated upon initial recognition at FVTPL.

Financial liabilities held-for-trading

Financial liabilities are classified as held-for-trading if they are incurred for the purpose of repurchasing in the near term. This category includes derivatives entered into by the Bank that do not meet the hedge accounting criteria.

Gains or losses on financial liabilities HFT are recognised in the income statements.

Financial liabilities designated at fair value

Financial liabilities designated upon initial recognition at FVTPL are designated at the initial date of recognition, and only if the criteria in MFRS 139 are satisfied.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

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

(ii) Financial liabilities (cont'd.)

(b) Initial recognition and subsequent measurement (cont'd.)

(2) Other financial liabilities

The Bank's other financial liabilities include deposits from customers, investment accounts of customers, deposits and placements of banks and other financial institutions, debt securities (including borrowings), payables, bills and acceptances payable and other liabilities.

(1) Deposits from customers, investment accounts of customers and deposits and placements from banks and other financial institutions

Deposits from customers, investment accounts of customers, deposits and placements of banks and financial institutions are stated at placement values.

(2) Debt securities

Debt securities issued by the Bank are classified as financial liabilities or equity in accordance with the substance of the contractual terms of the instruments. The Bank's debt securities issued consist mainly of subordinated notes, Innovative Tier I capital securities and borrowings.

These debt securities are classified as liabilities in the statement of financial position as there is a contractual obligation by the Bank to make cash payments of either principal or profit or both to holders of the debt securities and that the Bank is contractually obliged to settle the financial instrument in cash or another financial instrument.

Subsequent to initial recognition, debt securities issued are recognised at amortised cost, with any difference between proceeds net of transaction costs and the redemption value being recognised in the income statement over the period of the borrowings on an effective yield method.

(3) Payables

Payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective yield method.

Maybank Islamic Berhad
(Incorporated in Malaysia)

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

(ii) Financial liabilities (cont'd.)

(b) Initial recognition and subsequent measurement (cont'd.)

(2) Other financial liabilities (cont'd.)

(4) Bills and acceptances payable

Bills and acceptances payable represent the Bank's own bills and acceptances rediscounted and outstanding in the market. These financial liabilities are measured at amortised cost using the effective yield method.

(5) Other liabilities

Other liabilities are stated at cost which is the fair value of the consideration expected to be paid in the future for goods and services received.

(c) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the original financial liability and the consideration paid is recognised in the income statement.

(iii) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position of the Bank if there is a currently enforceable legal right to offset the recognised amount and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The financial assets and financial liabilities of the Bank that are subject to offsetting, enforceable master netting arrangements and similar agreements are disclosed in Note 37.

Maybank Islamic Berhad
(Incorporated in Malaysia)

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

(iv) Derivative financial instruments and hedge accounting

(a) Derivative financial instruments

The Bank's derivatives include profit rate swaps, foreign exchange swap, forward foreign exchange contracts and options on profit rates and foreign currencies.

Derivative financial instruments are initially recognised at fair value. For non-option derivatives, their fair value are normally zero or negligible at inception. For purchased or written options, their fair value are equivalent to the market premium paid or received. The derivatives are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques that include discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the income statement.

(b) Hedge accounting

The Bank uses derivative instruments to manage exposures to profit rate, foreign currency and credit risks. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria.

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

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting.

Hedge ineffectiveness is recognised in the income statement. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

Maybank Islamic Berhad
(Incorporated in Malaysia)

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

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

(b) Hedge accounting(cont'd.)

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

(1) Fair value hedge

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging instrument is recognised in the income statement. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying amount of the hedged item in the statement of financial position and is also recognised in the income statement.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying amount is amortised over the remaining term of the hedge using the effective yield/profit method. Effective yield/profit rate amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

The Bank did not apply fair value hedge as at the end of the current and previous financial year.

(2) Cash flow hedge

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the income statement.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument previously recognised as other comprehensive income is transferred to the corresponding income or expense line of the income statement.

Maybank Islamic Berhad
(Incorporated in Malaysia)

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

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

(b) Hedge accounting(cont'd.)

(2) Cash flow hedge (cont'd.)

When a hedging instrument expires, or is sold, terminated, exercised or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to income statement.

The Bank did not apply cash flow hedge as at end of the current and previous financial year.

(v) Embedded derivatives

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the income statement.

(vi) Other assets

Other assets are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding balances as at the reporting date.

(vii) Cash and short-term funds

Cash and short-term funds in the statement of financial position comprise cash balances and deposits with financial institutions and money at call with a maturity of one month or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents comprise of cash and short-term funds, as defined above and deposits and placements with financial institutions, with the original maturity of 3 months or less.

**Maybank Islamic Berhad
(Incorporated in Malaysia)****3. Summary of significant accounting policies (cont'd.)****(viii) Impairment of non-financial assets**

The carrying amounts of non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If there is such indication or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit ("CGU")'s fair value less costs to sell and its value-in-use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The Bank bases its value-in-use calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Bank's CGU to which the individual assets are allocated. 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. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

For other non-financial assets, an assessment is made at each reporting date as to whether any indication that previously resulted in impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds 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. Such reversal is recognised in the income statement.

(ix) Provisions

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

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed and recognised in income statement.

**Maybank Islamic Berhad
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3. Summary of significant accounting policies (cont'd.)

(x) Foreign currencies

(a) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia ("RM") which is the Bank's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions are recognised in the income statement.

(b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Bank and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

(xi) Income and deferred taxes

(a) Income tax

Current tax assets/recoverable and current tax liabilities/provisions are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Income taxes for the year comprises current and deferred taxes.

Current tax expense relating to items recognised directly in equity, is recognised in other comprehensive income or in equity and not in the income statements.

Details of income taxes for the Bank are disclosed in Note 30.

(b) Deferred tax

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts at the reporting date.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

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

(xi) Income and deferred taxes (cont'd.)

(b) Deferred tax (cont'd.)

Deferred tax liabilities are recognised for all temporary differences, except:

- (i) when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- (i) when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

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

(xi) Income and deferred taxes (cont'd.)

(b) Deferred tax (cont'd.)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside income statement is recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Details of deferred tax assets and liabilities are disclosed in Note 18.

(xii) Zakat

This represents business zakat payable by the Bank to comply with the principle of Shariah. Zakat provision is calculated based on 'Adjusted Growth' method, at 2.5%. The beneficiaries of the zakat fund are determined by the Zakat Committee and subject to the approval of the Shariah Committee.

(xiii) Fair value measurement

The Bank measures financial instruments such as financial investments at FVTPL, financial investments AFS and derivatives at fair value at each statement of financial position date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

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

(xiii) Fair value measurement (cont'd.)

The principal or the most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between fair value hierarchy levels by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The fair value hierarchies of financial instruments and further details as to how they are measured are disclosed in Note 36 - Fair values of financial assets and financial liabilities.

In addition, the fair value hierarchies of financial instruments that are measured at amortised cost are also disclosed in Note 36 under the section - Fair values of financial instruments not carried at fair value.

Maybank Islamic Berhad
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3. Summary of significant accounting policies (cont'd.)

(xiv) Income recognition

For all financial instruments measured at amortised cost and profit-bearing financial investments classified as held-for-trading and available-for-sale, profit income for all profit-bearing financial instruments are recognised within finance income in the income statement using the effective yield method.

The effective yield/profit rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the finance income over the relevant period. The effective yield/profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective yield/profit rate, the Bank takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate, but does not consider future credit losses.

Profit on impaired financial assets is recognised using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss.

All income and expense from the business are recognised on an accrual basis in accordance with the principles of Shariah.

(xv) Other operating income

Commitment and guarantee fees are recognised as income based on time apportionment basis.

Handling fees paid to motor vehicle dealers for Islamic hire purchase financing are amortised in the income statement over the tenure of the financing in accordance with BNM's Circular on "Accounting Treatment of Handling Fees for Hire Purchase Financing" dated 16 October 2006 and is set off against income recognised on the Islamic hire purchase financing.

(xvi) Financing and related expense recognition

Finance cost and income attributable to deposits and borrowings of the Bank are amortised using the effective yield method.

**Maybank Islamic Berhad
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3. Summary of significant accounting policies (cont'd.)

(xvii) Employee benefits

(a) Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the income statement in the year in which the associated services are rendered by employees of the Bank. 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.

(b) Defined contribution plans

As required by law, companies in Malaysia make contributions to the Employees Provident Fund ("EPF"). Certain foreign branches of the Bank and subsidiaries make contributions to their respective countries' statutory pension schemes. Such contributions are recognised as an expense in the income statement when incurred.

(c) Share-based compensation

(i) Employee Share Option Scheme ("ESOS")

The ESOS is an equity-settled share-based compensation plan that allows the Bank's Directors and employees to acquire shares of the parent. The total fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the amount due to parent over the vesting period and taking into account the probability that the options will vest. The fair value of share options is measured at grant date, taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on vesting date.

At each reporting date, the parent revises its estimates of the number of options that are expected to become exercisable over the vesting period.

**Maybank Islamic Berhad
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3. Summary of significant accounting policies (cont'd.)

(xvii) Employee benefits (cont'd.)

(c) Share-based compensation

(ii) Restricted share units (“RSU”)

Senior management personnel of the parent are entitled to performance-based restricted shares as consideration for services rendered. The RSU may be settled by way of issuance and transfer of new parent shares or by cash at the absolute discretion of the Employees' Share Scheme ("ESS") Committee. The total fair value of RSU granted to senior management employees is recognised as an employee cost with a corresponding increase in the reserve within the parent's equity over the vesting period and taking into account the probability that the RSU will vest. The fair value of RSU is measured at grant date, taking into account, the market vesting conditions upon which the RSU were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of shares that are expected to be awarded on the vesting date.

(xviii) Contingent assets and contingent liabilities

Contingent assets arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Bank. The Bank does not recognise contingent assets but discloses its existence when inflows of economic benefits are probable, but not virtually certain.

Contingent liabilities are possible obligations that arise from past events, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably. The Bank does not recognise contingent liabilities. Contingent liabilities are disclosed, unless the probability of outflow of economic benefits is remote.

Maybank Islamic Berhad
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3. Summary of significant accounting policies (cont'd.)

(xix) Restricted Profit Sharing Investment Accounts (“RPSIA”)

RPSIA placements are used to fund specific financing and are based on the principle of Mudharabah whereby profits will be shared between the Bank as Mudharib and the investors as Rabbul Mal whereas losses shall be borne solely by the investors. These placements and financing are recorded in the Bank's financial statement as its liabilities and assets in accordance with MFRS 139. Any impairment allowances required on the financing are not recognised in the profit or loss of the Bank but charged to and borne by the investors.

All assets financed by the RPSIA are excluded from the computation of Collective Allowance and Capital ratio as disclosed in Notes 8 and 39 respectively.

(xx) Changes in accounting policies and disclosures

On 1 January 2016, the Bank adopted the following amendments to MFRS and annual improvements to MFRSs:

Description	Effective for annual periods beginning on or after
MFRS 10 Consolidated Financial Statements - Investment Entities: Applying the Consolidation Exception (Amendments to MFRS 10)	1 January 2016
MFRS 11 Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations (Amendments to MFRS 11)	1 January 2016
MFRS 14 Regulatory Deferral Accounts	1 January 2016
MFRS 101 Presentation of Financial Statements - Disclosure Initiative (Amendments to MFRS 101)	1 January 2016
MFRS 127 Separate Financial Statements - Equity Method in Separate Financial Statements (Amendments to MFRS 127)	1 January 2016
MFRS 128 Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception (Amendments to MFRS 128)	1 January 2016
Annual Improvements to MFRSs 2012 - 2014 Cycle	1 January 2016

Adoption of the above amendments to MFRS and annual improvements to MFRSs did not have any effect on the financial performance or position of the Bank.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

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

(xxi) Significant changes in regulatory requirements (cont'd.)

Revised Bank Negara Malaysia's ("BNM") Policy Document on Financial Reporting for Islamic Banking Institutions

On 5 February 2016, BNM issued a revised Policy Document on Financial Reporting for Islamic Banking Institutions ("revised policy document"). This revised policy document has taken effect on 5 February 2016 and it applies to all licensed Islamic banks and licensed banks which is carrying on Islamic banking businesses, except for licensed international Islamic bank. The issuance of this revised policy document has superseded the policy document issued by BNM previously, namely Financial Reporting for Islamic Banking Institutions dated 28 January 2015.

The requirements in this revised policy document are as follows:

- (i) The requirement to present the carrying amount, income and expense related to Islamic deposit and investment account as separate line items in its financial statements;

As at 31 December 2016, the Bank has presented the required disclosures in Note 13 and Note 23.

- (ii) The requirement to disclose investment accounts customers with a breakdown by:

- types of investment account (e.g. unrestricted or restricted investment account) and further breakdown by Shariah contracts (e.g. wakalah and mudarabah);
- for investment accounts which qualify as unlisted capital market products under the Capital Markets and Services Act 2007 ("CMSA"), to disclose the carrying amount of investment account by type of product;
- types of customers; and
- maturity structures of investment account with maturity.

As at 31 December 2016, the Bank has presented the required disclosures in Note 13.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

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

(xxi) Significant changes in regulatory requirements (cont'd.)

Revised Bank Negara Malaysia's ("BNM") Policy Document on Financial Reporting for Islamic Banking Institutions (cont'd.)

(iii) The requirement to disclose investment account due to/ from designated financial institutions with a breakdown by:

- types of investment account and further breakdown by Shariah contracts; and
- types of counterparty (e.g. licensed Islamic banks, licensed banks)

The Bank does not have unrestricted investment account that is due to/ from designated financial institution as at 31 December 2016.

Companies Act 2016

The Companies Act 2016 ("New Act") was enacted to replace the Companies Act, 1965 in Malaysia with the objectives of creating a legal and regulatory structure that will facilitate business and promote accountability as well as protection of corporate directors and shareholders, taking into consideration the interest of other stakeholders. The New Act was passed on 4 April 2016 by the Dewan Rakyat (House of Representative) and gazetted on 15 September 2016. On 26 January 2017, the Minister of Domestic Trade Co-operatives and Consumerism announced that the date on which the New Act comes into operation, except section 241 and Division 8 of Part III of the New Act, would be 31 January 2017.

Amongst the key changes introduced in the New Act which will affect the financial statements of the Bank upon the commencement of the New Act on 31 January 2017 are:

- the removal of the authorised share capital;
- the ordinary shares of the Bank will cease to have par or nominal value; and
- the Bank's share premium will become part of the share capital.

The adoption of the New Act is not expected to have any financial impact on the Bank for the current financial year ended 31 December 2016 as any accounting implications will only be applied prospectively, if applicable, and the effect of adoption mainly will be on the disclosures to the annual report and financial statements of the Bank in the next financial year ended 31 December 2017.

Maybank Islamic Berhad
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3. Summary of significant accounting policies (cont'd.)

(xxii) Standards and annual improvements to standards issued but not yet effective

The following are standards and annual improvements to standards issued by Malaysian Accounting Standard Board ("MASB"), but not yet effective, up to the date of issuance of the Bank's financial statements. The Bank intends to adopt these standards and annual improvements to standards, if applicable, when they become effective:

	Effective for annual periods beginning on or after
• <i>MFRS 9 Financial Instruments</i>	1 January 2018
• <i>MFRS 10 Consolidated Financial Statements - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 10)</i>	To be announced by MASB
• <i>MFRS 15 Revenue from Contracts with Customers</i>	1 January 2018
• <i>MFRS 16 Leases</i>	1 January 2019
• <i>MFRS 107 Statement of Cash Flows - Disclosure Initiative (Amendments to MFRS 107)</i>	1 January 2017
• <i>MFRS 112 Income Taxes - Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)</i>	1 January 2017
• <i>MFRS 128 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 128)</i>	To be announced by MASB
• Annual Improvements to IFRSs 2014-2016 Cycle	
(i) <i>Amendments to MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards</i>	1 January 2018
(ii) <i>Amendments to MFRS 128 Investments in Associates and Joint Ventures</i>	1 January 2018
(iii) <i>Amendments to MFRS 12 Disclosure of Interests in Other Entities</i>	1 January 2017
• <i>IC Interpretation 22 Foreign Currency Transactions and Advance Consideration</i>	1 January 2018

MFRS 9 Financial Instruments

The International Accounting Standards Board ("IASB") issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not compulsory.

**Maybank Islamic Berhad
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3. Summary of significant accounting policies (cont'd.)

(xxii) Standards and annual improvements to standards issued but not yet effective (cont'd.)

MFRS 9 Financial Instruments (cont'd)

MFRS 9 is issued by the MASB in respect of its application in Malaysia. It is equivalent to IFRS 9 as issued by IASB, including the effective and issuance dates. The areas with expected significant impact from application of MFRS 9 are summarised below:

(i) Classification and measurement

MFRS 9 requires financial assets to be classified on the basis of two criteria:

- (1) The business model within financial assets are managed; and
- (2) The contractual cash flow characteristic.

Financial assets will be measured at amortised cost if the assets held within a business model whose objectives is to hold financial assets in order to collect contractual cash flows which represent solely payments of principal and profit.

Financial assets will be measured at fair value through other comprehensive income ("FVOCI") if the assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual cash flows represent solely payments of principal and profit.

Financial assets which are neither held at amortised cost nor at FVOCI will be measured at FVTPL.

Equity instruments are normally measured at FVTPL. However, for non-traded equity instruments, with an irrevocable option at inception, to measure changes through FVOCI (i.e without recycling profit or loss upon derecognition).

Classification and measurement of financial liabilities will remain largely unchanged, other than the fair value gains and losses attributable to changes in 'own credit risk' for financial liabilities designated and measured at FVTPL to be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

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

(xxii) Standards and annual improvements to standards issued but not yet effective (cont'd.)

MFRS 9 Financial Instruments (cont'd.)

(ii) Impairment

The MFRS 9 impairment requirements are based on an Expected Credit Loss (“ECL”) model that replaces the Incurred Loss model under the current accounting standard. The ECL model applies to financial assets measured at amortised cost or at FVOCI, irrevocable loan commitments and financial guarantee contracts, which will include financing and advances and debt instruments held by the Bank. The ECL model also applies to contract assets under MFRS 15 *Revenue from Contracts with Customers* and lease receivables under MFRS 117 *Leases*.

The measurement of expected loss will involve increased complexity and judgement that include:

- Determining a significant increase in credit risk since initial recognition

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 ECLs and one that is based on lifetime ECLs. 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 Group and the Bank will be generally required to apply a three-stage approach based on the change in credit quality since initial recognition:

(i) Stage 1: 12-month ECL

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

(ii) Stage 2: Lifetime ECL - non-credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but that are non-credit impaired, the lifetime ECL will be recognised.

(iii) Stage 3: Lifetime ECL - credit impaired

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

**Maybank Islamic Berhad
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3. Summary of significant accounting policies (cont'd.)

(xxii) Standards and annual improvements to standards issued but not yet effective (cont'd.)

MFRS 9 Financial Instruments (cont'd.)

(ii) Impairment (cont'd.)

The measurement of expected loss will involve increased complexity and judgement that include (cont'd.):

- **Expected Life**
Lifetime expected credit losses must be measured over the expected life. This is restricted to the maximum contractual life and takes into account expected prepayment, extension, call and similar options, except for certain revolver financial instruments such as credit cards and cashline. The expected life for these revolver facilities is expected to be behavioural life.
- **Forward Looking information**
Expected credit losses are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions.

(iii) Hedge accounting

The requirements for general hedge accounting have been simplified for hedge effectiveness testing and may result in more designations of hedged items for accounting purposes.

The Bank has established a project team with assistance from external consultants to plan and manage the implementation of MFRS 9. This implementation project consists of the following phases:

(a) Phase 1 - Impact assessment and solution development

This phase involves the following:

- (i) Provide a clear understanding of the new accounting requirements via training;
- (ii) Perform gap and impact assessment;
- (iii) Understand the interdependencies with other projects; and
- (iv) Develop MFRS 9 blue-print.

**Maybank Islamic Berhad
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3. Summary of significant accounting policies (cont'd.)

(xxii) Standards and annual improvements to standards issued but not yet effective (cont'd.)

MFRS 9 Financial Instruments (cont'd.)

The Bank has established a project team with assistance from external consultants to plan and manage the implementation of MFRS 9. This implementation project consists of the following phases (cont'd.):

(b) Phase 2 - Build, test and deploy

This phase aims to:

- (i) Develop detailed implementation plan;
- (ii) Determine accounting policies to be adopted by the Bank; and
- (iii) Identify optimal solutions for the Bank.

(c) Phase 3 - Go live

This phase will involve the following:

- (i) Parallel run and deployment of solution tools; and
- (ii) Re-assessment of solution tools and conclusion.

During the financial year ended 31 December 2016, the Bank had completed Phase 1 and had embarked on Phase 2 of the implementation project. The assessment made by the Bank is based on currently available information and may be subject to changes arising from further detailed analysis or additional reasonable and supportable information being made available to the Bank in the future.

Overall, the Bank anticipate significant impact to the financial statements in the areas of classification and measurement for financial assets and impairment. The classification and measurement requirements will affect the presentation and disclosures within the Bank's financial statements whilst the impairment requirements are expected to result in a higher allowance for impairment losses. The Bank will perform a detailed assessment in year 2017 to determine the extent of the impact.

**Maybank Islamic Berhad
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3. Summary of significant accounting policies (cont'd.)

(xxii) Standards and annual improvements to standards issued but not yet effective (cont'd.)

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

The amendments address the conflict between MFRS 10 and MFRS 128 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments require the full gain to be recognised when the assets transferred to associate or joint venture in which it meets the definition of a business as defined in MFRS 3 Business Combinations. Any gain or loss on assets transferred to associate or joint venture that do not meet the definition of a business would be recognised only to the extent of the unrelated investors' interest in the associate or joint venture. The amendments are applied prospectively effective for periods beginning on or after 1 January 2016, with early application is permitted.

On 31 December 2015, MASB announced to defer the effective date of the amendments, except for the amendments which clarify how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests, where early application is still permitted. The deferment is in line with the IASB's recent decision which removed the requirement to apply Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 10 and MFRS 128) by 2016. The IASB's reason for making the decision to defer the effective date is that the IASB is planning a broader review that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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

(xxii) Standards and annual improvements to standards issued but not yet effective (cont'd.)

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under MFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in MFRS 15 provide a more structured approach (i.e. five-step model) to measure and recognise revenue. The five-step model that will apply to revenue recognition under MFRS 15 is as follows:

- 1) Identify the contract(s) with a customer;
- 2) Identify the performance obligations in the contract;
- 3) Determine the transaction price;
- 4) Allocate the transaction price to the performance obligations in the contract; and
- 5) Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. New disclosure requirements under MFRS 15 which include disaggregated information about revenue and information about the performance obligations remaining at the reporting date.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under MFRS (including MFRS 111 Construction Contracts, MFRS 118 Revenue, IC Interpretation 13 Customer Loyalty Programmes, IC Interpretation 15 Agreements for the Construction of Real Estate, IC Interpretation 18 Transfers of Assets from Customers and IC Interpretation 131 Revenue – Barter Transactions Involving Advertising Services).

The effective date of IFRS 15 on 1 January 2017 was removed by IASB. The amendments on new revenue standard issued by the IASB in September 2015 has confirmed that the effective date of IFRS 15 will be deferred by one year to 1 January 2018 and entities will continue to have the option to early adopt the new revenue standard. The IASB had proposed the deferral as it has tentatively decided to propose some targeted amendments to IFRS 15 that some entities may wish to apply at the same time as they first apply IFRS 15.

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

(xxii) Standards and annual improvements to standards issued but not yet effective (cont'd.)

MFRS 15 Revenue from Contracts with Customers (cont'd.)

MFRS 15 is issued by the MASB in respect of its application in Malaysia. To coincide with the new effective date of IFRS 15 issued by IASB, MASB has also issued a notice on 28 October 2015 to defer the effective date of MFRS 15 to 1 January 2018. The Bank are in the process of assessing the financial implication for adopting the new standard and plan to adopt the new standard on the required effective date.

MFRS 16 Leases

MFRS 16 replaces the existing standards on leases, MFRS 117. It eliminates the current dual accounting model for leases, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under MFRS 16, lessees are required to recognise all leases in their balance sheets in the form of an asset (for the right to use) and a lease liability (for the payment obligation). Exception is granted for leases which are for the term 12 months or less or where the underlying lease assets are of low value. For such leases, lessees may elect to expense off the lease payments on a straight line basis over the lease term or using other systematic method.

MFRS 16 has substantially retained the lessor accounting model in MFRS 117. A lessor still has to classify leases as either finance or operating leases, depending on whether substantially all the risk and rewards incidental to ownership of the underlying asset have been transferred to the lessee. The Bank are in the process of assessing the financial implication for adopting the new standard and plan to adopt the new standard on the required effective date.

MFRS 107 Statement of Cash Flows - Disclosure Initiatives (Amendments to MFRS 107)

The amendments requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (for example foreign exchange movements and fair value changes).

The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. On initial application of this amendment, entities are not required to provide comparative information for preceding periods. Application of the amendments will result in additional disclosures to be provided by the Bank.

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

(xxii) Standards and annual improvements to standards issued but not yet effective (cont'd.)

MFRS 112 *Income Taxes - Recognition of Deferred Tax for Unrealised Losses* (Amendments to MFRS 112)

The amendments clarify that deductible tax difference will arise from unrealised losses of debt instruments classified at fair value regardless of whether the holder expects to recover the carrying amount by holding the debt instrument until maturity or by selling the debt instrument.

In circumstances where tax law restricts the utilisation of tax losses such that an entity can only deduct the tax losses against income of a specified type, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments also clarify that when estimating taxable profit of future periods, an entity can assume that an asset will be recovered for more than its carrying amount if that recovery is probable and the asset is not impaired. All relevant facts and circumstances should be assessed when making this assessment.

In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with the future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary

The amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. The amendments should be applied retrospectively. However, on initial application of the amendments, adjustment to the opening equity of the earliest comparative period may be recognised in opening retained earnings, without allocating the change between retained earnings and other components of equity. If this relief is applied, the entity must disclose this fact. The Bank do not anticipate significant impact to the financial statements upon adoption of the amendments.

Annual Improvements to IFRSs 2014-2016 Cycle

The following amendment is effective for annual periods beginning on or after 1 January 2017:

(i) Amendments to MFRS 12 Disclosure of Interests in Other Entities

The amendment clarifies the scope of MFRS 12 by specifying that its disclosure requirements (except for those in MFRS 12.B17) apply to an entity's interests irrespective of whether they are classified (or included in a disposal group that is classified) as held for sale or as discontinued operations in accordance with MFRS 5.

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

(xxii) Standards and annual improvements to standards issued but not yet effective (cont'd.)

Annual Improvements to IFRSs 2014-2016 Cycle (cont'd.)

(i) Amendments to MFRS 12 Disclosure of Interests in Other Entities (cont'd.)

The amendment is applied retrospectively. The Bank do not anticipate significant impact to the financial statements upon adoption of the amendment.

The following amendments are effective for annual periods beginning on or after 1 January 2018:

(ii) Amendments to MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards

The amendment removed a number of short-term exemptions because the reliefs provided are no longer available or because they were relevant for reporting periods that have now passed. The Bank do not anticipate significant impact to the financial statements upon adoption of the amendment.

(iii) Amendments to MFRS 128 *Investments in Associates and Joint Ventures*

The amendment clarifies that a venture capital organisation, or a mutual fund, unit trust and similar entities (including investment-linked insurance funds) may choose, on an investment by investment basis, to account for its investments in joint ventures and associates at fair value or using the equity method. The method chosen for each investment must be made on initial recognition.

The amendment is applied retrospectively with earlier application permitted. The Bank do not anticipate significant impact to the financial statements upon adoption of the amendment.

IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

IC Interpretation 22 addresses the exchange rate that should be used to measure revenue (or expense) when the related consideration was received (or paid) in advance. It requires that the exchange rate to use is the one that applied when the non-monetary liability (or asset) arising from the receipt (or payment) of advance consideration was initially recognised.

IC Interpretation 22 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Bank are in the process of assessing the financial implication for adopting the interpretation and plan to adopt the new interpretation on the required effective date.

**Maybank Islamic Berhad
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The preparation of the Bank's financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of income, expenses, assets, liabilities, the accompanying disclosures and the disclosure of contingent liabilities. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results may differ.

In the process of applying the Bank's accounting policies, management has made the following judgments:

4.1 Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

4.2 Impairment of financial investments portfolio (Note 7)

The Bank reviews their financial investments AFS and financial investments HTM at each reporting date to assess whether there are any objective evidence that these investments are impaired. If there are indicators or objective evidence, these investments are subjected to impairment review.

In carrying out the impairment review, the following management's judgments are required:

- (i) Determination whether the investment is impaired based on certain indicators such as, amongst others, prolonged decline in fair value, significant financial difficulties of the issuers or obligors, the disappearance of an active trading market and deterioration of the credit quality of the issuers or obligors; and
- (ii) Determination of "significant" or "prolonged" requires judgment and management evaluation on various factors, such as historical fair value movement, the duration and extent of reduction in fair value.

4.3 Fair value estimation of financial investments at FVTPL (Note 7), financial investments AFS (Note 7) and derivative financial instruments (Note 9)

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair values are measured using valuation techniques. Valuation techniques include the discounted cash flows method, option pricing models, credit models and other relevant valuation models.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

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4. Significant accounting judgments, estimates and assumptions (cont'd.)

4.4 Impairment losses on financing and advances (Notes 8 and 25)

The Bank reviews its individually significant financing and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the obligor's or the customer's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowances.

Financing and advances that have been assessed individually but for which no impairment is required and all individually insignificant financing and advances are then assessed collectively, in groups of assets with similar credit risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects of which are not yet evident. The collective assessment takes account of data from the financing portfolio (such as credit quality, levels of arrears, credit utilisation, financing to collateral ratios etc.) and judgments on the effect of concentrations of risks (such as the performance of different individual groups).

4.5 Deferred tax (Note 18) and income taxes (Note 30)

The Bank is subject to income taxes in Malaysia and significant judgment is required in estimating the provision for income taxes. There are many transactions and interpretations of tax law for which the final outcome will not be established until some time later. Liabilities for taxation are recognised based on estimates of whether additional taxes will be payable. The estimation process includes seeking advice on the tax treatments where appropriate. Where the final liability for taxation is different from the amounts that were initially recorded, the differences will affect the income tax and deferred tax provisions in the year in which the estimate is revised or the final liability is established.

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits,

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5. Cash and short-term funds

	31.12.2016 RM'000	31.12.2015 RM'000
Cash and balances with banks and other financial institutions	340	71
Money at call and interbank placements with remaining maturity not exceeding one month	<u>15,535,652</u>	<u>8,815,433</u>
	<u>15,535,992</u>	<u>8,815,504</u>

6. Deposits and placements with banks and other financial institutions

	31.12.2016 RM'000	31.12.2015 RM'000
Licensed islamic banks	451,188	-
Licensed investment banks	200,370	-
	<u>651,558</u>	<u>-</u>

7. Financial investments portfolio

	Note	31.12.2016 RM'000	31.12.2015 RM'000
Financial investments available-for-sale	(i)	8,719,654	8,992,429
Financial investments at fair value through profit or loss	(ii)	<u>252,451</u>	<u>335,384</u>
		<u>8,972,105</u>	<u>9,327,813</u>

(i) Financial investments available-for-sale

	31.12.2016 RM'000	31.12.2015 RM'000
At fair value		
Money market instruments:		
Malaysian Government Investment Issues	4,337,818	3,736,122
Negotiable instruments of deposits	3,088,513	3,648,665
Khazanah sukuk	-	67,804
	<u>7,426,331</u>	<u>7,452,591</u>

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7. Financial investments portfolio (cont'd.)

(i) Financial investments available-for-sale (cont'd.)

	31.12.2016	31.12.2015
	RM'000	RM'000
Unquoted securities:		
Corporate sukuk in Malaysia	1,189,659	1,414,039
Foreign Islamic Corporate sukuk	53,989	34,177
Malaysian Government sukuk	48,925	91,122
Equity	750	500
	<u>1,293,323</u>	<u>1,539,838</u>
Total financial investments available-for-sale	<u>8,719,654</u>	<u>8,992,429</u>

The maturity structure of money market instruments is as follows:

	31.12.2016	31.12.2015
	RM'000	RM'000
Maturing within one year	3,186,311	3,716,868
One year to three years	444,148	316,544
Three years to five years	475,241	1,531,404
After five years	3,320,631	1,887,775
	<u>7,426,331</u>	<u>7,452,591</u>

(ii) Financial investments at fair value through profit or loss

	31.12.2016	31.12.2015
	RM'000	RM'000
At fair value		
Unquoted securities:		
Foreign Islamic Corporate sukuk	252,451	335,384
Total financial investments at fair value through profit or loss	<u>252,451</u>	<u>335,384</u>

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8. Financing and advances

(i) By type and Shariah concepts

	Bai'^	Murabahah	Musharakah	Al-Ijarah Thumma Al-Bai (AITAB)	Ijarah	Istisna'	Others	Total financing and advances
31.12.2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cashline	-	4,844,236	-	-	-	157	-	4,844,393
Term financing								
- House financing	19,101,421	59,662,500	2,563,623	-	-	-	-	81,327,544
- Syndicated financing	-	785,260	-	-	-	-	-	785,260
- Hire purchase receivables	-	-	-	36,148,172	-	-	-	36,148,172
- Other term financing	27,660,430	69,777,874	1,339,766	-	118,178	148,079	54,879	99,099,206
Bills receivable	-	793	-	-	-	-	379	1,172
Trust receipts	-	153,310	-	-	-	-	-	153,310
Claims on customers under acceptance credits	-	4,838,297	-	-	-	-	-	4,838,297
Staff financing	737,996	1,372,550	10,546	150,323	-	-	44,793	2,316,208
Credit card receivables	-	-	-	-	-	-	825,661	825,661
Revolving credit	-	16,508,748	-	-	-	-	-	16,508,748
	47,499,847	157,943,568	3,913,935	36,298,495	118,178	148,236	925,712	246,847,971
Unearned income								(96,954,485)
Gross financing and advances^^								149,893,486
Allowances for impaired financing and advances:								
- individual								(617,350)
- collective								(752,826)
Net financing and advances								148,523,310

^ Bai' comprises of Bai-Bithaman Ajil, Bai Al-Inah and Bai-Al-Dayn

^^ Included in financing and advances are the underlying assets under the Restricted Profit Sharing Investment Account ("RPSIA") and Investment Accounts of Customers ("IA").

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8. Financing and advances (cont'd.)

(i) By type and Shariah concepts (cont'd.)

(i) By type and Shariah concepts

31.12.2015	Bai'^ RM'000	Murabahah RM'000	Musharakah RM'000	Al-Ijarah Thumma Al-Bai (AITAB) RM'000	Ijarah RM'000	Istisna' RM'000	Others RM'000	Total financing and advances RM'000
Cashline	-	3,780,361	-	-	-	-	-	3,780,361
Term financing								
- House financing	20,673,308	55,978,143	2,729,517	-	-	-	-	79,380,968
- Syndicated financing	-	805,196	-	-	-	-	-	805,196
- Hire purchase receivables	-	-	-	35,493,985	-	-	-	35,493,985
- Other term financing	35,375,989	58,582,281	1,643,176	-	527,534	158,480	51,430	96,338,890
Bills receivable	-	905	-	-	-	-	290	1,195
Trust receipts	-	164,745	-	-	-	-	-	164,745
Claims on customers under acceptance credits	-	4,368,353	-	-	-	-	-	4,368,353
Staff financing	856,469	1,133,622	12,088	145,427	-	-	40,175	2,187,781
Credit card receivables	-	-	-	-	-	-	624,865	624,865
Revolving credit	-	9,708,099	-	-	-	-	-	9,708,099
	<u>56,905,766</u>	<u>134,521,705</u>	<u>4,384,781</u>	<u>35,639,412</u>	<u>527,534</u>	<u>158,480</u>	<u>716,760</u>	<u>232,854,438</u>
Unearned income								<u>(101,731,632)</u>
Gross financing and advances^^								<u>131,122,806</u>
Allowances for impaired financing and advances:								
- individual								(208,683)
- collective								(747,774)
Net financing and advances								<u><u>130,166,349</u></u>

^ Bai' comprises of Bai-Bithaman Ajil, Bai Al-Inah and Bai-Al-Dayn

^^ Included in financing and advances are the underlying assets under the Restricted Profit Sharing Investment Account ("RPSIA") and Investment Accounts of Customers ("IA").

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8. Financing and advances (cont'd.)

(ii) Financing and advances analysed by type of customers are as follows:

	31.12.2016	31.12.2015
	RM'000	RM'000
Domestic non-banking institutions	5,389,556	3,982,710
Domestic business enterprises		
- Small and medium enterprises	17,140,131	14,453,597
- Others	28,085,529	22,726,186
Government and statutory bodies	8,546,355	7,069,349
Individuals	89,398,021	81,302,930
Other domestic entities	27,117	25,446
Foreign entities in Malaysia	1,306,777	1,562,588
Gross financing and advances	<u>149,893,486</u>	<u>131,122,806</u>

(iii) Financing and advances analysed by profit rate sensitivity are as follows:

	31.12.2016	31.12.2015
	RM'000	RM'000
Fixed rate		
- House financing	1,411,729	1,499,155
- Hire purchase receivables	31,306,119	30,680,181
- Other financing	27,219,698	21,798,831
Floating rate		
- House financing	30,275,842	25,277,084
- Other financing	59,680,098	51,867,555
Gross financing and advances	<u>149,893,486</u>	<u>131,122,806</u>

(iv) Financing and advances analysed by their economic purposes are as follows:

	31.12.2016	31.12.2015
	RM'000	RM'000
Purchase of securities	19,549,967	18,801,131
Purchase of transport vehicles	31,285,307	30,661,915
Purchase of landed properties:		
- Residential	30,558,405	25,975,500
- Non-residential	11,448,638	9,480,798
Purchase of fixed assets (excluding landed properties)	30,867	45,843
Personal use	3,293,004	2,302,898
Consumer durables	293	570
Construction	3,553,259	3,727,995
Working capital	49,305,842	39,463,731
Credit/charge card	867,904	662,425
Gross financing and advances	<u>149,893,486</u>	<u>131,122,806</u>

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8. Financing and advances (cont'd.)

(v) The maturity structure of financing and advances is as follows:

	31.12.2016	31.12.2015
	RM'000	RM'000
Maturing within one year	31,796,935	21,839,845
One year to three years	5,178,971	7,411,423
Three years to five years	14,279,409	11,775,326
After five years	98,638,171	90,096,212
Gross financing and advances	<u>149,893,486</u>	<u>131,122,806</u>

(vi) Movements in the impaired financing and advances are as follows:

	31.12.2016	31.12.2015
	RM'000	RM'000
At beginning of the year	873,230	674,817
Impaired during the year	1,399,827	1,024,632
Reclassified as non-impaired during the year	(415,007)	(362,515)
Recovered during the year	(237,721)	(292,292)
Amount written off	(131,043)	(171,412)
At end of the year	<u>1,489,286</u>	<u>873,230</u>
Less:		
- Individual allowance	(617,350)	(208,683)
Net impaired financing and advances	<u>871,936</u>	<u>664,547</u>
Gross financing and advances (excluding financing funded by RPSIA and IA)	100,618,436	102,599,761
Less:		
- Individual allowance	(617,350)	(208,683)
Net financing and advances	<u>100,001,086</u>	<u>102,391,078</u>
Net impaired financing and advances as a percentage of net financing and advances	<u>0.87%</u>	<u>0.65%</u>

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8. Financing and advances (cont'd.)

(vii) Impaired financing and advances analysed by their economic purposes are as follows:

	31.12.2016	31.12.2015
	RM'000	RM'000
Purchase of securities	14,906	28,393
Purchase of transport vehicles	135,642	108,370
Purchase of landed properties:		
- Residential	117,898	91,604
- Non-residential	79,290	49,422
Personal use	17,375	14,452
Consumer durables	14	8
Construction	356,865	130,363
Working capital	759,357	445,661
Credit/charge card	7,939	4,957
	<u>1,489,286</u>	<u>873,230</u>

(viii) Movements in the allowances for impaired financing and advances are as follows:

	31.12.2016	31.12.2015
	RM'000	RM'000
Individual Allowance		
At beginning of the year	208,683	212,946
Allowance made (Note 25)	460,108	102,818
Amount written back in respect of recoveries (Note 25)	(22,583)	(21,544)
Transfer to collective allowance	(3,406)	(7,422)
Amount written off	(25,452)	(78,115)
At end of the year	<u>617,350</u>	<u>208,683</u>
Collective Allowance		
At beginning of the year	747,774	597,403
Net allowance made* (Note 25)	107,237	236,245
Transfer from individual allowance	3,406	7,422
Amount written off	(105,591)	(93,296)
At end of the year	<u>752,826</u>	<u>747,774</u>

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8. Financing and advances (cont'd.)

(viii) Movements in the allowances for impaired financing and advances are as follows (cont'd.):

	31.12.2016	31.12.2015
Collective Allowance (cont'd.)		
Collective allowance (inclusive of regulatory reserve) as a percentage of gross financing and advances (excluding financing funded by RPSIA and IA) less individual allowance)	1.20%	1.20%

* As at 31 December 2016, the gross exposure of the financing funded by RPSIA was RM17,730.5 million (31 December 2015: RM10,999.0 million). The individual allowance and collective allowance relating to these financing amounting to RM126.7 million and RM52.0 million respectively (31 December 2015: Nil and RM77.1 million) is accounted for by the parent.

The gross exposure of the financing funded by IA as at 31 December 2016 was RM31,544.6 million (31 December 2015: RM17,657.9 million). No individual allowance and collective allowance relating to financing funded by IA are recognised in the financial statements of the Bank, as the credit risk are borne by the investors.

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9. Derivative financial instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of derivative's underlying asset, reference rate or index and is the basis upon which change in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the period/year end and are indicative of neither the market risks nor the credit risk.

The Bank enters into derivative financial instruments at the request and on behalf of its customers as well as to hedge the bank's own exposures and not for speculative purpose.

	31.12.2016			31.12.2015		
	Contract/ Notional amount RM'000	Fair value		Contract/ Notional amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
<u>Trading derivatives</u>						
<u>Foreign exchange related contracts:</u>						
Currency forward						
- Less than one year	4,087,372	263,098	(3,724)	3,184,856	199,294	(8,119)
Currency swap						
- Less than one year	5,212,700	14,892	(263,997)	4,951,144	10,437	(213,121)
Currency spot						
- Less than one year	46,449	6	(24)	36,020	-	(26)
Currency options						
- Less than one year	1,794	130	(130)	-	-	-
Cross currency profit rate swaps						
- Less than one year	-	-	-	1,359,453	67,923	(68,702)
- More than three years	668,208	75,201	(73,928)	652,367	63,285	(62,067)
<u>Profit rate related contracts:</u>						
Profit rate options						
- One year to three years	-	-	-	400,000	-	(30,702)
- More than three years	1,310,000	5,801	(28,111)	555,000	10,832	(23,525)
Profit rate swaps						
- One year to three years	750,000	2,700	(2,777)	-	-	-
- More than three years	2,603,674	25,356	(20,655)	3,155,797	37,706	(30,291)
	14,680,197	387,184	(393,346)	14,294,637	389,477	(436,553)
<u>Hedging derivatives</u>						
<u>Foreign exchange related contracts:</u>						
Cross currency profit rate swaps						
- One year to three years	1,704,621	127,296	(141,161)	170,607	-	(43,937)
- More than three years	-	-	-	1,516,849	102,112	(102,112)
<u>Profit rate related contracts:</u>						
Profit rate swaps						
- Less than one year	1,000,000	368	(368)	718,000	718	(133)
- One year to three years	672,900	706	(286)	1,000,000	3,683	(3,683)
- More than three years	-	-	-	643,950	1,915	(1,354)
	3,377,521	128,370	(141,815)	4,049,406	108,428	(151,219)
Total derivative assets/(liabilities)	18,057,718	515,554	(535,161)	18,344,043	497,905	(587,772)

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10. Other assets

	31.12.2016	31.12.2015
	RM'000	RM'000
Amount due from holding company	3,756,777	2,907,155
Handling fees	174,548	185,068
Prepayments and deposits	261,520	235,825
Tax recoverable	-	30,143
Margin call	224,220	301,450
Other debtors	89,486	14,350
	<u>4,506,551</u>	<u>3,673,991</u>

11. Statutory deposit with Bank Negara Malaysia

The non-interest bearing statutory deposit maintained with Bank Negara Malaysia are in compliance with Section 26(2)(c) and Section 26(3) of the Central Bank of Malaysia Act, 2009, the amounts of which are determined as set percentages of total eligible liabilities.

12. Deposits from customers

	31.12.2016	31.12.2015
	RM'000	RM'000
Savings deposits		
Wadiah	13,498,385	12,173,654
Demand deposits		
Wadiah	17,291,694	17,282,238
Term deposits		
Murabahah	73,527,095	74,711,306
Qard	2,287,318	549,782
Negotiable instruments of deposits		
Bai Al-Inah	-	144,083
Hybrid *	-	925,152
	<u>106,604,492</u>	<u>105,786,215</u>

* Hybrid term deposits are structured deposits which are Ringgit Malaysia time deposits with embedded foreign currency exchange option, commodity-linked time deposits and profit rate options.

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12. Deposits from customers (cont'd.)

(i) The maturity structure of term deposits (excluding Hybrid) are as follows:

	31.12.2016	31.12.2015
	RM'000	RM'000
Due within six months	69,666,272	67,763,343
Six months to one year	6,093,985	7,594,815
One year to three years	30,863	25,473
Three years to five years	23,293	21,540
	<u>75,814,413</u>	<u>75,405,171</u>

(ii) The deposits are sourced from the following customers:

	31.12.2016	31.12.2015
	RM'000	RM'000
Business enterprises	43,055,514	44,395,761
Individuals	33,237,761	29,387,959
Government and statutory bodies	17,395,634	17,744,227
Others	12,915,583	14,258,268
	<u>106,604,492</u>	<u>105,786,215</u>

13. Investment accounts of customers

(i) Movements in the unrestricted investment accounts of customers are as follows:

	31.12.2016	31.12.2015
	RM'000	RM'000
<u>Funding inflows/outflows</u>		
At 1 January	17,657,893	-
New placement during the financial year	99,504,483	24,818,668
Redemption during the financial year	(85,637,094)	(7,180,631)
Profit payable	19,305	19,856
At 31 December	<u>31,544,587</u>	<u>17,657,893</u>

(ii) Unrestricted investment accounts are sourced from the following customers:

	31.12.2016	31.12.2015
	RM'000	RM'000
Business enterprises	13,040,863	6,585,991
Individuals	16,197,049	9,124,703
Government and statutory bodies	460,216	682,878
Others	1,846,459	1,264,321
	<u>31,544,587</u>	<u>17,657,893</u>

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13. Investment accounts of customers (cont'd.)

(iii) Maturity structure of unrestricted investment accounts are as follows:

	31.12.2016	31.12.2015
	RM'000	RM'000
<u>Mudharabah</u>		
- without maturity	7,564,114	5,664,558
- with maturity		
Due within six months	15,045,407	1,416,319
Six months to one year	8,929,760	10,576,371
One year to three years	3,513	399
Three years to five years	1,793	246
	23,980,473	11,993,335
Total investment account of customers	31,544,587	17,657,893

(iv) The allocation of investment asset are as follows:

	31.12.2016	31.12.2015
	RM'000	RM'000
Unrestricted Investment		
Retail financing	27,913,126	13,691,213
Non-retail financing	3,631,461	3,832,880
Marketable securities	-	133,800
Total investment	31,544,587	17,657,893

(v) Profit sharing ratio and rate of return are as follows:

	31.12.2016		31.12.2015	
	Investment account holder ("IAH")			
	Average profit	Average rate	Average profit	Average rate
	sharing ratio	of return	sharing ratio	of return
	(%)	(%)	(%)	(%)
Investment accounts of customers	63%	3.17%	64%	3.47%

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14. Deposits and placements of banks and other financial institutions

	31.12.2016	31.12.2015
	RM'000	RM'000
<u>Mudharabah fund</u>		
Licensed banks*	<u>17,767,671</u>	<u>11,037,806</u>
	17,767,671	11,037,806
<u>Non-Mudharabah fund</u>		
Licensed banks	12,376,215	8,546,052
Licensed islamic banks	-	592,383
Other financial institutions	<u>198,120</u>	<u>1,168,332</u>
	12,574,335	10,306,767
	30,342,006	21,344,573

* Included in the Mudharabah deposits and placements of licensed banks is the Restricted Profit Sharing Investment Account ("RPSIA") placed by the parent amounting to RM17,767.7 million (31 December 2015: RM11,037.8 million). These placements are used to fund certain specific financing.

15. Financial liabilities at fair value through profit or loss

	31.12.2016	31.12.2015
	RM'000	RM'000
Structured deposits	<u>902,091</u>	<u>-</u>

The Bank has designated the above structured deposits at fair value through profit or loss ("FVTPL"). This designation is permitted under MFRS 139 - Financial Instruments: Recognition and Measurement as it significantly reduces accounting mismatch. These instruments are managed by the Bank on the basis of its fair value and include terms that have substantive derivative characteristics.

The carrying amount of structured deposits designated at fair value through profit or loss of the Bank as at 31 December 2016 was RM917,160,000. The fair value changes of the financial liabilities that are attributable to the changes in own credit risk are not significant.

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16. Other liabilities

	31.12.2016	31.12.2015
	RM'000	RM'000
Sundry creditors	56,082	111,068
Deposit on trade financing	22,691	12,511
Provisions and accruals	12,966	15,304
	<u>91,739</u>	<u>138,883</u>

17. Provision for taxation and zakat

	31.12.2016	31.12.2015
	RM'000	RM'000
Taxation	81,540	-
Zakat	16,550	9,011
	<u>98,090</u>	<u>9,011</u>

18. Deferred tax assets

	31.12.2016	31.12.2015
	RM'000	RM'000
At beginning of the year	36,892	34,702
Recognised in the income statement (Note 30)	(18)	565
Recognised in other comprehensive income	(17,387)	1,625
At end of the year	<u>19,487</u>	<u>36,892</u>

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18. Deferred tax assets (cont'd.)

Deferred tax assets of the Bank:

	AFS reserve RM'000	Other temporary difference RM'000	Total RM'000
At 1 January 2016	34,829	2,063	36,892
Recognised in the income statement (Note 30)	-	(18)	(18)
Recognised in other comprehensive statement	(17,387)	-	(17,387)
At 31 December 2016	<u>17,442</u>	<u>2,045</u>	<u>19,487</u>
At 1 January 2015	31,244	3,458	34,702
Recognised in the income statement (Note 30)	1,960	(1,395)	565
Recognised in other comprehensive statement	1,625	-	1,625
At 31 December 2015	<u>34,829</u>	<u>2,063</u>	<u>36,892</u>

19. Subordinated sukuk

	Note	31.12.2016 RM'000	31.12.2015 RM'000
RM1,000 million Tier 2 Islamic Subordinated Sukuk due in 2021	(i)	-	1,010,782
RM1,500 million Tier 2 Islamic Subordinated Sukuk due in 2024	(ii)	1,516,788	1,517,178
RM1,000 million Tier 2 Islamic Subordinated Sukuk due in 2026	(iii)	1,017,708	-
		<u>2,534,496</u>	<u>2,527,960</u>

- (i) On 31 March 2011, the Bank issued RM1.0 billion in nominal value Tier 2 Islamic Subordinated Sukuk ("the Sukuk") under the Shariah principle of Musyarakah. The Sukuk carries a tenor of 10 years from the issue date on 10 non-callable 5 basis, with a profit rate of 4.22% per annum payable semi-annually in arrears in March and September each year and is due in March 2021. The Bank has the option to redeem the Sukuk on any semi-annual distribution date on or after the 5th anniversary from the issue date. Should the Bank decide not to exercise its option to redeem the Sukuk, the Sukuk shall continue to be outstanding until the final maturity date.

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19. Subordinated sukuk (cont'd.)

- (i) The Sukuk is unsecured and it is subordinated in rights and priority of payment, to all deposit liabilities and other liabilities of the Bank except liabilities of the Bank which by their terms rank pari-passu in rights and priority of payment with the Sukuk.

The Sukuk was fully redeemed on 31 March 2016.

- (ii) On 7 April 2014, the Bank issued RM1.5 billion in nominal value Basel III-compliant Tier 2 Islamic Subordinated Sukuk ("the Sukuk") under the Shariah principle of Murabahah (via Tawaruq arrangement). The Sukuk carries a tenure of 10 years from the issue date on 10 non-callable 5 basis, with a profit rate of 4.75% per annum payable semi-annually in arrears in April and October each year and are due in April 2024. Under the 10-non-callable 5 basis feature, the Bank has the option to redeem the Sukuk on any semi-annual distribution date on or after the fifth (5th) anniversary from the issue date. Should the Bank decide not to exercise its option to redeem the Sukuk, the Sukuk shall continue to be outstanding until the final maturity date.

The Sukuk is unsecured and it is subordinated in rights and priority of payment, to all deposit liabilities and other liabilities of the Bank except liabilities of the Bank which by their terms rank pari-passu in rights and priority of payment with the Sukuk.

- (iii) On 15 February 2016, the Bank issued RM1.0 billion in nominal value Basel III-compliant Tier 2 Islamic Subordinated Sukuk ("the Sukuk") under the Shariah principle of Murabahah (via Tawaruq arrangement). The Sukuk carries a tenure of 10 years from the issue date on 10 non-callable 5 basis, with a profit rate of 4.65% per annum payable semi-annually in arrears in February and August each year and are due in February 2026. Under the 10-non-callable 5 basis feature, the Bank has the option to redeem the Sukuk on any semi-annual distribution date on or after the fifth (5th) anniversary from the issue date. Should the Bank decide not to exercise its option to redeem the Sukuk, the Sukuk shall continue to be outstanding until the final maturity date.

The Sukuk is unsecured and it is subordinated in rights and priority of payment, to all deposit liabilities and other liabilities of the Bank except liabilities of the Bank which by their terms rank pari-passu in rights and priority of payment with the Sukuk.

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20. Share capital

	Number of ordinary shares of RM1 each		Amount	
	31.12.2016 '000	31.12.2015 '000	31.12.2016 RM'000	31.12.2015 RM'000
Authorised:				
At beginning and end of year	500,000	500,000	500,000	500,000
Issued and fully paid:				
At beginning of year	263,959	246,362	263,959	246,362
Issued during the year	17,597	17,597	17,597	17,597
At end of year	281,556	263,959	281,556	263,959

During the current financial year, the Bank increased its issued and paid-up share capital from RM263,958,750 to RM281,556,000 via the issuance of 17,597,250 new ordinary shares of RM1.00 each at a premium of RM30.80 per shares to Maybank on the basis of one new share for every fifteen existing ordinary shares held.

21. Reserves

	Note	31.12.2016 RM'000	31.12.2015 RM'000
Non-distributable:			
Share premium		5,200,227	4,658,232
Equity contribution from the holding company		1,697	1,697
Statutory reserve	(a)	409,672	409,672
AFS reserve		(55,264)	(104,493)
Profit equalisation reserve	(b)	-	34,456
Regulatory reserve	(c)	393,700	430,249
		5,950,032	5,429,813
Distributable:			
Retained profits	(d)	2,857,087	2,572,819
Total reserves		8,807,119	8,002,632

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21. Reserves (cont'd.)

(a) Statutory reserves

The statutory reserve is maintained in compliance with the requirements of Bank Negara Malaysia and is not distributable as cash dividends.

(b) Profit equalisation reserve

The PER of the Bank is classified as a separate reserve in equity as per BNM Revised Guidelines on Profit Equalisation Reserve issued in May 2011. PER relates to the profit of the Bank that are being set aside as reserve which can then be used to be paid out to Mudharabah depositors in the event of any shortfall in the actual return of the deposits. The Bank ceased such practice since 2011 and any remaining balance have been transferred to retained profits during the year.

(c) Regulatory reserve

Regulatory reserve is maintained in addition to the collective impairment allowance that has been assessed and recognised in accordance with MFRS, and it will be set aside from the retained profits to a separate reserve within equity as an additional credit risk absorbent.

(d) Retained profits

The retained profits of the Bank as at 31 December 2016 and 31 December 2015 are distributable profits and may be distributed as dividends under the single-tier system.

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22. Income derived from investment of depositors' funds

	31.12.2016 RM'000	31.12.2015 RM'000
Income from investment of:		
(i) General investment deposits	4,361,568	4,650,232
(ii) Other deposits	1,771,339	1,886,084
	<u>6,132,907</u>	<u>6,536,316</u>

(i) Income derived from investment of general investment deposits

	31.12.2016 RM'000	31.12.2015 RM'000
Finance income and hibah		
Financing and advances	3,533,665	3,957,534
Securities:		
Financial investments available-for-sale	151,248	139,325
Financial investments at fair value through profit or loss	4,272	1,513
Money at call and deposits with financial institutions	287,012	174,206
	<u>3,976,197</u>	<u>4,272,578</u>
Accretion of discount less amortisation of premium	84,862	60,794
Total finance income and hibah	<u>4,061,059</u>	<u>4,333,372</u>

Other operating income

Fee income:		
- Processing fees	33,813	8,529
- Commissions	78,842	77,206
- Service charges	112,158	91,925
Gains on sale of financial investments available-for-sale	17,111	3,050
Gains on sale of financial investments at fair value through profit or loss	1,908	8,029
Unrealised (losses)/gains on revaluation of:		
- Derivatives	(16,766)	642
- Financial investments at fair value through profit or loss	30	(3,149)
- Financial liabilities at fair value through profit or loss	10,192	-
Gains/(losses) on foreign exchange:		
- Realised	166,565	38,573
- Unrealised	(114,883)	85,171
Net dividend on derivatives	11,539	6,884
Total other operating income	<u>300,509</u>	<u>316,860</u>
Total	<u>4,361,568</u>	<u>4,650,232</u>

Included in finance income are income on impaired assets amounting to RM28.6 million (31.12.2015: RM17.5 million).

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22. Income derived from investment of depositors' funds (cont'd.)

(ii) Income derived from investment of other deposits

	31.12.2016 RM'000	31.12.2015 RM'000
Finance income and hibah		
Financing and advances	1,435,107	1,605,135
Securities:		
Financial investments available-for-sale	61,426	56,508
Financial investments at fair value through profit or loss	1,735	614
Money at call and deposits with financial institutions	116,563	70,656
	<u>1,614,831</u>	<u>1,732,913</u>
Accretion of discount less amortisation of premium	34,465	24,657
Total finance income and hibah	<u>1,649,296</u>	<u>1,757,570</u>
Other operating income		
Fee income:		
- Processing fees	13,732	3,458
- Commissions	32,020	31,314
- Service charges	45,550	37,284
Gains on sale of financial investments available-for-sale	6,949	1,237
Gains on sale of financial investments at fair value through profit or loss	775	3,256
Unrealised (losses)/gains on revaluation of:		
- Derivatives	(6,809)	260
- Financial investments at fair value through profit or loss	12	(1,277)
- Financial liabilities at fair value through profit or loss	4,139	-
Gains/(losses) on foreign exchange:		
- Realised	67,646	15,645
- Unrealised	(46,657)	34,545
Net dividend on derivatives	4,686	2,792
Total other operating income	<u>122,043</u>	<u>128,514</u>
Total	<u>1,771,339</u>	<u>1,886,084</u>

Included in finance income are income on impaired assets amounting to RM11.7 million (31.12.2015: RM7.2 million).

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23. Income derived from investment of investment account funds

	31.12.2016 RM'000	31.12.2015 RM'000
Finance income and hibah		
Financing and advances	1,570,992	205,608
Securities:		
Financial investments available-for-sale	1,308	2,643
Total finance income and hibah	<u>1,572,300</u>	<u>208,251</u>
Other operating income		
Fee income:		
- Commissions	838	117
- Service charges and other fees	40,674	5,563
Total other operating income	<u>41,512</u>	<u>5,680</u>
Total	<u>1,613,812</u>	<u>213,931</u>

24. Income derived from investment of shareholder's funds

	31.12.2016 RM'000	31.12.2015 RM'000
Finance income and hibah		
Financing and advances	255,502	258,829
Securities:		
Financial investments available-for-sale	10,936	9,112
Financial investments at fair value through profit or loss	309	99
Money at call and deposits with financial institutions	20,753	11,393
	<u>287,500</u>	<u>279,433</u>
Accretion of discount less amortisation of premium	6,136	3,976
Total finance income and hibah	<u>293,636</u>	<u>283,409</u>

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24. Income derived from investment of shareholder's funds (cont'd.)

	31.12.2016 RM'000	31.12.2015 RM'000
Other operating income		
Fee income		
- Processing fees	2,445	558
- Commissions	5,701	5,049
- Service charges	8,109	6,012
Gains on sale of financial investments available-for-sale	1,237	199
Gains on sale of financial investments at fair value through profit or loss	138	525
Unrealised (losses)/gains on revaluation of:		
- Derivatives	(1,212)	42
- Financial investments at fair value through profit or loss	2	(206)
- Financial liabilities at fair value through profit or loss	737	-
Gains/(losses) on foreign exchange:		
- Realised	12,044	2,523
- Unrealised	(8,307)	5,570
Net dividend on derivatives	834	450
Total other operating income	<u>21,728</u>	<u>20,722</u>
Total	<u>315,364</u>	<u>304,131</u>

Included in finance income are income on impaired assets amounting to RM2.1 million (31.12.2015: RM0.9 million).

25. Allowances for losses on financing and advances

	31.12.2016 RM'000	31.12.2015 RM'000
Allowances for financing and advances:		
Individual allowance		
- Allowance made (Note 8 (viii))	460,108	102,818
- Amount written back (Note 8 (viii))	(22,583)	(21,544)
Collective allowance made (Note 8 (viii))	107,237	236,245
Bad financing		
- Written off	8,451	12,809
- Recovered	(171,411)	(73,616)
Allowances made/(writeback) of impairment losses on other debts	34	(185)
	<u>381,836</u>	<u>256,527</u>

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26. Profit distributed to depositors

	31.12.2016 RM'000	31.12.2015 RM'000
Deposits from customers		
- Mudharabah fund	-	252,164
- Non-mudharabah fund	2,759,837	2,687,050
Deposits and placements of banks and other financial institutions		
- Mudharabah fund	418,057	443,824
- Non-mudharabah fund	285,331	412,050
	<u>3,463,225</u>	<u>3,795,088</u>

27. Overhead expenses

	31.12.2016 RM'000	31.12.2015 RM'000
Personnel expenses		
- Salaries and wages	19,799	19,777
- Allowances and bonuses	9,965	7,083
- Social security cost	121	103
- Pension cost - defined contribution plan	4,528	4,140
- Share options granted under ESS	1,007	1,520
- Other staff related expenses	5,460	6,201
	<u>40,880</u>	<u>38,824</u>
Establishment costs		
- Rental of premises	1,715	1,715
- Repairs, servicing and maintenance	29	54
- Information technology expenses	2,756	2,328
	<u>4,500</u>	<u>4,097</u>
Marketing costs		
- Advertisement and publicity	2,216	6,124
- Others	10,800	8,127
	<u>13,016</u>	<u>14,251</u>
Administration and general expenses		
- Fees and brokerage	50,239	29,838
- Administrative expenses	2,108	9,785
- General expenses	41,963	33,677
- Auditors' remuneration		
- Audit	463	451
- Regulatory-related services	331	265
- Directors' fees and other remunerations (Note 28)	920	845
- Shared service costs paid/payable to Maybank	1,078,690	1,003,023
	<u>1,174,714</u>	<u>1,077,884</u>
Total	<u>1,233,110</u>	<u>1,135,056</u>

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28. Chief executive officer, directors and Shariah committee members' remuneration

	31.12.2016 RM'000	31.12.2015 RM'000
Chief executive officer:		
Salary and other remuneration, including meeting allowance	1,778	1,598
ESS costs	439	556
Estimated monetary value of benefit-in-kind	10	21
Pension cost - defined contribution plan	280	251
	<u>2,507</u>	<u>2,426</u>
Non-executive directors:		
Fees	836	785
Other remunerations	84	60
	<u>920</u>	<u>845</u>
Shariah committee members	726	721
Total	<u>4,153</u>	<u>3,992</u>
Total (excluding benefit-in-kind)	<u>4,143</u>	<u>3,971</u>

The total remuneration of the directors are as follows:

2016	Fees RM'000	Salary and/ or other emoluments* RM'000	Total** RM'000
Non-executive directors:			
En Zainal Abidin b. Jamal	181	15	196
Dato' Dr Muhammad Afifi al-Akiti	121	14	135
En Dali b Sardar	142	23	165
Tan Sri Datuk Dr Hadenan bin A. Jalil ¹	58	4	62
En Nor Hizam bin Hashim ²	24	3	27
Dato' Seri Ismail bin Shahudin ³	124	1	125
Tan Sri Dato Ahmad Fuzi Abdul Razak ⁴	96	7	103
Dato' Zulkiflee Abbas Abdul Hamid ⁵	90	17	107
Total directors' remuneration	<u>836</u>	<u>84</u>	<u>920</u>

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28. Chief executive officer, directors and Shariah committee members' remuneration (cont'd.)

The total remuneration of the directors are as follows (cont'd.):

2016

* Includes bonus, pension cost, ESS, duty allowances, social allowances, leave passage, and meeting allowances.

** Includes the arrears payment for the financial year ended 31 December 2015.

¹ Retired on 6 April 2016

² Appointed on 18 October 2016

³ Demised on 30 July 2016

⁴ Resigned on 27 September 2016

⁵ Appointed on 11 April 2016

	Fees	Salary and/ or other emoluments*	Total
	RM'000	RM'000	RM'000
2015			
Non-executive directors:			
En Zainal Abidin b. Jamal	131	12	143
Dato' Dr Muhammad Afifi al-Akiti	116	9	125
En Dali b Sardar	131	10	141
Tan Sri Datuk Dr Hadenan bin A. Jalil	116	8	124
Dato' Seri Ismail bin Shahudin	174	12	186
Tan Sri Dato Ahmad Fuzi Abdul Razak	117	9	126
Total directors' remuneration	<u>785</u>	<u>60</u>	<u>845</u>

* Includes bonus, pension cost, ESS, duty allowances, social allowances, leave passage, and meeting allowances.

The total remuneration of the Shariah committee members are as follows:

	Fees	Salary and/ or other emoluments*	Total
	RM'000	RM'000	RM'000
2016			
Dr. Aznan Hasan	105	18	123
Dr. Ahcene Lahsasna	84	15	99
Dr. Ismail bin Mohd @ Abu Hassan	84	18	102
Dr. Marjan Binti Muhammad	84	16	100
Dr. Mohamed Fairouz Bin Abdul Khir	84	17	101
Ustaz Mohd Kamal Mokhtar	84	15	99
Dr. Mohammad Deen bin Mohd Napiah	84	18	102
Total Shariah committee remuneration	<u>609</u>	<u>117</u>	<u>726</u>

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28. Chief executive officer, directors and Shariah committee members' remuneration (cont'd.)

The total remuneration of the Shariah committee members are as follows (cont'd.):

2015	Fees RM'000	Salary and/ or other emoluments* RM'000	Total RM'000
Dr. Aznan Hasan	105	24	129
Dr. Ahcene Lahsasna	84	17	101
Dr. Ismail bin Mohd @ Abu Hassan	84	21	105
Dr. Marjan Binti Muhammad	84	23	107
Dr. Mohamed Fairouz Bin Abdul Khir	84	21	105
Ustaz Mohd Kamal Mokhtar	28	7	35
Dr. Mohammad Deen bin Mohd Napiah	84	23	107
Ustaz Sarip bin Adul	28	4	32
Total Shariah committee remuneration	<u>581</u>	<u>140</u>	<u>721</u>

29. Finance cost

	31.12.2016 RM'000	31.12.2015 RM'000
Islamic Subordinated Sukuk	<u>122,267</u>	<u>113,781</u>

30. Taxation

	31.12.2016 RM'000	31.12.2015 RM'000
Current tax:		
Malaysian income tax	427,419	407,072
Under provision in prior years	7	9,971
	<u>427,426</u>	<u>417,043</u>
Deferred tax (Note 18):		
Relating to origination and reversal of temporary differences	18	1,395
Over provision in prior years	-	(1,960)
	<u>18</u>	<u>(565)</u>
	<u>427,444</u>	<u>416,478</u>

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30. Taxation (cont'd.)

Domestic current income tax is calculated at the statutory tax rate of 24% (2015: 25%) of the estimated assessable profit for the period.

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

	31.12.2016	31.12.2015
	RM'000	RM'000
Profit before taxation	<u>1,781,770</u>	<u>1,637,943</u>
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	427,625	409,486
Expenses not deductible for tax purposes	1,156	1,469
Over provision of deferred tax in prior years	-	(1,960)
Under provision of tax expense in prior years	7	9,971
Effect of zakat deduction	(1,344)	(2,488)
Tax expense for the year	<u>427,444</u>	<u>416,478</u>

31. Earnings per share ("EPS")

The basic and diluted EPS of the Bank are calculated by dividing the net profit for the year by the weighted average number of ordinary shares in issue during the financial year.

	31.12.2016	31.12.2015
Profit for the year attributable to equity holder of the Bank (RM'000)	<u>1,337,727</u>	<u>1,212,486</u>
Weighted average number of ordinary shares in issue ('000)	<u>269,969</u>	<u>252,437</u>
Basic/diluted EPS (sen)	<u>495.5</u>	<u>480.3</u>

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32. Dividends

	31.12.2016	31.12.2015
	RM'000	RM'000
Interim tax exempt (single-tier) dividend of RM2.12, on 263,958,750 ordinary shares in respect of the financial year ended 31 December 2016	559,592	-
Final tax exempt (single-tier) dividend of RM2.14, on 263,958,750 ordinary shares in respect of the financial period ended 31 December 2015	564,872	-
Interim tax exempt (single-tier) dividend of RM2.34, on 246,361,500 ordinary shares in respect of the financial year ended 31 December 2015	-	576,486
Final tax exempt (single-tier) dividend of RM0.69, on 246,361,500 ordinary shares in respect of the financial period ended 31 December 2014	-	169,990
	<u>1,124,464</u>	<u>746,476</u>

At the forthcoming Annual General Meeting, a final tax-exempt (single tier) dividend in respect of the financial year ended 31 December 2016 of RM2.76 per share on 281,556,000 ordinary shares, amounting to a dividend payable of RM777,094,560 will be proposed for the shareholder's approval.

The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholder, will be accounted for in equity as an appropriation of retained profits in the next financial year ending 31 December 2017.

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33. Significant related party transactions and balances

(a) The Bank's significant transactions and balances with related parties are as follows:

	31.12.2016	31.12.2015
	RM'000	RM'000
Holding company		
Income		
Income on deposits and placement with banks and other financial institutions	<u>493</u>	<u>1,120</u>
Expenditure		
Profit distributed to depositors	669,760	739,429
Finance cost	74,584	33,770
Shared service cost paid/payable to Maybank	1,078,690	1,003,023
Other expenses	<u>2,435</u>	<u>1,997</u>
	<u>1,825,469</u>	<u>1,778,219</u>
Related companies		
Income		
Income on deposits and placement with banks and other financial institutions	<u>32,160</u>	<u>11,719</u>
Expenditure		
Profit distributed to depositors	34,247	23,317
Other expenses	<u>3,585</u>	<u>162</u>
	<u>37,832</u>	<u>23,479</u>

(b) Included in the statement of financial position of the Bank are amounts due to and from holding company and related companies represented by the following:

	31.12.2016	31.12.2015
	RM'000	RM'000
Holding company		
Amount due from:		
Current accounts and deposits	81,166	281,337
Derivative assets	368,313	421,072
Others	<u>3,756,777</u>	<u>2,907,155</u>
	<u>4,206,256</u>	<u>3,609,564</u>

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33. Significant related party transactions and balances (cont'd.)

- (b) Included in the statement of financial position of the Bank are amounts due to and from holding company and related companies represented by the following (cont'd.):

	31.12.2016	31.12.2015
	RM'000	RM'000
Holding company		
Amount due to:		
Current accounts and deposits	25,426,424	14,449,733
Negotiable instruments of deposits		
- Remaining maturity less than one year	1,000,000	3,021,470
- Remaining maturity more than one year	2,008,661	2,012,655
Derivative liabilities	529,392	530,415
Subordinated sukuk	1,761,116	743,508
	<u>30,725,593</u>	<u>20,757,781</u>
Related companies		
Amount due from:		
Current accounts and deposits	<u>30,495</u>	<u>30,494</u>
Amount due to:		
Fixed return investment deposits	<u>1,180,330</u>	<u>1,166,526</u>
	<u>1,180,330</u>	<u>1,166,526</u>

The above transactions have been entered into in the normal course of business and have been established under terms and conditions that are no less favourable than those arranged with independent parties.

- (c) Key management personnel compensation

The remuneration of directors and other members of key management during the year are as disclosed in Note 28. The movement in share options of key management personnel is as follows:

	31.12.2016	31.12.2015
	'000	'000
At beginning of year	912	612
Vested and exercisable	-	300
Adjustment*	(84)	-
Expired	(62)	-
At end of year	<u>766</u>	<u>912</u>

* Adjustment relates to changes in key management personnel during the financial year.

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33. Significant related party transactions and balances (cont'd.)

(c) Key management personnel compensation (cont'd.)

The share options were granted on the same terms and conditions as those offered to other employees of Maybank Group.

(d) Government-related entities

Permodalan Nasional Berhad ("PNB"), a government linked entity is a shareholder of Maybank with significant influence on Maybank, from its direct shareholding of 6.48% (2015: 5.65%) and indirect shareholding of 35.54% (2015: 36.82%) via Amanah Raya Trustee Berhad (Amanah Saham Bumiputera) as at 31 December 2016. PNB and entities directly controlled by PNB are collectively referred to as government-related entities to the Bank.

All the transactions entered into by the Bank with the government-related entities are conducted in the ordinary course of the Bank's business on terms comparable to those with other entities that are not government-related. The Bank has established credit policies, pricing strategy and approval process for financing and advances, which are independent of whether the counterparties are government-related entities or not.

(i) *Individually significant transaction with PNB because of size of transaction*

	31.12.2016	31.12.2015
	RM'000	RM'000
Transactions during the year:		
Financing income	<u>143,534</u>	<u>132,818</u>
Balances as		
Financing and advances	<u>5,151,495</u>	<u>3,151,508</u>

(ii) *Collectively, but not individually, significant transactions*

There was no collectively significant transactions with other government-related entities during the financial year ended 31 December 2016 and 31 December 2015.

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33. Significant related party transactions and balances (cont'd.)

(e) Credit exposure arising from credit transactions with connected parties

	31.12.2016	31.12.2015
Outstanding credit exposure with connected parties (RM'000)	<u>3,339,693</u>	<u>4,213,517</u>
Percentage of outstanding credit exposure to connected parties as a proportion of total credit exposure	<u>2.3%</u>	<u>2.5%</u>
Percentage of outstanding credit exposure to connected parties which are non-performing or in default	<u>-</u>	<u>-</u>

The credit exposure above are derived based on paragraph 9.1 of the Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties.

Based on these guidelines, a connected party refers to the following:

- (i) Directors of the Bank and their close relatives;
- (ii) Executive officer, being a member of management having authority and responsibility for planning, directing and/or controlling the activities of the Bank, and his close relatives;
- (iii) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;
- (iv) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iii) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;
- (v) Any person for whom the persons listed in (i) to (iii) above is a guarantor; and
- (vi) Subsidiary of or an entity controlled by the Bank and its connected parties.

Credit transactions and exposures to connected parties as disclosed above includes the extension of credit facilities and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and financing commitments.

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34. Commitments and contingencies

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

The risk-weighted exposures of the Bank as at 31 December are as follows:

	31.12.2016			31.12.2015		
	Full commitment RM'000	Credit equivalent amount* RM'000	Risk weighted amount* RM'000	Full commitment RM'000	Credit equivalent amount* RM'000	Risk weighted amount* RM'000
<u>Credit-related</u>						
Direct credit substitutes	1,243,371	1,243,371	1,275,387	910,954	910,954	781,531
Certain transaction-related contingent items	2,339,735	1,155,527	861,936	1,910,743	925,818	957,057
Short-term self-liquidating trade-related contingencies	295,126	50,777	35,283	267,119	48,758	44,704
Irrevocable commitments to extend credit:						
- maturity within one year	21,396,850	4,788,406	2,352,723	17,696,250	3,541,800	2,034,823
- maturity more than one year	8,679,087	2,728,616	1,321,241	10,471,923	4,158,267	1,247,773
Miscellaneous commitments and contingencies	56,028	-	-	47,288	-	-
<u>Derivative financial instruments</u>						
Foreign exchange related contracts:						
- less than one year	9,348,315	456,329	116,847	9,531,473	357,026	96,863
- one year to less than five years	2,372,829	137,963	53,150	2,339,823	57,958	19,457
Profit rate related contracts:						
- less than one year	1,000,000	612	710	718,000	112,958	28,930
- one year to less than five years	2,822,620	424,297	191,104	3,348,950	433,288	151,603
- more than five years	2,513,954	102,199	92,637	2,405,797	231,346	151,347
	52,067,915	11,088,097	6,301,018	49,648,320	10,778,173	5,514,088

* The credit equivalent amount and risk weighted amount are arrived at using the credit conversion factors and risk weights respectively as specified by Bank Negara Malaysia Guidelines.

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35. Financial risk management

(a) Financial risk management overview

The Bank adopts the same principles and standards as Maybank ("the Group") in setting its risk management framework while ensuring the framework is consistent with Shariah requirements set out by the Islamic Financial Services Board ("IFSB") and Bank Negara Malaysia ("BNM"). At present, the Bank manages its credit and operational risks while the management of market and liquidity risk relating to Islamic banking is carried out by Risk Management at Maybank Group Level.

Risk Management is a critical pillar of the Group's operating model, complementing the other two pillars, which are business sectors and support sectors. A dedicated Board-level Risk Management Committee provides risk oversight of all material risks across the Group.

The Executive-level Management Committees, which include the Group Executive Risk Committee, Group Operational Risk Management Committee, Group Asset and Liability Management Committee ("ALCO") and Group Management Credit Committee, are responsible for the management of all material risks within the Group.

The Bank's approach to risk management is premised on the following Seven Principles of Risk Management:

- (a) Establishment of a risk appetite and strategy which articulates the nature, type and level of risk the Group is willing to assume and must be approved by the Board.
- (b) Capital management driven by the Group's strategic objectives and accounts for the relevant regulatory, economic and commercial environments in which the Group operates.
- (c) Proper governance and oversight through a clear, effective and robust Group governance structure with well-defined, transparent and consistent lines of responsibility established within the Group.
- (d) Promote a strong risk culture which supports and provides appropriate standards and incentives for professional and responsible behaviour.
- (e) Implementation of integrated risk frameworks and policies to ensure that risk management practices and processes are effective at all levels.
- (f) Execution of sound risk management processes to actively identify, measure, control, monitor and report risks inherent in all products and activities undertaken by the Group.
- (g) Ensure sufficient resources and systems infrastructure are in place to enable effective risk management.

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35. Financial risk management (cont'd.)

(b) Financial instrument by category

2016	Held-for-trading RM'000	Available-for-sale RM'000	Financing and receivables RM'000	Sub-total RM'000	Assets not in scope of MFRS 139 RM'000	Total RM'000
Assets						
Cash and short term funds	-	-	15,535,992	15,535,992	-	15,535,992
Deposits and placements with banks and other financial institutions	-	-	651,558	651,558	-	651,558
Financial investments portfolio*	252,451	8,719,654	-	8,972,105	-	8,972,105
Financing and advances	-	-	148,523,310	148,523,310	-	148,523,310
Derivative assets	515,554	-	-	515,554	-	515,554
Other assets	-	-	4,070,483	4,070,483	436,068	4,506,551
Statutory deposits with Bank Negara Malaysia	-	-	3,070,000	3,070,000	-	3,070,000
Deferred tax assets	-	-	-	-	19,487	19,487
TOTAL ASSETS	768,005	8,719,654	171,851,343	181,339,002	455,555	181,794,557
Liabilities						
2016	Held-for-trading RM'000	Other financial liabilities RM'000	Sub-total RM'000	Liabilities not in scope of MFRS 139 RM'000	Total RM'000	
Deposits from customers	-	106,604,492	106,604,492	-	106,604,492	
Investment accounts of customers	-	31,544,587	31,544,587	-	31,544,587	
Deposits and placements of banks and other financial institutions	-	30,342,006	30,342,006	-	30,342,006	
Bills and acceptances payable	-	53,220	53,220	-	53,220	
Derivative liabilities	535,161	-	535,161	-	535,161	
Other liabilities	-	78,773	78,773	12,966	91,739	
Provision for taxation and zakat	-	-	-	98,090	98,090	
Financial liabilities at fair value through profit or loss	-	902,091	902,091	-	902,091	
Subordinated sukuk	-	2,534,496	2,534,496	-	2,534,496	
TOTAL LIABILITIES	535,161	172,059,665	172,594,826	111,056	172,705,882	

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

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35. Financial risk management (cont'd.)

(b) Financial instrument by category (cont'd.)

2015	Held-for- trading RM'000	Available- for-sale RM'000	Financing and receivables RM'000	Sub-total RM'000	Assets not in scope of MFRS 139 RM'000	Total RM'000
Assets						
Cash and short term funds	-	-	8,815,504	8,815,504	-	8,815,504
Financial investments portfolio*	335,384	8,992,429	-	9,327,813	-	9,327,813
Financing and advances	-	-	130,166,349	130,166,349	-	130,166,349
Derivative assets	497,905	-	-	497,905	-	497,905
Other assets	-	-	3,222,955	3,222,955	451,036	3,673,991
Statutory deposits with Bank Negara Malaysia	-	-	3,834,000	3,834,000	-	3,834,000
Deferred tax assets	-	-	-	-	36,892	36,892
TOTAL ASSETS	833,289	8,992,429	146,038,808	155,864,526	487,928	156,352,454
Liabilities						
2015	Held-for- trading RM'000	Other financial liabilities RM'000	Sub-total RM'000	Liabilities not in scope of MFRS 139 RM'000	Total RM'000	
Deposits from customers	-	105,786,215	105,786,215	-	105,786,215	
Investment accounts of customers	-	17,657,893	17,657,893	-	17,657,893	
Deposits and placements of banks and other financial institutions	-	21,344,573	21,344,573	-	21,344,573	
Bills and acceptances payable	-	33,556	33,556	-	33,556	
Derivative liabilities	587,772	-	587,772	-	587,772	
Other liabilities	-	123,579	123,579	15,304	138,883	
Provision for taxation and zakat	-	-	-	9,011	9,011	
Subordinated sukuk	-	2,527,960	2,527,960	-	2,527,960	
TOTAL LIABILITIES	587,772	147,473,776	148,061,548	24,315	148,085,863	

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

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35. Financial risk management policies (cont'd.)

(c) Credit risk management

1. Credit Risk Management

Credit risk definition

Credit risk is the risk of loss of principal or income arising from the failure of an obligor or counterparty to perform their contractual obligations in accordance with agreed terms. It stems primarily from lending, underwriting, trading and investment activities from both on- and off-balance sheet transactions.

Management of credit risk

Corporate and institutional credit risks are assessed by business units and evaluated and approved by an independent party within the Group, where each customer is assigned a credit rating based on the assessment of relevant qualitative and quantitative factors including borrower's/customer's financial position, future cash flows, types of facilities and securities offered.

Reviews are conducted at least once a year with updated information on borrower's/customer's financial position, market position, industry and economic condition and account conduct. Corrective actions are taken when the accounts show signs of credit deterioration.

Retail credit exposures are managed on a programme basis. Credit programmes are assessed jointly between credit risk and business units. Reviews on credit programmes are conducted at least once a year to assess the performance of the portfolios.

Counterparty credit risk is the risk that the Group's counterparty will default prior to expiration of a transaction involving foreign exchange, interest rate, commodity, equity and derivatives; and will not therefore make the current and future payments required by the contract for treasury related activities both in the trading and banking books. Counterparty credit risk exposures are managed via counterparty limits either on a single name basis or counterparty group basis that also adheres to BNM's Single Counterparty Exposure Limits. These exposures are actively monitored to protect the Group's statement of financial position in the event of counterparty default. The Group actively monitors and manages its exposure to counterparties in OTC derivative. Counterparty risk exposures which may be materially affected by market risk events are identified, reviewed and acted upon by management and highlighted to the appropriate risk committees.

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35. Financial risk management policies (cont'd.)

(c) Credit risk management (cont'd.)

1. Credit Risk Management (cont'd.)

Management of credit risk (cont'd.)

The Group wide hierarchy of credit approving authorities and committee structures are in place to ensure appropriate underwriting standards are enforced consistently throughout the Group.

In managing large exposures and to avoid undue concentration of credit risk in its loans and financing portfolio, the Group has emplaced, amongst others, the following limits and related lending guidelines, for:

- Countries
- Business Segments
- Economic Sectors
- Single Customer Groups
- Banks & Non-Bank Financial Institutions
- Counterparties
- Collaterals

The Bank has established dedicated teams comprising Corporate Remedial Management at Head Office and Regional Corporate Remedial Management to effectively manage vulnerable corporate and institutional credits of the Bank. Vulnerable consumer credits are managed by the Recovery Management Unit at Head Office and Asset Quality Management Centres at Regional Offices. Special attention is given to these vulnerable credits where more frequent and intensive reviews are performed in order to accelerate remedial action.

Credit Risk Management ("CRM") Framework

The CRM framework includes comprehensive credit risk policies, frameworks, tools and methodologies for identification, measurement, monitoring and control of credit risk on a consistent basis. Components of the CRM framework constitute:

- Strong emphasis in creating and enhancing credit risk awareness.
- Comprehensive selection and training of lending personnel in the management of credit risk.
- Leveraging on knowledge sharing tools including e-learning courses to enhance credit skills within the Group.

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35. Financial risk management policies (cont'd.)

(c) Credit risk management (cont'd.)

1. Credit Risk Management (cont'd.)

Credit Risk Management ("CRM") Framework (cont'd.)

The Bank's credit approving process encompasses pre-approval evaluation, approval and post-approval evaluation. Bank Credit Risk is responsible for developing, enhancing and communicating an effective and consistent credit risk management framework across the Bank to ensure appropriate credit policies are in place to identify, measure, control and monitor such risks.

In view that authority limits are directly related to the risk levels of the borrower and transaction, a Risk-Based Authority Limit structure was implemented based on the Expected Loss ("EL") framework and internally developed Credit Risk Rating System ("CRRS").

Credit Risk Measurement

The Bank's retail portfolios are under Basel II Advanced Internal Ratings-Based ("AIRB") Approach. This approach calls for more extensive reliance on the Bank's own internal experience whereby estimations for all the three components of Risk-Weighted Assets ("RWA") calculation namely Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD") are based on its own historical data. Separate PD, EAD and LGD statistical models were developed at portfolio level; each model covering borrowers with fundamentally similar risk profiles in a portfolio. The estimations derived from the models are used as input for RWA calculations.

For non-retail portfolios, the Bank uses internal credit models for evaluating the majority of its credit risk exposures. For Corporate and Bank portfolios, the Bank has adopted the Foundation Internal Ratings-Based ("FIRB") Approach, which allows the Bank to use its internal PD estimates to determine an asset risk weighting.

CRRS is developed to allow the Bank to identify, assess and measure corporate, commercial and small business borrowers' credit risk. CRRS is a statistical default prediction model. The model was developed and recalibrated to suit the Bank's banking environment using internal data. The model development process was conducted and documented in line with specific criteria for model development in accordance to Basel II. The EL framework employed in the Bank enables the calculation of expected loss using PD estimates (facilitated by the CRRS), LGD and EAD.

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35. Financial risk management policies (cont'd.)

(c) Credit risk management (cont'd.)

1. Credit Risk Management (cont'd.)

Credit Risk Measurement (cont'd.)

To account for differences in risk due to industry and size, CRRS is designed to rate all corporate and commercial borrowers by their respective industry segments (i.e. manufacturing, services, trading, contractors, property developers (single project) and property investors (single property)).

For counterparty risk exposures (on-balance sheet), the Bank employs risk treatments that are in accordance with BNM Guidelines and Basel II requirements. While for off-balance sheet exposures, the Bank measures the credit risk using Credit Risk Equivalent via the Current Exposure Method. This method calculates the Bank's credit risk exposure after considering both the mark-to-market exposures and the appropriate add-on factors for potential future exposures. The add-on factors employed are in accordance with BNM Guidelines and Basel II requirements.

2. Maximum exposure to credit risk

The following analysis represents the Bank's maximum exposure to credit risk of on-balance sheet financial assets and off-balance sheet exposure, excluding any collateral held or other credit enhancements. For on-balance sheet financial assets, the exposure to credit risk equals their carrying amount. For off-balance sheet exposure, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the obligations of the instruments issued are called upon and/or the full amount of the undrawn credit facilities granted to customers.

	Maximum Exposure	
	2016	2015
	RM'000	RM'000
Credit exposure for on-balance sheet assets:		
Cash and short term funds	15,535,992	8,815,504
Deposits and placements with banks and other financial institutions	651,558	-
Financial investments portfolio*	8,972,105	9,327,813
Financing and advances	148,523,310	130,166,349
Derivative assets	515,554	497,905
Other financial assets	4,070,483	3,222,955
Statutory deposits with Bank Negara Malaysia	3,070,000	3,834,000
	<u>181,339,002</u>	<u>155,864,526</u>

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35. Financial risk management policies (cont'd.)

(c) Credit risk management (cont'd.)

2. Maximum exposure to credit risk (cont'd.)

	Maximum Exposure	
	2016	2015
	RM'000	RM'000
Credit exposure for off-balance sheet items:		
Direct credit substitutes	1,243,371	910,954
Certain transaction-related contingent items	2,339,735	1,910,743
Short-term self-liquidating trade-related contingencies	295,126	267,119
Irrevocable commitments to extend credit	30,075,937	28,168,173
Miscellaneous	56,028	47,288
	<u>34,010,197</u>	<u>31,304,277</u>
Total maximum credit risk exposure	<u>215,349,199</u>	<u>187,168,803</u>

The financial effect of collateral (quantification of the extent to which collateral and other enhancements mitigate credit risk) held for financing and advances for the Bank is at 68% as at 31 December 2016 (31 December 2015: 69%). The financial effect of collateral held for other financial assets is not significant.

* Financial investments portfolio consists of financial investments at fair value through profit or loss and financial investments available-for-sale.

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35. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

3. Credit risk concentration profile

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Bank analysed the concentration credit risk by geographic purpose and industry segment as follows:

(a) Concentration of credit risk for both on and off balance sheet exposures analysed by geographic purpose are as follows:

	Cash and short term funds RM'000	Deposits and placements of banks and other financial institutions RM'000	Financial investments portfolio* RM'000	Financing and advances RM'000	Derivative assets RM'000	Other assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
2016									
Malaysia	15,535,992	651,558	8,972,105	149,276,136	515,554	4,070,483	3,070,000	182,091,828	34,010,197
Less: Collective allowance	-	-	-	(752,826)	-	-	-	(752,826)	-
	15,535,992	651,558	8,972,105	148,523,310	515,554	4,070,483	3,070,000	181,339,002	34,010,197

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

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35. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

3. Credit risk concentration profile (cont'd.)

2015	Cash and short term funds RM'000	Deposits and placements of banks and other financial institutions RM'000	Financial investments portfolio* RM'000	Financing and advances RM'000	Derivative assets RM'000	Other assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
Malaysia	8,815,504	-	9,327,813	130,914,123	497,905	3,222,955	3,834,000	156,612,300	31,304,277
Less: Collective allowance	-	-	-	(747,774)	-	-	-	(747,774)	-
	8,815,504	-	9,327,813	130,166,349	497,905	3,222,955	3,834,000	155,864,526	31,304,277

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

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35. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

3. Credit risk concentration profile (cont'd.)

(b) Concentration of credit risk for both on and off balance sheet exposures analysed by industry sector are as follows:

2016	Cash and short term funds RM'000	Deposits and placements of banks and other financial institutions RM'000	Financial investments portfolio* RM'000	Financing and advances RM'000	Derivative assets RM'000	Other assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	48,947	3,941,292	8,844	-	-	3,999,083	527,883
Mining and quarrying	-	-	-	1,934,266	-	-	-	1,934,266	1,112,008
Manufacturing	-	-	-	7,228,167	11,136	-	-	7,239,303	1,581,712
Construction	-	-	-	6,848,554	-	-	-	6,848,554	4,158,303
Electricity, gas and water supply	-	-	387,326	364,743	18,356	-	-	770,425	198,459
Wholesale, retail trade, restaurants and hotels	-	-	-	6,391,692	1,523	-	-	6,393,215	1,136,454
Finance, insurance, real estate and business	15,535,992	651,558	3,925,406	17,970,942	475,680	4,070,483	3,070,000	45,700,061	13,550,531
Transport, storage and communication	-	-	109,403	4,320,214	15	-	-	4,429,632	495,818
Education, health and others	-	-	-	1,345,381	-	-	-	1,345,381	340,242
Household	-	-	-	89,148,641	-	-	-	89,148,641	9,573,130
Others	-	-	4,501,023	9,029,418	-	-	-	13,530,441	1,335,657
	15,535,992	651,558	8,972,105	148,523,310	515,554	4,070,483	3,070,000	181,339,002	34,010,197

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

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(c) Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

(b) Concentration of credit risk for both on and off balance sheet exposures analysed by industry sector are as follows:

2015	Cash and short term funds	Deposits and placements of banks and other financial institutions	Financial investments portfolio*	Financing and advances	Derivative assets	Other assets	Statutory deposits with Bank Negara Malaysia	Total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	-	-	82,294	4,342,905	7,428	-	-	4,432,627	444,034
Mining and quarrying	-	-	-	2,336,521	-	-	-	2,336,521	148,782
Manufacturing	-	-	-	6,573,953	8,862	-	-	6,582,815	1,183,652
Construction	-	-	-	6,188,177	-	-	-	6,188,177	2,666,857
Electricity, gas and water supply	-	-	520,165	440,063	29,737	-	-	989,965	221,433
Wholesale, retail trade, restaurants and hotels	-	-	-	5,183,282	5	-	-	5,183,287	1,149,323
Finance, insurance, real estate and business	8,815,504	-	4,490,351	12,754,399	451,873	3,222,955	3,834,000	33,569,083	15,035,295
Transport, storage and communication	-	-	108,036	1,980,826	-	-	-	2,088,862	483,997
Education, health and others	-	-	-	1,427,964	-	-	-	1,427,964	589,063
Household	-	-	-	80,935,884	-	-	-	80,935,884	9,347,283
Others	-	-	4,126,967	8,002,375	-	-	-	12,129,342	34,558
	8,815,504	-	9,327,813	130,166,349	497,905	3,222,955	3,834,000	155,864,526	31,304,277

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

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35. Financial risk management policies (cont'd.)

(c) Credit risk management (cont'd.)

4. Collateral

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

- For mortgages - charges over residential properties;
- For auto financing - ownership claims over the vehicle financed;
- For share margin financing - pledges over securities from listed exchange
- For commercial property financing - charges over the properties being financed; and
- For other financing - charges over business assets such as premises, inventories, trade receivable or deposits

5. Credit quality of financial assets

Credit classification for financial assets

For the purposes of disclosure relating to MFRS 7, all financial assets are categorised into the following:

- neither past due nor impaired
- past due but not impaired
- past due and impaired

The four (4) credit quality categories set out and defined as follows, from very low to high, apart from impaired, describe the credit quality of the Bank's lending. These classifications encompass a range of more granular, internal gradings assigned to financing and advances whilst external gradings are applied to financial investments. There is no direct correlation between the internal and external ratings at a granular level, except to the extent that each falls within a single credit quality band.

Risk Category (Non-Retail)	Probability of default ("PD") Grade	External credit ratings based on S&P's ratings	External credit ratings based on RAM's ratings
Very low	1 - 5	AAA to A-	AAA to AA
Low	6 - 10	A- to BB+	AA to A
Moderate	11 - 15	BB+ to B+	A to BB
High	16 - 21	B+ to CCC	BB to C

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35. Financial risk management policies (cont'd.)

(c) Credit risk management (cont'd.)

5. Credit quality of financial assets (cont'd.)

Risk Category (Retail)	Probability of default ("PD") Grade	External credit ratings based on S&P's ratings	External credit ratings based on RAM's ratings
Very low	1 - 2	AAA to BBB-	AAA to A
Low	3 - 5	BB+ to BB-	A to BBB
Moderate	6 - 8	B+ to CCC	BB to B
High	9 - 11	CCC to C	B to C

Risk category is as described below:

Very low: Obligors rated in this category have an excellent capacity to meet financial commitments with very low credit risk.

Low: Obligors rated in this category have a good capacity to meet financial commitments with very low credit risk.

Moderate: Obligors rated in this category have a fairly acceptable capacity to meet financial commitments with moderate credit risk.

High: Obligors rated in this category have uncertain capacity to meet financial commitments and are subject to high credit risk.

Other than the above rated risk categories, other categories used internally are as follows:

Impaired/default: Obligors with objective evidence of impairment as a result of one or more events that has an impact on the estimated future cash flows of the obligors that can be reliably estimated. The detailed definition is further disclosed in the financial statements.

Unrated: Refer to borrower which are currently not assigned with borrowers' ratings due to unavailability of ratings models.

Sovereign: Refer to obligors which are governments and/or government-related agencies.

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35. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

6. Credit quality of financial assets - gross financing and advances

Risk categories of gross financing and advances of the Bank have been assessed based on four credit quality classification as described below:

2016

Past due but not impaired

	Neither past due nor impaired RM'000	Due within 30 days RM'000	Due within 31 to 60 days RM'000	Due within 61 to 90 days RM'000	Total RM'000	Impaired RM'000	Total RM'000
Cashline	4,589,397	61,024	17,840	183	79,047	175,950	4,844,394
Term financing	109,602,080	7,830,688	2,316,254	634,575	10,781,517	1,296,208	121,679,805
Other financing	23,281,679	55,822	11,899	2,759	70,480	17,128	23,369,287
Gross financing and advances	137,473,156	7,947,534	2,345,993	637,517	10,931,044	1,489,286	149,893,486
Less:							
- Individual allowance							(617,350)
- Collective allowance							(752,826)
							(1,370,176)
							148,523,310
As a percentage of total gross financing and advances	91.71%	5.30%	1.57%	0.43%	7.29%	0.99%	100.00%

2016

Neither past due nor impaired

	Very low RM'000	Low RM'000	Moderate RM'000	High RM'000	Unrated RM'000	Total RM'000
Cashline	1,165,121	982,071	1,056,156	273,365	1,112,684	4,589,397
Term financing	31,320,347	43,987,191	21,248,078	1,755,804	11,290,660	109,602,080
Other financing	6,204,510	7,908,074	2,043,928	307,497	6,817,670	23,281,679
Gross financing and advances	38,689,978	52,877,336	24,348,162	2,336,666	19,221,014	137,473,156
As a percentage of total gross financing and advances	25.81%	35.28%	16.24%	1.56%	12.82%	91.71%

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35. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

6. Credit quality of financial assets - gross financing and advances (cont'd.)

2015

	Past due but not impaired				Total RM'000	Impaired RM'000	Total RM'000
	Neither past due nor impaired RM'000	Due within 30 days RM'000	Due within 31 to 60 days RM'000	Due within 61 to 90 days RM'000			
Cashline	3,582,665	22,440	42,908	3,112	68,460	129,236	3,780,361
Term financing	100,130,329	8,016,544	2,143,173	501,108	10,660,825	733,529	111,524,683
Other financing	15,739,579	54,273	11,205	2,240	67,718	10,465	15,817,762
Gross financing and advances	119,452,573	8,093,257	2,197,286	506,460	10,797,003	873,230	131,122,806
Less:							
- Individual allowance							(208,683)
- Collective allowance							(747,774)
							(956,457)
							130,166,349
As a percentage of total gross financing and advances	91.10%	6.17%	1.68%	0.39%	8.23%	0.67%	100.00%

2015

	Neither past due nor impaired					Total RM'000
	Very low RM'000	Low RM'000	Moderate RM'000	High RM'000	Unrated RM'000	
Cashline	1,148,825	516,807	869,217	245,042	802,774	3,582,665
Term financing	30,626,372	36,925,209	20,641,139	1,652,117	10,285,492	100,130,329
Other financing	4,052,776	4,848,344	1,353,662	166,873	5,317,924	15,739,579
Gross financing and advances	35,827,973	42,290,360	22,864,018	2,064,032	16,406,190	119,452,573
As a percentage of total gross financing and advances	27.32%	32.25%	17.44%	1.57%	12.51%	91.10%

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35. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

7. Credit quality of financial assets - financial investments portfolio and other financial assets

2016	Neither past due nor impaired		Total RM'000	Impairment allowance RM'000	Net total RM'000
	RM'000	RM'000			
Cash and short term funds	15,535,992	-	15,535,992	-	15,535,992
Deposits and placements with banks and other financial institutions	651,558	-	651,558	-	651,558
Financial investments portfolio*	8,972,105	-	8,972,105	-	8,972,105
Derivative assets	515,554	-	515,554	-	515,554
Other financial assets	4,070,483	-	4,070,483	-	4,070,483
Statutory deposits with Bank Negara Malaysia	3,070,000	-	3,070,000	-	3,070,000
	32,815,692	-	32,815,692	-	32,815,692
As a percentage of gross balance	100.00%		100.00%		

Neither past due nor impaired:

2016	Sovereign (no rating) RM'000	Very low RM'000	Low RM'000	Moderate RM'000	High RM'000	Unrated RM'000	Total RM'000
Deposits and placements of banks and other financial institutions	-	-	651,558	-	-	-	651,558
Financial investments portfolio*	4,926,842	2,250,983	1,544,397	249,133	-	750	8,972,105
Derivative assets	-	1,846	396,492	111,167	6,049	-	515,554
Other financial assets	-	-	-	-	-	4,070,483	4,070,483
Statutory deposits with Bank Negara Malaysia	3,070,000	-	-	-	-	-	3,070,000
	21,580,815	2,252,829	4,544,126	360,300	6,049	4,071,573	32,815,692
As a percentage of gross balance	65.76%	6.87%	13.85%	1.10%	0.02%	12.41%	100.00%

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

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35. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

7. Credit quality of financial assets - financial investments portfolio and other financial assets (cont'd.)

2015	Neither past due nor impaired RM'000	Impaired RM'000	Total RM'000	Impairment allowance RM'000	Net total RM'000
Cash and short term funds	8,815,504	-	8,815,504	-	8,815,504
Financial investments portfolio*	9,327,813	-	9,327,813	-	9,327,813
Derivative assets	497,905	-	497,905	-	497,905
Other financial assets	3,222,955	-	3,222,955	-	3,222,955
Statutory deposits with Bank Negara Malaysia	3,834,000	-	3,834,000	-	3,834,000
	<u>25,698,177</u>	<u>-</u>	<u>25,698,177</u>	<u>-</u>	<u>25,698,177</u>
As a percentage of gross balance	<u>100.00%</u>	<u>-</u>	<u>100.00%</u>		

2015	Neither past due nor impaired:						Total RM'000
	Sovereign (no rating) RM'000	Very low RM'000	Low RM'000	Moderate RM'000	High RM'000	Unrated RM'000	
Cash and short term funds	7,079,896	-	-	1,735,537	-	71	8,815,504
Financial investments portfolio*	4,460,404	843,649	4,023,260	-	-	500	9,327,813
Derivative assets	-	198,566	193,869	102,226	567	2,677	497,905
Other financial assets	-	-	-	-	-	3,222,955	3,222,955
Statutory deposits with Bank Negara Malaysia	3,834,000	-	-	-	-	-	3,834,000
	<u>15,374,300</u>	<u>1,042,215</u>	<u>4,217,129</u>	<u>1,837,763</u>	<u>567</u>	<u>3,226,203</u>	<u>25,698,177</u>
As a percentage of gross balance	<u>59.83%</u>	<u>4.06%</u>	<u>16.41%</u>	<u>7.15%</u>	<u>0.00%</u>	<u>12.55%</u>	<u>100.00%</u>

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

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35. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

8. Credit quality of impaired financial assets

Impaired financial assets analysed by geography are as follows:

2016	Deposits and placements with banks		Financial investments portfolio	Financing and advances	Derivative assets	Other financial assets	Statutory deposits with Bank Negara Malaysia	Total	Commitments and contingencies
	Cash and short term funds	and other financial institutions							
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	-	-	-	1,489,286	-	-	-	1,489,286	-
<hr/>									
2015	Deposits and placements with banks		Financial investments portfolio	Financing and advances	Derivative assets	Other financial assets	Statutory deposits with Bank Negara Malaysia	Total	Commitments and contingencies
	Cash and short term funds	and other financial institutions							
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	-	-	-	873,230	-	-	-	873,230	-

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35. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

8. Credit quality of impaired financial assets (cont'd.)

Impaired financial assets analysed by industry sectors are as follows:

2016	Cash and short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments portfolio RM'000	Financing and advances RM'000	Derivative assets RM'000	Other financial assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	-	5,671	-	-	-	5,671	-
Mining and quarrying	-	-	-	254,583	-	-	-	254,583	-
Manufacturing	-	-	-	58,189	-	-	-	58,189	-
Construction	-	-	-	54,663	-	-	-	54,663	-
Electricity, gas and water supply	-	-	-	440	-	-	-	440	-
Wholesale, retail trade, restaurants and hotels	-	-	-	136,166	-	-	-	136,166	-
Finance, insurance, real estate and business	-	-	-	195,782	-	-	-	195,782	-
Transport, storage and communication	-	-	-	476,080	-	-	-	476,080	-
Education, health and others	-	-	-	7,742	-	-	-	7,742	-
Household	-	-	-	293,477	-	-	-	293,477	-
Others	-	-	-	6,493	-	-	-	6,493	-
	-	-	-	1,489,286	-	-	-	1,489,286	-

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35. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

8. Credit quality of impaired financial assets (cont'd.)

Impaired financial assets analysed by industry sectors are as follows:

2015	Cash and short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments portfolio RM'000	Financing and advances RM'000	Derivative assets RM'000	Other financial assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	-	10,590	-	-	-	10,590	-
Mining and quarrying	-	-	-	1,060	-	-	-	1,060	-
Manufacturing	-	-	-	53,805	-	-	-	53,805	-
Construction	-	-	-	18,018	-	-	-	18,018	-
Electricity, gas and water supply	-	-	-	331	-	-	-	331	-
Wholesale, retail trade, restaurants and hotels	-	-	-	118,153	-	-	-	118,153	-
Finance, insurance, real estate and business	-	-	-	161,954	-	-	-	161,954	-
Transport, storage and communication	-	-	-	250,271	-	-	-	250,271	-
Education, health and others	-	-	-	11,400	-	-	-	11,400	-
Household	-	-	-	244,877	-	-	-	244,877	-
Others	-	-	-	2,771	-	-	-	2,771	-
	-	-	-	873,230	-	-	-	873,230	-

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35. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

9. Reconciliation of allowance account

Movements in allowances for impairment losses for financial assets are as follows:

2016	Financing and advances RM'000	Financial investments available- for-sale RM'000	Other financial assets RM'000	Total RM'000
<u>Individual allowance</u>				
At beginning of the year	208,683	-	-	208,683
Allowance made during the year	460,108	-	-	460,108
Amount written back in respect of recoveries	(22,583)	-	-	(22,583)
Amount written off	(25,452)	-	-	(25,452)
Transfer to collective allowance	(3,406)	-	-	(3,406)
At end of the year	617,350	-	-	617,350
<u>Collective allowance</u>				
At beginning of the year	747,774	-	-	747,774
Allowance made during the year	107,237	-	-	107,237
Amount written off	(105,591)	-	-	(105,591)
Transfer from individual allowance	3,406	-	-	3,406
At end of the year	752,826	-	-	752,826

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35. Financial risk management (cont'd.)

(c) Credit risk management (cont'd.)

9. Reconciliation of allowance account (cont'd.)

2015	Financing and advances RM'000	Financial investments available- for-sale RM'000	Other financial assets RM'000	Total RM'000
<u>Individual allowance</u>				
At beginning of the year	212,946	-	-	212,946
Allowance made during the year	102,818	-	-	102,818
Amount written back in respect of recoveries	(21,544)	-	-	(21,544)
Amount written off	(78,115)	-	-	(78,115)
Transfer to collective allowance	(7,422)	-	-	(7,422)
At end of the year	<u>208,683</u>	-	-	<u>208,683</u>
<u>Collective allowance</u>				
At beginning of the year	597,403	-	-	597,403
Allowance made during the year	236,245	-	-	236,245
Amount written off	(93,296)	-	-	(93,296)
Transfer from individual allowance	7,422	-	-	7,422
At end of the year	<u>747,774</u>	-	-	<u>747,774</u>

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35. Financial risk management policies (cont'd.)

(d) Market risk management

1. Market risk management overview

Market risk management

The Bank recognises market risk as the adverse impact on earnings or capital arising from changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates, commodity prices and equity prices. Market risk arises through the Bank's trading and balance sheet activities. The primary categories of market risk for the Bank are:

- (i) Profit rate risk: arising from changes in yield curves, credit spreads and implied volatilities on profit rate options;
- (ii) Foreign exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options;
- (iii) Commodity price risk: arising from changes in commodity prices and commodity option implied volatilities; and
- (iv) Equity price risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options.

2. Market risk management framework

Management of trading activities

The Bank's traded market risk exposures are primarily from proprietary trading, client servicing and market making. The risk measurement techniques employed by the Bank comprise of both quantitative and qualitative measures.

Value at Risk ("VaR") measures the potential loss of value resulting from market movements over a specified period of time within a specified probability of occurrence under normal business situations. The Bank's Proprietary Trading VaR is computed daily using a one-day holding period with other parameters unchanged. To ensure the relevance and accuracy of the VaR computation, VaR is independently validated on a periodic basis.

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35. Financial risk management policies (cont'd.)

(d) Market risk management (cont'd.)

2. Market risk management framework (cont'd.)

Management of trading activities (cont'd.)

Besides VaR, the Bank utilises other non-statistical risk measures, such as profit rate sensitivity, e.g. exposure to a one basis point increase in yields ("PV01"), net open position ("NOP") limit for managing foreign currency exposure and Greek limits for controlling options risk. These measures provide granular information on the Bank's market risk exposures and are used for control and monitoring purposes.

Management and measurement of Profit Rate Risk ("PRR")/Rate of Return Risk ("RoR") in the banking book

The Bank emphasises the importance of managing PRR/RoR in the banking book as most of the balance sheet items of the Bank generate financing income and expense, which are indexed to profit rates. Volatility of earnings can pose a threat to the Bank's profitability while economic value provides a more comprehensive view of the potential long-term effects on the Bank's overall capital adequacy.

PRR/RoR in the banking book encompasses repricing risk, yield curve risk and basis risk arising from different interest rate benchmarks and embedded optionality. The objective of the Bank's IRR/RoR in the banking book framework is to ensure that all PRR/RoR in the banking book is managed within its risk appetite.

PRR/RoR in the banking book is measured and monitored proactively, using the following principal measurement techniques:

- Repricing Gap Analysis
- Dynamic Simulation
- Economic Value at Risk
- Stress Testing

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35. Financial risk management (cont'd.)

(d) Market risk management (cont'd.)

3. Profit rate risk

The Bank is exposed to the risk associated with the effects of fluctuations in the prevailing levels of yield/profit rate on the financial position and cash flows. The fluctuations in yield/profit rate can be influenced by changes in profit rates that affect the value of financial instruments. Yield/Profit rate risk is monitored and managed by the Asset and Liability Management Committee ("ALCO") to protect total net profit income from changes in market profit rates.

The table below summarises the Bank's exposure to yield/profit rate risk. The table indicates effective average yield/profit rates at the reporting date and the periods in which the financial instruments either reprice or mature, whichever is earlier.

2016	Non-trading book						Non-profit sensitive RM'000	Trading books RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000					
Assets										
Cash and short-term funds	15,533,018	-	-	-	-	2,974	-	15,535,992	3.07	
Deposits and placements with banks and other financial institutions	-	651,558	-	-	-	-	-	651,558	3.50	
Financial investments at fair value through profit or loss	-	-	-	-	-	-	252,451	252,451	4.38	
Financial investments available-for-sale	1,597,324	1,248,368	426,114	1,295,364	4,152,484	-	-	8,719,654	3.91	
Financing and advances										
- Performing	89,120,797	10,494,776	3,623,310	13,154,877	32,010,440	-	-	148,404,200	5.09	
- Impaired*	871,936	-	-	-	-	-	-	871,936	-	
- Collective allowance	-	-	-	-	-	(752,826)	-	(752,826)	-	
Derivative assets	-	-	-	-	-	-	515,554	515,554	-	
Other assets	-	-	-	-	-	7,596,038	-	7,596,038	-	
Total assets	107,123,075	12,394,702	4,049,424	14,450,241	36,162,924	6,846,186	768,005	181,794,557		

* This is arrived after deducting the individual impairment from the gross impaired financing and advances outstanding.

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35. Financial risk management (cont'd.)

(d) Market risk management (cont'd.)

3. Profit rate risk (cont'd.)

2016	Non-trading book						Non-profit sensitive RM'000	Trading books RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000					
Liabilities and shareholder's equity										
Deposits from customers	69,993,897	6,978,050	8,221,874	21,410,671	-	-	-	106,604,492	1.85	
Investment accounts of customers	25,070,372	297,744	970,435	5,206,036	-	-	-	31,544,587	3.27	
Deposits and placements of banks and other financial institutions	9,605,321	3,949,454	5,195,637	9,659,253	1,540,438	391,903	-	30,342,006	2.81	
Bills and acceptances payable	-	-	-	-	-	53,220	-	53,220	-	
Financial liabilities at fair value through profit or loss	-	-	-	902,091	-	-	-	902,091	3.40	
Derivative liabilities	-	-	-	-	-	-	535,161	535,161	-	
Subordinated sukuk	-	-	-	2,534,496	-	-	-	2,534,496	-	
Other liabilities	-	-	-	-	-	189,829	-	189,829	-	
Total liabilities	104,669,590	11,225,248	14,387,946	39,712,547	1,540,438	634,952	535,161	172,705,882		
Shareholder's equity	-	-	-	-	-	9,088,675	-	9,088,675		
Total liabilities and shareholder's equity	104,669,590	11,225,248	14,387,946	39,712,547	1,540,438	9,723,627	535,161	181,794,557		
On-balance sheet profit rate sensitivity gap	2,453,485	1,169,454	(10,338,522)	(25,262,306)	34,622,486	(2,877,441)	232,844	-		
Cumulative profit rate sensitivity gap	2,453,485	3,622,939	(6,715,583)	(31,977,889)	2,644,597	(232,844)	-	-		

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35. Financial risk management (cont'd.)

(d) Market risk management (cont'd.)

3. Profit rate risk (cont'd.)

2015	Non-trading book					Non-profit sensitive RM'000	Trading books RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
Assets									
Cash and short-term funds	8,815,433	-	-	-	-	71	-	8,815,504	3.45
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	-	-
Financial investments at fair value through profit or loss	-	-	-	-	-	-	335,384	335,384	0.74
Financial investments available-for-sale	2,559,501	1,185,833	237,701	2,234,876	2,774,518	-	-	8,992,429	2.24
Financing and advances									
- Performing	76,175,800	4,933,287	4,593,302	14,163,949	30,383,238	-	-	130,249,576	5.15
- Impaired*	664,547	-	-	-	-	-	-	664,547	-
- Collective allowance	-	-	-	-	-	(747,774)	-	(747,774)	-
Derivative assets	-	-	-	-	-	-	497,905	497,905	-
Other assets	-	-	-	-	-	7,544,883	-	7,544,883	-
Total assets	88,215,281	6,119,120	4,831,003	16,398,825	33,157,756	6,797,180	833,289	156,352,454	

* This is arrived after deducting the individual impairment from the gross impaired financing and advances outstanding.

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35. Financial risk management (cont'd.)

(d) Market risk management (cont'd.)

3. Profit rate risk (cont'd.)

2015	Non-trading book					Non-profit sensitive RM'000	Trading books RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
Liabilities and shareholder's equity									
Deposits from customers	69,054,476	5,046,844	14,328,030	17,356,865	-	-	-	105,786,215	2.27
Investment accounts of customers	7,005,630	66,044	10,585,424	795	-	-	-	17,657,893	3.47
Deposits and placements of banks and other financial institutions	5,137,075	2,462,091	5,640,587	7,717,305	-	387,515	-	21,344,573	3.27
Bills and acceptances payable	-	-	-	-	-	33,556	-	33,556	-
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Derivative liabilities	-	-	-	-	-	-	587,772	587,772	-
Subordinated sukuk	-	1,010,782	-	1,517,178	-	-	-	2,527,960	4.54
Other liabilities	-	-	-	-	-	147,894	-	147,894	-
Total liabilities	81,197,181	8,585,761	30,554,041	26,592,143	-	568,965	587,772	148,085,863	
Shareholder's equity	-	-	-	-	-	8,266,591	-	8,266,591	
Total liabilities and shareholder's equity	81,197,181	8,585,761	30,554,041	26,592,143	-	8,835,556	587,772	156,352,454	
On-balance sheet profit rate sensitivity gap	7,018,100	(2,466,641)	(25,723,038)	(10,193,318)	33,157,756	(2,038,376)	245,517	-	
Cumulative profit rate sensitivity gap	7,018,100	4,551,459	(21,171,579)	(31,364,897)	1,792,859	(245,517)	-	-	

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35. Financial risk management (cont'd.)

(d) Market risk management (cont'd.)

4. Sensitivity analysis for profit rate risk

The table below shows the sensitivity of the Bank's profit after tax and revaluation reserve to an up and down 100 basis point parallel rate shock:

	2016		2015			
	Tax rate	RM'000 + 100 basis points	RM'000 - 100 basis points	Tax rate	RM'000 + 100 basis points	RM'000 - 100 basis points
Impact to profit before tax	24%	(3,280)	3,280	25%	(47,407)	47,407
Impact to profit after tax		<u>(2,493)</u>	<u>2,493</u>		<u>(35,555)</u>	<u>35,555</u>

Impact to profit after tax is measured using Earnings-at-Risk ("EaR") methodology on statement of financial position which is simulated based on a set of standardised rate shock on the profit rate gap profile. The profit rate gap is the mismatch of rate sensitive assets and rate sensitive liabilities taking consideration the earlier of repricing or remaining maturity, behavioural assumptions of certain indeterminate maturities products such as current and savings deposits, to reflect the actual sensitivity behaviour of these profit bearing liabilities.

Impact to reserve is assessed by applying rate shock to the yield curve to model the impact on mark-to-market for financial investments of Available-for-Sale ("AFS") portfolio:

	2016		2015	
	RM'000 + 100 basis points	RM'000 - 100 basis points	RM'000 + 100 basis points	RM'000 - 100 basis points
Impact to reserve	<u>(345,309)</u>	<u>345,309</u>	<u>(279,787)</u>	<u>279,787</u>

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35. Financial risk management (cont'd.)

(d) Market risk management (cont'd.)

5. Foreign exchange risk

Foreign exchange risk is the risk to earnings and value of foreign currency assets, liabilities and derivative financial instruments caused by fluctuations in foreign exchange rates.

The banking activities of providing financial products and services to customers expose the Bank to foreign exchange risk. Foreign exchange risk is managed by treasury function, and monitored by Group Risk Management against delegated limits. The Bank's policy is to ensure, where appropriate and practical, that its capital is protected from foreign exchange exposures. Hedging against foreign exchange exposures is mainly to protect the real economic value, rather than to avoid the short-term accounting impact.

The table below analyses the net foreign exchange positions of the Bank by major currencies, which are mainly in Ringgit Malaysia, Singapore Dollar, the Great Britain Pound, Hong Kong Dollar, United States Dollar, Indonesia Rupiah and Euro. The "others" foreign exchange risk include mainly exposure to India Rupee, Japanese Yen, New Zealand Dollar, Canadian Dollar, Australian Dollar and Papua New Guinea Kina.

2016	Malaysian Ringgit RM'000	Singapore Dollar RM'000	Great Britain Pound RM'000	Hong Kong Dollar RM'000	United States Dollar RM'000	Indonesia Rupiah RM'000	Euro RM'000	Others RM'000	Total RM'000
Assets									
Cash and short-term funds	15,454,826	18,517	11,231	250	23,791	-	9,306	18,071	15,535,992
Deposits and placements with banks and other financial institutions	651,558	-	-	-	-	-	-	-	651,558
Financial investments portfolio*	8,616,740	-	-	-	355,365	-	-	-	8,972,105
Financing and advances	142,268,649	4,238	1,169,312	-	4,922,785	-	-	158,326	148,523,310
Derivative assets	(1,058,721)	862,541	114	-	645,435	-	3	66,182	515,554
Other assets	3,575,681	1,437	11,752	(9)	935,552	1,121	(915)	(18,068)	4,506,551
Statutory deposits with Bank Negara Malaysia	3,070,000	-	-	-	-	-	-	-	3,070,000
Deferred tax assets	19,487	-	-	-	-	-	-	-	19,487
Total assets	172,598,220	886,733	1,192,409	241	6,882,928	1,121	8,394	224,511	181,794,557

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

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35. Financial risk management (cont'd.)

(d) Market risk management (cont'd.)

5. Foreign exchange risk (cont'd.)

2016	Malaysian Ringgit RM'000	Singapore Dollar RM'000	Great Britain Pound RM'000	Hong Kong Dollar RM'000	United States Dollar RM'000	Indonesia Rupiah RM'000	Euro RM'000	Others RM'000	Total RM'000
Liabilities									
Deposits from customers	104,286,350	12,741	35,251	67	2,066,076	-	11,461	192,546	106,604,492
Investment accounts of customers	31,544,587	-	-	-	-	-	-	-	31,544,587
Deposits and placements of banks and other financial institutions	24,201,656	-	962,563	-	5,018,818	324	-	158,645	30,342,006
Bills and acceptances payable	53,220	-	-	-	-	-	-	-	53,220
Derivative liabilities	(1,206,922)	871,652	187,984	-	796,219	-	(1,870)	(111,902)	535,161
Other liabilities	91,532	207	-	-	-	-	-	-	91,739
Financial liabilities at fair value through profit or loss	902,091	-	-	-	-	-	-	-	902,091
Provision for taxation and zakat	98,090	-	-	-	-	-	-	-	98,090
Subordinated sukuk	2,534,496	-	-	-	-	-	-	-	2,534,496
Total liabilities	162,505,100	884,600	1,185,798	67	7,881,113	324	9,591	239,289	172,705,882
On-balance sheet open position	10,093,120	2,133	6,611	174	(998,185)	797	(1,197)	(14,778)	9,088,675
Less: Derivative assets	1,058,721	(862,541)	(114)	-	(645,435)	-	(3)	(66,182)	(515,554)
Add: Derivative liabilities	(1,206,922)	871,652	187,984	-	796,219	-	(1,870)	(111,902)	535,161
Net open position	9,944,919	11,244	194,481	174	(847,401)	797	(3,070)	(192,862)	9,108,282

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35. Financial risk management (cont'd.)

(d) Market risk management (cont'd.)

5. Foreign exchange risk (cont'd.)

2015	Malaysian Ringgit RM'000	Singapore Dollar RM'000	Great Britain Pound RM'000	Hong Kong Dollar RM'000	United States Dollar RM'000	Indonesia Rupiah RM'000	Euro RM'000	Others RM'000	Total RM'000
Assets									
Cash and short-term funds	8,534,167	5,523	4,279	557	232,000	-	902	38,076	8,815,504
Financial investments portfolio*	8,867,130	-	-	-	460,683	-	-	-	9,327,813
Financing and advances	123,681,392	5,126	475,847	-	5,557,469	-	-	446,515	130,166,349
Derivative assets	(713,863)	343,137	-	(2,146)	793,254	-	72,586	4,937	497,905
Other assets	3,031,500	1,404	9,612	(8)	648,500	1,044	(1,663)	(16,398)	3,673,991
Statutory deposits with Bank									
Negara Malaysia	3,834,000	-	-	-	-	-	-	-	3,834,000
Deferred tax assets	36,892	-	-	-	-	-	-	-	36,892
Total assets	147,271,218	355,190	489,738	(1,597)	7,691,906	1,044	71,825	473,130	156,352,454

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

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35. Financial risk management (cont'd.)

(d) Market risk management (cont'd.)

5. Foreign exchange risk (cont'd.)

2015	Malaysian Ringgit RM'000	Singapore Dollar RM'000	Great Britain Pound RM'000	Hong Kong Dollar RM'000	United States Dollar RM'000	Indonesia Rupiah RM'000	Euro RM'000	Others RM'000	Total RM'000
Liabilities									
Deposits from customers	103,960,658	4,484	27,986	790	1,747,084	-	9,505	35,708	105,786,215
Investment accounts of customers	17,657,893	-	-	-	-	-	-	-	17,657,893
Deposits and placements of banks and other financial institutions	17,054,712	-	243,971	-	3,724,998	1,185	-	319,707	21,344,573
Bills and acceptances payable	33,556	-	-	-	-	-	-	-	33,556
Derivative liabilities	(842,527)	347,431	216,796	-	798,187	(1,072)	72,878	(3,921)	587,772
Other liabilities	11,769	1,664	-	-	-	-	-	125,450	138,883
Provision for taxation and zakat	9,011	-	-	-	-	-	-	-	9,011
Subordinated sukuk	2,527,960	-	-	-	-	-	-	-	2,527,960
Total liabilities	140,413,032	353,579	488,753	790	6,270,269	113	82,383	476,944	148,085,863
On-balance sheet open position	6,858,186	1,611	985	(2,387)	1,421,637	931	(10,558)	(3,814)	8,266,591
Less: Derivative assets	713,863	(343,137)	-	2,146	(793,254)	-	(72,586)	(4,937)	(497,905)
Add: Derivative liabilities	(842,527)	347,431	216,796	-	798,187	(1,072)	72,878	(3,921)	587,772
Net open position	6,729,522	5,905	217,781	(241)	1,426,570	(141)	(10,266)	(12,672)	8,356,458

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35. Financial risk management policies (cont'd.)

(d) Market risk management (cont'd.)

6. Sensitivity analysis for foreign exchange risk

Foreign currency risk

Foreign exchange risk arises from the movements in exchange rates that adversely affect the revaluation of the Bank and the foreign currency positions.

	2016		2015	
	RM'000	RM'000	RM'000	RM'000
	1%	1%	1%	1%
	appreciation	depreciation	appreciation	depreciation
Impact to profit after tax and reserves	(4,843)	4,843	(6,509)	6,509

Interpretation of impact

The Bank measures the foreign exchange sensitivity based on the foreign exchange net open positions (including of foreign exchange structural position) under an adverse movement in all foreign currencies against reporting currency (MYR). The result implies that the Bank may subject to additional translation (loss)/gain if MYR appreciated/depreciated against other currencies and vice versa.

(e) Liquidity risk management

1. Liquidity risk management overview

Liquidity risk management

Liquidity risk is defined as the adverse impact to the Bank's financial condition or overall safety and soundness that could arise from its inability (or perceived inability) or unexpected higher cost to meet its obligations.

Liquidity risk management policies are reviewed annually and endorsed by ALCO and approved by RMC prior to implementation. The Bank's liquidity risk position is actively discussed and managed at the ALCO and RMC on a monthly basis in line with the approved guidelines and policies.

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35. Financial risk management policies (cont'd.)

(e) Liquidity risk management (cont'd.)

1. Liquidity risk management overview (cont'd.)

Liquidity Risk Management Framework

The Bank has taken BNM Liquidity Framework and leading practices as a foundation to manage and measure its liquidity risk exposure. The Bank also uses a range of tools to monitor and control liquidity risk exposure such as liquidity gap, early warning signals, liquidity indicators and stress testing. The liquidity positions of the Bank are monitored regularly against the established policies, procedures and limits.

Diversification of liquidity sources

The Bank has a diversified liability structure to meet its funding requirements. The primary source of funding includes customer deposits, interbank deposits, debt securities, swap market, bank financing syndication and medium term funds. The Bank also initiates and implements strategic fund raising programmes as well as institutes standby lines with external parties on a need basis. Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, provider, product and term.

Management of liquidity risk

For day-to-day liquidity management, the treasury operations will ensure sufficient funding to meet its intraday payment and settlement obligations on a timely basis. Besides, the process of managing liquidity risk also includes:

- Maintaining a sufficient amount of unencumbered high quality liquidity buffer as a protection against any unforeseen interruption to cash flows;
- Managing short and long-term cash flows via maturity mismatch report and various indicators;
- Monitoring depositor concentration at the Bank levels to avoid undue reliance on large depositors;
- Managing liquidity exposure by domestic and significant foreign currencies;
- Diversifying funding sources to ensure proper funding mix;

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35. Financial risk management policies (cont'd.)

(e) Liquidity risk management (cont'd.)

1. Liquidity risk management overview (cont'd.)

Management of liquidity risk (cont'd.)

For day-to-day liquidity management, the treasury operations will ensure sufficient funding to meet its intraday payment and settlement obligations on a timely basis. Besides, the process of managing liquidity risk also includes (cont'd.):

- Conducting liquidity stress testing under various scenarios as part of prudent liquidity control;
- Maintaining a robust contingency funding plan that includes strategies, decision-making authorities, internal and external communication and courses of action to be taken under different liquidity crisis scenarios; and
- Conducting Contingency Funding Plan ("CFP") testing to examine the effectiveness and robustness of the plans to avert any potential liquidity disasters affecting the Bank's liquidity soundness and financial solvency.

Stress Testing and Contingency Funding Plan

The Group uses stress testing and scenario analysis to evaluate the impact of sudden stress events on liquidity position. Scenarios are based on hypothetical events that include bank specific crisis and general market crisis scenarios. The stress test result provides an insight of the Group's funding requirements during different levels of stress environments and is closely linked to the Group's CFP, which provides a systemic approach in handling any unexpected liquidity disruptions. The plan encompasses strategies, decision-making authorities, internal and external communication and courses of action to be taken under different liquidity crisis scenarios.

The Group performs CFP tests regularly to ensure the effectiveness and operational feasibility of the CFP. The key aspects of the testing are to focus on the preparedness of key senior management and their respective alternate in handling a simulated distress funding situation. It also provides exposure and develops capabilities on how to respond to a liquidity crisis situation and operate effectively with each other under challenging circumstances.

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35. Financial risk management (cont'd.)

(e) Liquidity risk management (cont'd.)

2. Contractual maturity of total assets and liabilities

The table below analyses assets and liabilities (inclusive of non-financial instruments) of the Bank in the relevant maturity tenures based on remaining contractual maturities as at 31 December 2016 and 31 December 2015.

2016	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	No-specific maturity RM'000	Total RM'000
Assets									
Cash and short term funds	15,535,992	-	-	-	-	-	-	-	15,535,992
Deposits and placements with banks and other financial institutions	-	651,558	-	-	-	-	-	-	651,558
Financial investments portfolio*	1,597,323	1,500,819	272,922	153,192	727,901	567,463	4,151,735	750	8,972,105
Financing and advances	17,811,521	7,843,482	2,609,471	3,064,282	4,888,094	14,057,992	98,248,468	-	148,523,310
Derivative assets	18,908	49,261	127,790	82,534	130,702	79,158	27,201	-	515,554
Other financial assets	-	-	-	4,070,483	-	-	-	436,068	4,506,551
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	-	3,070,000	3,070,000
Deferred tax assets	-	-	-	-	-	-	-	19,487	19,487
Total assets	34,963,744	10,045,120	3,010,183	7,370,491	5,746,697	14,704,613	102,427,404	3,526,305	181,794,557
Liabilities									
Deposits from customers	63,430,430	25,727,205	11,298,716	6,093,985	30,863	23,293	-	-	106,604,492
Investment accounts of customers	16,840,520	728,366	5,040,636	8,929,760	3,513	1,792	-	-	31,544,587
Deposits and placements of banks and other financial institutions	9,997,224	3,949,454	1,546,187	3,649,449	4,616,375	5,042,879	1,540,438	-	30,342,006
Bills and acceptances payable	53,220	-	-	-	-	-	-	-	53,220
Financial liabilities at fair value through profit or loss	-	-	-	-	-	902,091	-	-	902,091
Derivative liabilities	3,983	67,556	116,227	80,323	144,378	103,551	19,143	-	535,161
Other financial liabilities	-	-	-	91,739	-	-	-	-	91,739
Provision for taxation and zakat	-	-	-	-	-	-	-	98,090	98,090
Subordinated sukuk	-	-	-	-	-	-	2,534,496	-	2,534,496
Total liabilities	90,325,377	30,472,581	18,001,766	18,845,256	4,795,129	6,073,606	4,094,077	98,090	172,705,882
Net liquidity gap	(55,361,633)	(20,427,461)	(14,991,583)	(11,474,765)	951,568	8,631,007	98,333,327	3,428,215	9,088,675

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

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35. Financial risk management (cont'd.)

(e) Liquidity risk management (cont'd.)

2. Contractual maturity of total assets and liabilities (cont'd.)

The table below analyses assets and liabilities (inclusive of non-financial instruments) of the Bank in the relevant maturity tenures based on remaining contractual maturities as at 31 December 2016 and 31 December 2015.

2015	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	No-specific maturity RM'000	Total RM'000
Assets									
Cash and short term funds	8,815,504	-	-	-	-	-	-	-	8,815,504
Financial investments portfolio*	2,559,501	1,357,768	223,726	177,425	544,895	1,689,982	2,774,016	500	9,327,813
Financing and advances	12,049,745	4,957,275	3,403,007	1,206,355	7,341,193	11,406,986	89,801,788	-	130,166,349
Derivative assets	35,546	80,068	47,111	115,647	3,683	178,684	37,166	-	497,905
Other financial assets	-	-	-	3,222,955	-	-	-	451,036	3,673,991
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	-	3,834,000	3,834,000
Deferred tax assets	-	-	-	-	-	-	-	36,892	36,892
Total assets	23,460,296	6,395,111	3,673,844	4,722,382	7,889,771	13,275,652	92,612,970	4,322,428	156,352,454
Liabilities									
Deposits from customers	63,602,717	21,218,899	12,402,608	7,590,307	25,212	946,472	-	-	105,786,215
Investment accounts of customers	7,005,631	66,044	28,998	10,556,425	550	245	-	-	17,657,893
Deposits and placements of banks and other financial institutions	5,524,590	2,462,091	4,421,393	1,219,194	6,687,114	1,030,191	-	-	21,344,573
Bills and acceptances payable	33,556	-	-	-	-	-	-	-	33,556
Derivative liabilities	35,337	79,893	58,074	116,797	78,322	189,484	29,865	-	587,772
Other financial liabilities	-	-	-	138,883	-	-	-	-	138,883
Provision for taxation and zakat	-	-	-	-	-	-	-	9,011	9,011
Subordinated sukuk	-	-	-	-	-	-	2,527,960	-	2,527,960
Total liabilities	76,201,831	23,826,927	16,911,073	19,621,606	6,791,198	2,166,392	2,557,825	9,011	148,085,863
Net liquidity gap	(52,741,535)	(17,431,816)	(13,237,229)	(14,899,224)	1,098,573	11,109,260	90,055,145	4,313,417	8,266,591

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

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35. Financial risk management (cont'd.)

(e) Liquidity risk management (cont'd.)

2. Contractual maturity of total assets and liabilities (cont'd.)

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flow.

2016	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Non-derivative liabilities								
Deposits from customers	63,430,430	25,727,205	11,298,716	6,093,985	30,863	23,293	-	106,604,492
Investment accounts of customers	16,840,520	728,366	5,040,636	8,929,760	3,513	1,792	-	31,544,587
Deposits and placements of banks and other financial institutions	9,997,224	3,949,454	1,546,187	3,649,449	4,616,375	5,042,879	1,540,438	30,342,006
Bills and acceptances payable	53,220	-	-	-	-	-	-	53,220
Other financial liabilities	-	-	-	626,900	-	-	-	626,900
Subordinated sukuk	-	-	-	-	-	-	2,534,496	2,534,496
Financial liabilities at fair value through profit or loss	-	-	-	-	-	902,091	-	902,091
	90,321,394	30,405,025	17,885,539	19,300,094	4,650,751	5,970,055	4,074,934	172,607,792
	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Commitments and contingencies								
Direct credit substitutes	57,917	76,354	90,174	202,422	158,281	97,723	560,500	1,243,371
Certain transaction-related contingent items	118,574	127,138	224,591	185,830	1,177,761	368,799	137,042	2,339,735
Short-term self-liquidating trade-related contingencies	56,782	162,577	13,296	45,635	16,836	-	-	295,126
Irrevocable commitments to extend credit	-	-	-	21,396,850	8,679,087	-	-	30,075,937
Miscellaneous	56,028	-	-	-	-	-	-	56,028
	289,301	366,069	328,061	21,830,737	10,031,965	466,522	697,542	34,010,197

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35. Financial risk management (cont'd.)

(e) Liquidity risk management (cont'd.)

2. Contractual maturity of total assets and liabilities (cont'd.)

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flow.

2015	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Non-derivative liabilities								
Deposits from customers	63,602,717	21,219,364	12,404,811	7,590,307	25,212	946,471	-	105,788,882
Investment accounts of customers	7,005,630	66,044	28,998	10,556,425	550	245	-	17,657,893
Deposits and placements of banks and other financial institutions	5,524,590	2,462,472	4,426,280	4,551,822	4,346,910	37,766	-	21,349,840
Bills and acceptances payable	33,556	-	-	-	-	-	-	33,556
Other financial liabilities	-	-	-	123,579	-	-	-	123,579
Subordinated sukuk	-	56,725	-	56,725	340,350	1,205,800	1,678,125	3,337,725
	76,166,493	23,804,605	16,860,089	22,878,858	4,713,022	2,190,283	1,678,125	148,291,476
	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Commitments and contingencies								
Direct credit substitutes	45,528	165,715	100,743	260,435	157,739	115,794	65,000	910,954
Certain transaction-related contingent items	154,680	131,132	182,838	205,699	495,737	677,593	63,065	1,910,744
Short-term self-liquidating trade-related contingencies	70,613	138,464	22,899	17,896	17,246	-	-	267,118
Irrevocable commitments to extend credit	-	-	-	17,696,250	10,471,923	-	-	28,168,173
Miscellaneous	47,288	-	-	-	-	-	-	47,288
	318,109	435,311	306,480	18,180,280	11,142,645	793,387	128,065	31,304,277

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35. Financial risk management (cont'd.)

(e) Liquidity risk management (cont'd.)

3. Contractual maturity of financial liabilities on an undiscounted basis

The table below analyses the Bank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flow.

2016	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Net settled derivatives								
Derivative financial liabilities								
Trading derivatives								
- Profit rate derivatives	(485)	(3,781)	(3,934)	(6,336)	(11,873)	(2,007)	5,289	(23,127)
Hedging derivatives								
- Profit rate derivatives	-	516	(258)	269	(1,214)	-	-	(687)
	(485)	(3,265)	(4,192)	(6,067)	(13,087)	(2,007)	5,289	(23,814)
2016	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Gross settled derivatives								
Derivative financial liabilities								
Trading derivatives								
Foreign exchange derivatives:								
- Outflow	(229,994)	(1,302,888)	(1,345,800)	(1,235,443)	(7,200)	(83,882)	-	(4,205,207)
- Inflow	218,243	1,244,347	1,235,353	1,171,345	34,848	308,724	-	4,212,860
Hedging derivatives								
Derivatives:								
- Outflow	(108)	-	(3,866)	(4,044)	(314,128)	-	-	(322,146)
- Inflow	1,446	-	18,026	19,940	926,631	-	-	966,043
	(10,413)	(58,541)	(96,287)	(48,202)	640,151	224,842	-	651,550

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35. Financial risk management (cont'd.)

(e) Liquidity risk management (cont'd.)

3. Contractual maturity of financial liabilities on an undiscounted basis (cont'd.)

The table below analyses the Bank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flow.

2015	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Net settled derivatives								
Derivative financial liabilities								
Trading derivatives								
- Profit rate derivatives	(88)	(5,140)	(4,659)	(8,222)	(20,704)	(11,356)	(951)	(51,120)
Hedging derivatives								
- Profit rate derivatives	-	(2,376)	(716)	(2,261)	(2,525)	401	-	(7,477)
	(88)	(7,516)	(5,375)	(10,483)	(23,229)	(10,955)	(951)	(58,597)
2015	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Gross settled derivatives								
Derivative financial liabilities								
Trading derivatives								
Foreign exchange derivatives:								
- Outflow	(859,252)	(1,090,642)	(862,146)	(1,506,218)	(30,783)	(375,623)	-	(4,724,664)
- Inflow	824,269	1,014,982	808,825	1,397,028	34,705	326,219	-	4,406,028
Hedging derivatives								
Derivatives:								
- Outflow	(788)	-	(12,279)	(13,116)	(266,562)	(828,274)	-	(1,121,019)
- Inflow	1,608	-	18,341	19,966	250,504	716,579	-	1,006,998
	(34,163)	(75,660)	(47,259)	(102,340)	(12,136)	(161,099)	-	(432,657)

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35. Financial risk management policies (cont'd.)

(f) Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

The Bank's operational risk management is premised on the three lines of defence concept. Risk taking units (Strategic Business Unit), as first line of defence are primarily responsible for the day-to-day management of operational risks within their respective business operations. They are responsible for establishing and maintaining their respective operational manuals and ensuring that activities undertaken by them comply with the Bank's operational risk management framework.

The Operational Risk Management ("ORM") team, as the second line of defence, is responsible for the formulation and implementation of operational risk management framework within the Bank, which encompasses the operational risk management strategy and governance structure. Another key function is the development and implementation of operational risk management tools and methodologies to identify, measure, monitor and control operational risks.

Internal Audit plays the third line of defence by providing independent assurance in respect of the overall effectiveness of the operational risk management process, which includes performing independent review and periodic validation of the ORM framework and process as well as conducting regular review on implementation of ORM tools by ORM and the respective business units.

36. Fair values of financial assets and financial liabilities

This disclosure provides information on fair value measurements for both financial instruments and non-financial assets and liabilities and is structured as follows:

- (a) Valuation principles
- (b) Valuation techniques
- (c) Fair value measurements and classification within the fair value hierarchy
- (d) Transfers between Level 1 and Level 2 in the fair value hierarchy
- (e) Movements of Level 3 instruments
- (f) Sensitivity of fair value measurements to changes in unobservable input assumptions.
- (g) Financial instruments not measured at fair value

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36. Fair values of financial assets and financial liabilities (cont'd.)

(a) Valuation principles

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market as of the measurement date. The Bank determines the fair value by reference to quoted prices in active markets or by using valuation techniques based on observable inputs or unobservable inputs. Management judgment is exercised in the selection and application of appropriate parameters, assumptions and modelling techniques where some or all of the parameter inputs are not observable in deriving fair value. The Bank has also established a framework and policies that provide guidance concerning the practical considerations, principles and analytical approaches for the establishment of prudent valuation for financial instruments measured at fair value.

Valuation adjustment is also an integral part of the valuation process. Valuation adjustment is to reflect the uncertainty in valuations generally for products that are less standardised, less frequently traded and more complex in nature. In making a valuation adjustment, the Bank follow methodologies that consider factors such as bid-offer spread, unobservable prices/inputs in the market and uncertainties in the assumptions/parameters.

The Bank continuously enhances their design, validation methodologies and processes to ensure the valuations are reflective. The valuation models are validated both internally and externally, with periodic reviews to ensure the model remains suitable for their intended use.

For disclosure purposes, the level in the hierarchy within which the instruments is classified in its entirety is based on the lowest level input that is significant to the position's fair value measurements:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities

Refers to instruments which are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, and those prices which represent actual and regularly occurring market transactions in an arm's length basis. Such financial instruments include actively traded government securities, listed derivatives and cash products traded on exchange.

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36. Fair values of financial assets and financial liabilities (cont'd.)

(a) Valuation principles (cont'd.)

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

Refers to inputs other than quoted price included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices). Examples of level 2 financial instruments include over-the-counter (OTC) derivatives, corporate and other government bonds, less illiquid equities and consumer financing and advances with homogeneous or similar features in the market.

- Level 3: Valuation techniques for which significant inputs are not based on observable market data

Refers to financial instruments where Fair Value is measured using significant unobservable market inputs. The valuation technique is consistent with the Level 2. The chosen valuation technique incorporates the Banks' own assumptions and data. Examples of level 3 instruments include corporate bonds in illiquid markets, private equity investments and financing and advances priced primarily based on internal credit assessment.

(b) Valuation techniques

The valuation techniques used for both the financial instruments and non-financial assets and liabilities that are not determined by reference to quoted prices (Level 1) are described below:

Derivatives, financing and advances and financial liabilities

The fair values of the Bank's derivative instruments, financing and advances and financial liabilities are derived using discounted cash flows analysis, option pricing and benchmarking models.

Financial assets designated at fair value through profit or loss, financial assets held-for-trading, financial investments available-for-sale and financial investments held-to-maturity.

The fair values of financial assets and financial investments are determined by reference to prices quoted by independent data providers and independent brokers.

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36. Fair values of financial assets and financial liabilities (cont'd.)

(c) Fair value measurements and classification within the fair value hierarchy

The classification in the fair value hierarchy of the Bank's financial and non-financial assets and liabilities measured at fair value is summarised in the table below:

	Quoted Market Price Level 1 RM'000	Valuation technique using		Total RM'000
		Observable Inputs Level 2 RM'000	Unobservable Inputs Level 3 RM'000	
As at 31 December 2016				
Financial assets measured at fair values:				
Financial assets at FVTPL	-	252,451	-	252,451
Financial investments AFS	-	8,718,904	750	8,719,654
Derivative assets	-	515,554	-	515,554
	-	<u>9,486,909</u>	<u>750</u>	<u>9,487,659</u>
Financial liabilities measured at fair values:				
Derivative liabilities	-	535,161	-	535,161
Financial liabilities at FVTPL	-	902,091	-	-
	-	<u>1,437,252</u>	<u>-</u>	<u>1,437,252</u>
	Quoted Market Price Level 1 RM'000	Valuation technique using		Total RM'000
		Observable Inputs Level 2 RM'000	Unobservable Inputs Level 3 RM'000	
As at 31 December 2015				
Financial assets measured at fair values:				
Financial assets at FVTPL	-	335,384	-	335,384
Financial investments AFS	-	8,991,929	500	8,992,429
Derivative assets	-	497,905	-	497,905
	-	<u>9,825,218</u>	<u>500</u>	<u>9,825,718</u>
Financial liabilities measured at fair values:				
Derivative liabilities	-	544,376	43,395	587,771
	-	<u>544,376</u>	<u>43,395</u>	<u>587,771</u>

During the current and prior years, no transfers were made between Level 1 and Level 2.

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36. Fair values of financial assets and financial liabilities (cont'd.)

(d) Movements of Level 3 instruments

The following tables present additional information about Level 3 assets and liabilities measured at fair value on a recurring basis.

	Financial			Financial		
	investments	Derivative	Derivative	investments	Derivative	Derivative
	AFS	assets	liabilities	AFS	assets	liabilities
	2016	2016	2016	2015	2015	2015
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2016/2015	500	-	43,395	-	-	85,029
Gain/(losses) recognised in income statement	-	-	61,481	-	635	(9,642)
Purchases	250	653	-	500	-	-
Settlements	-	(653)	(104,876)	-	(635)	(31,992)
At 31 December 2016/2015	<u>750</u>	<u>-</u>	<u>-</u>	<u>500</u>	<u>-</u>	<u>43,395</u>
Total gain/(losses) recognised in income statement for financial instruments measured at fair value at the end of the reporting period	<u>-</u>	<u>-</u>	<u>61,481</u>	<u>-</u>	<u>635</u>	<u>(9,642)</u>
Total losses recognised in other comprehensive statement for financial instruments measured at fair value at the end of the reporting period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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36. Fair values of financial assets and financial liabilities (cont'd.)

(e) Financial instruments not measured at fair value

The on-balance sheet financial assets and financial liabilities of the Bank whose fair values are required to be disclosed in accordance with MFRS 132 comprise all their assets and liabilities with the exception of provision for current and deferred taxation.

For financing and advances to customers, where such market prices are not available, various methodologies have been used to estimate the approximate fair values of such instruments. These methodologies are significantly affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in the assumptions could significantly affect these estimates and the resulting fair value estimates. Therefore, for a significant portion of the Bank's financial instruments, including financing and advances to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amounts that the Bank could realise in a sale transaction at the reporting date. The fair value information presented herein should also in no way be construed as representative of the underlying value of the Bank as a going concern.

The estimated fair values of those on-balance sheet financial assets and financial liabilities as at the reporting date approximate their carrying amounts as shown in the statement of financial position, except for the financial assets and liabilities as stated below.

The table below analyses financial instruments not carried at fair value for which fair value is disclosed, together with their fair values and carrying amount shown in the statements of financial position:

	Level 1	Level 2	Level 3	Total	Carrying
As at 31.12.2016	RM'000	RM'000	RM'000	fair value	amount
				RM'000	RM'000
Financial assets					
Financing and advances	-	36,977,004	109,665,649	146,642,653	148,523,310
Financial liabilities					
Deposits from customers	-	106,160,062	-	106,160,062	106,604,492
Investment accounts of customers	-	31,544,591	-	31,544,591	31,544,587
Deposits and placements of banks and other financial institutions	-	30,277,560	-	30,277,560	30,342,006
Subordinated sukuk	-	2,517,123	-	2,517,123	2,534,496

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36. Fair values of financial assets and financial liabilities (cont'd.)

(e) Financial instruments not measured at fair value (cont'd.)

As at 31.12.2015	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total fair value RM'000	Carrying amount RM'000
Financial assets					
Financing and advances	-	37,250,106	89,693,115	126,943,221	130,166,349
Financial liabilities					
Deposits from customers	-	75,260,810	30,611,028	105,871,838	105,786,215
Investment accounts of customers	-	17,657,902	-	17,657,902	17,657,893
Deposits and placements of banks and other financial institutions	-	21,329,687	-	21,329,687	21,344,573
Subordinated sukuk	-	2,521,399	-	2,521,399	2,527,960

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments.

(i) Financing and advances

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

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36. Fair values of financial assets and financial liabilities (cont'd.)

(e) Financial instruments not measured at fair value (cont'd.)

(ii) Subordinated Sukuk

The fair values of subordinated obligations are estimated by discounting the expected future cash flows using the applicable prevailing profit rates for borrowings with similar risks profiles.

37. Offsetting of financial assets and financial liabilities

Derivative assets and derivative liabilities are offset and the net amounts are reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Nostro foreign accounts related balances are reclassified and presented net against amount due from holding company included within other assets to better reflect the operationalisation and settlement of Nostro accounts.

Amount not offset in the statement of financial position are related to:

- (i) the counterparties' offsetting exposures with the Bank where the right to set-off is only enforceable in the event of default, insolvency or bankruptcy by the counterparties; and
- (ii) cash and securities that are received or pledged in respect of the derivative transactions described below.

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37. Offsetting of financial assets and financial liabilities (cont'd.)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

	Gross amount of recognised financial assets RM'000	Gross amount offset in the Statement of Financial Position RM'000	Amount presented in the Statement of Financial Position RM'000	Amount not offset in the Statement of Financial Position		Net amount RM'000
				Financial instruments RM'000	Financial collateral received/ pledged RM'000	
As at 31.12.2016						
Financial assets						
Derivative assets	515,554	-	515,554	-	(224,220)	291,334
Financial liabilities						
Derivative liabilities	<u>535,161</u>	-	<u>535,161</u>	-	-	<u>535,161</u>
As at 31.12.2015						
Financial assets						
Cash and short-term funds	15,333,693	(6,518,189)	8,815,504	-	-	8,815,504
Derivative assets	497,905	-	497,905	-	(298,650)	199,255
Other assets	<u>17,014,220</u>	<u>(13,340,229)</u>	<u>3,673,991</u>	-	-	<u>3,673,991</u>
Financial liabilities						
Deposits and placements of banks and other financial institutions	41,202,992	(19,858,419)	21,344,573	-	-	21,344,573
Derivative liabilities	<u>587,772</u>	-	<u>587,772</u>	<u>(308,681)</u>	-	<u>279,091</u>

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38. Capital management

The Bank's approach to capital management is driven by its strategic objectives and takes into account all relevant regulatory, economic and commercial environments in which the Bank operates. The Bank regards having a strong capital position as essential to the Bank's business strategy and competitive position. As such, implications on the Bank's capital position are taken into account by the Board and senior management prior to implementing major business decisions in order to preserve the Bank's overall capital strength.

The Bank's key thrust of capital management and planning are to diversify its sources of capital; to allocate and deploy capital efficiently, guided by the need to maintain a prudent relationship between available capital and the risks of its underlying businesses; and to meet the expectations of key stakeholders, including investors, regulators and rating agencies. In addition, these policies are also adopted with the aim to:

- a) Ensure adequate capital ratios at all times, at levels sufficiently above the minimum regulatory requirements across the Bank;
- b) Support the Bank's credit rating from local and foreign rating agencies;
- c) Allocate and deploy capital efficiently to businesses to support the Bank's strategic objectives and optimise returns on capital;
- d) Remain flexible to take advantage of future opportunities; and
- e) Build and invest in businesses, even in a reasonably stressed environment.

The quality and composition of capital are key factors in the Board and senior management's evaluation of the Bank's capital adequacy position. The Bank places strong emphasis on the quality of its capital and, accordingly, holds a significant amount of its capital in the form of common equity which is permanent and has the highest loss absorption capability on a going concern basis.

The Bank's capital management is guided by the Bank Capital Management Framework and Bank Capital Contingency Plan to ensure that capital is managed on an integrated approach and ensure a strong and flexible financial position to manage through economic cycles across the Bank.

The Bank Capital Management Framework is also supplemented by Bank Annual Capital Plan to facilitate efficient capital levels and utilisation across the Bank. The plan is updated on an annual basis covering at least a three year horizon and approved by the Board for implementation at the beginning of each financial year. The Bank Annual Capital Plan is reviewed by the Board semi-annually in order to keep abreast with the latest development on capital management and also to ensure effective and timely execution of the plans contained therein.

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Under the BNM's Capital Adequacy Framework for Islamic Banks (Capital Components) which commenced with effect from 1 January 2013, banking institutions are required to maintain higher minimum quantity and quality of capital but the requirements will be subject to a series of transitional arrangements and will be phased-in over a period of time, commencing 2013 and to be fully effective by 2019. BNM has also introduced additional capital buffer requirements which comprises Capital Conservation Buffer of 2.5% of total RWA and Countercyclical Capital Buffer ranging between 0% - 2.5% of total RWA. On 13 October 2015, BNM issued a revised Capital Adequacy Framework, providing further guidance on the computation approach and operations of the Countercyclical Capital Buffer. The said revised Capital Adequacy Framework takes effect on 1 January 2016.

In addition, as banking institutions in Malaysia evolve to become key regional players and identified as systemically important, BNM will assess at a later date the need to require large banking institutions to operate at higher levels of capital, commensurate with their size, extent of cross-border activities and complexity of operations.

39. Capital adequacy**(a) Compliance and application of capital adequacy ratios**

The capital adequacy ratio of the Bank are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks (Capital Components) and Capital Adequacy Framework for Islamic Banks (Risk Weighted Assets) issued on 13 October 2015 and 22 August 2016 respectively. The total risk weighted assets are computed based on the following approaches:

- (i) Credit risk under Internal-Ratings Based Approach
- (ii) Market risk under Standardised Approach
- (iii) Operational risk under Basic Indicator Approach

The minimum regulatory capital adequacy requirements for CET1, Tier 1 and Total Capital are 4.5%, 6.0% and 8.0% of total RWA for the current financial year ended 31 December 2016 (2015: 4.5%, 6.0% and 8.0% of total RWA).

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39. Capital adequacy (cont'd.)

(b) The capital adequacy ratios of the Bank

The capital adequacy ratios of the Bank as at the reporting dates, are as follows:

	31.12.2016	31.12.2015
Capital ratios		
CET1 capital ratio	13.992%	12.435%
Tier 1 capital ratio	13.992%	12.435%
Total capital ratio	18.553%	16.489%

(c) Components of Tier 1 and Tier 2 capital

	31.12.2016	31.12.2015
	RM'000	RM'000
CET1/Tier 1 Capital		
Paid-up share capital	281,556	263,959
Share premium	5,200,227	4,658,232
Retained profits	2,857,087	2,572,819
Other reserves	749,805	771,581
CET1 capital before regulatory adjustments	9,088,675	8,266,591
Less: Regulatory adjustment applied in CET1 capital	(413,187)	(501,597)
Deferred tax assets	(19,487)	(36,892)
Profit equalisation reserve	-	(34,456)
Regulatory reserve	(393,700)	(430,249)
Total CET1/Tier 1 capital	8,675,488	7,764,994
Tier 2 capital instruments	2,500,000	2,200,000
Collective allowance	23,379	27,625
Surplus of eligible provision over expected loss	304,154	303,861
Total Tier 2 capital	2,827,533	2,531,486
Total Capital	11,503,021	10,296,480

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39. Capital adequacy (cont'd.)

(d) The breakdown of Assets and Credit Equivalent values (for Off Balance Sheet items) according to Risk Weights are as follows:

	31.12.2016	31.12.2015
	RM'000	RM'000
Standardised Approach exposure	7,151,955	6,417,990
Internal Ratings-Based Approach exposure after scaling factor	<u>64,702,050</u>	<u>59,046,097</u>
Total risk-weighted assets for credit risk	<u>71,854,005</u>	<u>65,464,087</u>
Total risk-weighted assets for credit risk absorbed by the parent and IAH [^]	(16,426,406)	(9,098,255)
Total risk-weighted assets for market risk	882,544	1,135,708
Total risk-weighted assets for operational risk	<u>5,691,742</u>	<u>4,943,708</u>
Total risk-weighted assets	<u>62,001,885</u>	<u>62,445,248</u>

[^] In accordance with BNM's guideline on the recognition and measurement of Restricted Profit Sharing Investment Account ("RPSIA") and Investment Account as Risk Absorbent, the credit risk on the assets funded by the RPSIA and IA are excluded from capital adequacy ratios calculation.

40. Shariah disclosures

(a) Shariah governance

The Bank has put in place a sound Shariah governance framework to ensure strict adherence to Shariah requirements in its processes. A dedicated Shariah Committee ("SC") provides Shariah oversight on all material Shariah non-compliance risks across the Bank. Supporting the SC is the Shariah Risk Management and Shariah Review and Compliance ("SRC") that provides the day-to-day oversight of the Shariah compliance within the Bank. Underpinning the governance framework is the detailed policies and procedures that includes the required steps to ensure that each transaction executed by the Bank complies with Shariah requirements. A dedicated internal audit team was also established to provide the required check and balance in ensuring strict compliance with the policies and procedures.

Any transaction suspected as Shariah non-compliant will be escalated to the SC for deliberation and decision whether any Shariah requirements have been breached. Shariah Risk Management will track on the incident and rectification status, and ensure timely reporting to the SC, Board and Bank Negara Malaysia. For any Shariah non-compliant transactions, the related income will be purified by channeling the amount to an approved charitable organisation.

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40. Shariah disclosures (cont'd.)

(a) Shariah governance (cont'd.)

For the financial year ended 31 December 2016, the nature of transactions deliberated to SC for Shariah non-compliance are as follows:

(i) Shariah non-compliant events

	No. of event	31.12.2016 RM'000
Non-existence and/or insufficient of underlying assets, usage of non-eligible underlying assets and non-execution of aqad	4	64
	<u>4</u>	<u>64</u>
	No. of event	31.12.2015 RM'000
Non-existence and/or insufficient of underlying assets, usage of non-eligible underlying assets and non-execution of aqad	7	51
Income earned above the selling price	1	5
Income from financing of non-permissible activities	1	-
	<u>9</u>	<u>56</u>

Apart from the purification of income from Shariah non-compliance events, the Bank has implemented several rectification measures relating to processes, legal documents and other control mechanism to minimize reoccurrence of the Shariah non-compliance incidents.

(ii) Sources and uses of charity funds

	31.12.2016 RM'000	31.12.2015 RM'000
Sources of charity funds		
Shariah non-compliant/prohibited income	64	56
Income earned from late payment charges	30	-
Total sources of charity funds during the year	<u>94</u>	<u>56</u>
Uses of charity funds		
Contribution to non-profit organisation	94	56
Total uses of charity funds during the year	<u>94</u>	<u>56</u>
Undistributed charity funds as at 31 December 2016/2015	<u>-</u>	<u>-</u>

40. Shariah disclosures (cont'd.)

(b) Recognition and measurement by main class of Shariah contracts

The recognition and measurement of each main class of Shariah contract is dependent on the nature of the products, either financing or deposit product. The accounting policies for each of these products are disclosed in their respective policies.