BANK ISLAM MALAYSIA BERHAD
(Company No. 98127-X)
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Bank Islam Malaysia Berhad
(Company No. 98127-X)
(Incorporated in Malaysia)

Contents

Directors' Report
for the financial year ended 31 December 2016

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2016.

Principal activities

The Bank is principally engaged in Islamic banking business and the provision of related services. The principal activities of the subsidiaries are as stated in Note 13 to the financial statements.

There has been no significant change in the nature of these activities during the financial year.

Results

	Group RM'000	Bank RM'000
Profit before zakat and tax expense	720,412	720,441
Zakat and tax expense	(189,450)	(189,434)
Profit for the year	530,962	531,007

Dividends

Since the end of the previous financial year, the amount of dividends paid by the Bank were as follows:

	RM'000
In respect of the financial year ended 31 December 2015:	
Final single tier dividend of approximately 5.49 sen per ordinary share declared on 28 January 2016 and paid on 18 May 2016	129,744
In respect of the financial year ended 31 December 2016:	
Interim single tier dividend of approximately 5.50 sen per ordinary share declared on 27 July 2016 and paid on 22 September 2016	131,132
	260,876

The Directors recommend a final single tier dividend of 5.58 sen per ordinary share totalling RM134,166,500 for the financial year ended 31 December 2016.

Issue of shares

On 18 May 2016, the Bank increased its issued and paid-up capital from RM2,363,282,700 to RM2,384,209,700 via the issuance of 20,927,000 new ordinary shares of RM1.00 each at a consideration of RM3.10 per share arising from the Dividend Reinvestment Plan of the fifty percent of the final dividend of approximately 5.49 sen per share in respect of financial year ended 31 December 2015, as disclosed in Note 37 to the financial statements.

Issue of shares (continued)

On 22 September 2016, the Bank further increased its issued and paid-up capital from RM2,384,209,700 to RM2,404,383,700 via the issuance of 20,174,000 new ordinary shares of RM1.00 each at a consideration of RM3.25 per share arising from the Dividend Reinvestment Plan of the fifty percent of the interim dividend of approximately 5.50 sen per share in respect of financial year ended 31 December 2016, as disclosed in Note 37 to the financial statements.

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

Options granted over unissued shares

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

Reserves and provisions

There were no material transfers to and from reserves or provisions during the financial year under review except as disclosed in the financial statements.

Indemnity and Takaful costs

During the financial year, the total amount of Takaful cost incurred for Directors and Officers of the Group and of the Bank is RM109,516.

Impaired financing

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

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

Current assets

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that any current assets, other than financing, which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Group and of the Bank have been written down to their estimated realisable value.

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

Valuation methods

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

Contingent and other liabilities

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

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

(b) any contingent liability in respect of the Group or of the Bank that has arisen since the end of the financial year other than those incurred in the ordinary course of business.

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

Change of circumstances

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

Items of an unusual nature

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

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

Compliance with Bank Negara Malaysia's expectations on financial reporting

In the preparation of the financial statements, the Directors have taken reasonable steps to ensure that Bank Negara Malaysia ("BNM")'s expectations on financial reporting have been complied with, including those as set out in the Financial Reporting for Islamic Banking Institutions, Circular on the Application of MFRS and Revised Financial Reporting Requirements for Islamic Banks and the Guidelines on Classification and Impairment Provision for Loans/Financing.

Bank Islam Malaysia Berhad
(Company No. 98127-X)
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Directors of the Bank

Directors of the Bank who served during the financial year until the date of this report are:

Datuk Zamani Abdul Ghani (Chairman)
Dato' Sri Zukri Samat (Managing Director)
Tan Sri Dato' Dr. Abdul Shukor Husin
Datuk Zaiton Mohd Hassan
Zahari @ Mohd Zin Idris
Mohamed Ridza Mohamed Abdulla
Noraini Che Dan (appointed on 01.10.2016)
Nik Mohd Hasyudeen Yusoff (appointed on 01.10.2016)
Dato' Johan Abdullah (ceased as a director on 17.02.2016)

Directors of the subsidiaries

Directors of the subsidiaries who served during the financial year until the date of this report are:

Name of Company	Directors
Al-Wakalah Nominees (Tempatan) Sdn. Bhd.	Maria Mat Said Mohd Muazzam Mohamed (appointed on 22.03.2016) Dato' Wan Ismail Wan Yusoh (resigned on 22.03.2016)
BIMB Investment Management Berhad	Khairul Kamaruddin Dato' Ghazali Awang Malkiat Singh @ Malkit Singh Maan A/L Delbara Singh Dr. Mohd Hatta Dagap Datuk Noripah Kamso Najmuddin Mohd Lutfi Mustapha Hamat (retired on 16 April 2016) Dato' Sri Zukri Samat (resigned on 24 June 2016)
Bank Islam Trust Company (Labuan) Ltd. and its subsidiary: BIMB Offshore Company Management Services Sdn. Bhd.	Zahari @ Mohd Zin Idris Maria Mat Said
Farihan Corporation Sdn. Bhd.	Khairul Kamaruddin (appointed on 22.03.2016) Maria Mat Said Dato' Wan Ismail Wan Yusoh (resigned on 22.03.2016)

None of the Bank and subsidiaries' Directors holding office as at 31 December 2016 had any interest in the ordinary shares of the Bank and of its related corporations during the financial year.

Directors' benefits

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than benefits included in the aggregate amount of remuneration received or due and receivable by the Directors as shown in the financial statements or the fixed salary of a full time employee of the Bank) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a firm in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Immediate and ultimate holding company/entity

The Directors regard BIMB Holdings Berhad, a company incorporated in Malaysia and Lembaga Tabung Haji ("LTH"), a *hajj* pilgrims' funds board established in Malaysia as the immediate holding company and ultimate holding entity respectively.

Subsidiaries

The details of the Bank's subsidiaries are disclosed in Note 13 to the financial statements.

2017 Business Plan and Outlook
Business Plan, Strategy and Future Outlook

For 2017, the gross domestic product ("GDP") is projected to grow by 4.4%. There is a possibility of excess capacity in certain industries namely oil & gas, electrical and engineering, manufacturing and financial services which could lead to lower demand for capital and labour. The Overnight Policy Rate ("OPR") is expected to remain at 3.00% while the MYR/USD may remain above RM4.00 for the rest of 2017.

Although funding conditions in Malaysia are tightening due to heightened macroeconomic risks domestically and abroad, the banking system as a whole remains profitable, liquid and well capitalised. However with the continued challenges, the industry is expected to grow at a modest rate with financing growth of approximately between 3% and 4% in 2017 as banks remain cautious in lending activities and plan on ensuring stable asset quality. The banks are also likely to deepen their engagement with the fintech ecosystem as the trend towards digitization accelerates.

Taking cognizance of these factors, Bank Islam's strategic focus in 2017 revolves around continuous deposit drive and embracing digitalization while at the same time focusing on a more balanced growth. The Bank intends to continue to manage liquidity and deploy capital efficiently in line with the Basel III rules. Notwithstanding the need to sustain net income margin, preserving asset quality will remain an important agenda for the Bank given the cautious operating outlook.

Ratings accorded by external rating agency

During the financial year, the Bank's rating was re-affirmed as follows:

Rating agency	Date re-affirmed	Ratings
RAM Rating Services Berhad	1 November 2016	Long-term rating: AA3
		Short-term rating: P1
		Outlook: Stable

Auditors

The auditors, Messrs. KPMG Desa Megat PLT (converted from a conventional partnership, KPMG Desa Megat & Co., on 27 December 2016), have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 32 to the financial statements.

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

……………………………………………………………
Datuk Zamani Abdul Ghani

……………………………………………………………
Dato' Sri Zukri Samat

Kuala Lumpur,

Date: 21 March 2017

Bank Islam Malaysia Berhad
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Statement by Directors
pursuant to Section 251(2) of the Companies Act, 2016

In the opinion of the Directors, the financial statements set out on pages 20 to 162 are drawn up in accordance with Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards (“IFRS”), and the requirements of the Companies Act, 1965 in Malaysia, and Shariah requirements so as to give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2016 and of their financial performance and cash flows for the financial year then ended.

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

…………………………………………………………
Datuk Zamani Abdul Ghani
Chairman

…………………………………………………………
Dato’ Sri Zukri Samat
Managing Director

Kuala Lumpur,

Date: 21 March 2017

Bank Islam Malaysia Berhad
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Report of the Shariah Supervisory Council

الحمد لله رب العالمين، والصلاة والسلام على سيدنا محمد، الذي أرسله الله رحمة للعالمين، هادياً مهدياً، وسراجاً منيراً، وعلى آله وصحبه أجمعين، ومن تبعهم بإحسان إلى يوم الدين، وبعد،

السلام عليكم ورحمة الله وبركاته and "Salam Sejahtera"

In carrying out the roles and the responsibilities of the Shariah Supervisory Council as prescribed in the regulatory standards that includes Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia, we hereby submit our report for the financial year ended 31 December 2016.

The Bank's management is responsible to ensure that its conduct and businesses are in accordance with the Shariah rules and principles, and it is our responsibility to form an independent opinion based on our review on the conduct and businesses of the Bank and to produce this report.

We had eight (8) meetings during the financial year in which we reviewed inter alia products, transactions, services, processes and documents of the Bank.

In performing our roles and responsibilities, we had obtained all information and explanation which we considered necessary in order to provide us with sufficient evidences to give reasonable assurance that the Bank has complied with the Shariah rules and principles.

We have also taken into consideration the Shariah rulings and standards locally and globally including the Shariah contracts policy documents issued by Bank Negara Malaysia in concluding our decision and advice on Shariah matters of the Bank.

At the management level, the Chief Shariah Officer who functionally reports to us oversees the conduct and effectiveness of the internal Shariah compliance functions i.e. Shariah Research & Advisory, Shariah Review and Shariah Risk Management which are further substantiated by Shariah Audit that resides in the Internal Audit Division. Both of the Shariah Review and Shariah Risk Management functions also duly report to Chief Compliance Officer and Chief Risk Officer respectively. The roles of these functions, generally, are facilitating new research and product development activities, refining existing products and procedures, providing Shariah training, managing Shariah non-compliance risks bank-wide, conducting Shariah audit and review on departments and branches and coordinating with us on any matters that require our decision.

The following are the major developments that took place during the financial year which come under our purview:

Approvals

During the financial year, we had approved two (2) new products to be offered to customers i.e. Wafiyah Investment Account and Restricted Investment Account via Investment Account Platform.

To ensure smoothness and timely execution of our business operation, we empower the Chief Shariah Officer to approve non-substantial variation to Shariah related matters, and the approvals by the Chief Shariah Officer are duly reported to us periodically for review and confirmation.

Shariah Risk Management

We observed that the Bank has been continuously and diligently implementing measures in managing its Shariah compliance risk ("SCR"). The implementation of Risk Control Self-Assessment ("RCSA") aims to assess the significance of identified SCRs and the effectiveness of the existing controls in the respective functional areas including driving for additional controls so as to provide reasonable assurance that no Shariah non-compliance will occur in meeting the business objectives.

Since the introduction of RCSA, continuous process of identifying and assessing SCRs at respective functional areas has been carried out. The increase in numbers of identified SCRs connotes the increase of shariah awareness level among staff especially Risk Controllers ("RC") of each functional area.

In strengthening the risk control environment, the Bank introduced the Generic Key Risk Indicator ("KRI") for Shariah as part of SCR mitigation of the Bank's risk. It enables the Shariah Risk Management team to foresee any changes and irregularities in the level of SCRs and the effectiveness of controls across Business Units /Support Units.

Shariah Review & Shariah Audit

The Shariah Review and Shariah Audit functions play a vital role in achieving the objective of ensuring Shariah compliance by evaluating and assessing activities in the Bank whereby the former validates the compliance of activities with Shariah rules and principles and the latter provides independent assurance in order to add value and improve the degree of Shariah compliance in relation to such activities.

In articulating the audit results and findings, Shariah Audit adopts the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission's Framework (Version May 2013). The COSO framework is governed by 5 components namely Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring. While for Shariah Review, in this financial year, a new approach i.e. a thematic approach was adopted in conducting Shariah review exercise.

Both Shariah Audit and Shariah Review plans for the financial year were reviewed and approved by us for their implementation. The reports were deliberated in our meetings to confirm that the Bank has complied with the rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, Shariah Advisory Council of Securities Commission (for capital market related matters) as well as our decisions.

Shariah Review & Shariah Audit (continued)

During the year, the following reports were presented to us covering the following entities/areas:

Shariah Audit	Shariah Review
1) Central Financing Processing Centre 2) Shariah Division 3) Branch Related Activities 4) Bank Islam Card Centre 5) Mobile Banking Department 6) Brand & Marketing Communications 7) Trade Operations 8) Credit Administration Department 9) Automobile Financing 10) Bank Islam Trust Company (Labuan) Ltd 11) Bank Islam Labuan Offshore Branch 12) Commodity Trading Platforms	1) Bank Islam Card – Merchant Category Code 2) Corporate Recovery 3) Bureau De Change 4) Commodity Trading Platforms 5) Operation of Consumer Banking Products at Branches 6) Al-Awfar Account 7) Special Investment Account 8) Restricted Investment Account - Al Ansar 9) Waheed Investment Account 10) Interbank Investment Account 11) BIMB Holding Berhad, Syarikat Al-Ijarah Sdn Bhd and BIMB Securities (Holdings) Sdn Bhd 12) Bank Islam Trust Company (Labuan) Ltd 13) BNM Mudarabah Policy Document 14) BNM Guideline on Ibra' (Rebate) for Sale based Financing 15) BNM Guideline on Late Payment Charges for Islamic Financial Institutions

Shariah Training & Awareness

During the year, eighteen (18) Shariah training and briefing sessions were held covering 678 participants among the Bank’s employees nationwide.

All new recruits of the Bank spent one day in the Muamalat 101 training module in conjunction with the orientation programme in which they were exposed to the fundamentals of Shariah applied in Islamic banking business.

Shariah Training & Awareness (continued)

The Bank has also continued to elevate the Shariah and Islamic banking knowledge of its staff by engaging Islamic Banking and Finance Institute Malaysia (IBFIM) for in-house certification programme. Fourty (40) staffs were certified by IBFIM with Associate Qualification in Islamic Finance (AQIF) and another thirty six (36) staffs for Intermediate Qualification in Islamic Finance (IQIF). In addition, Shariah officers of the Bank were also encouraged to enroll for certification programs and during this financial year several officers have been awarded Certified Shariah Advisor and Auditor (CSAA) by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Certificate in Internal Auditing for Financial Institutions (CIAFIN) by Asian Institute of Chartered Bankers (AICB).

To increase the awareness on Shariah compliance, the Bank has also conducted three (3) Shariah Town Hall sessions for all risk controllers (RC) where the sessions provide updates to RC on the occurrence of Shariah non-compliance events and new Shariah requirements/ rulings issued by the Bank or the regulators.

Shariah Non-Compliant Events & Income

Throughout 2016, we confirm two (2) events of Shariah non-compliance as follows:

(i) Incomplete Tawarruq transaction performed through telemarketing sales agent; and
(ii) Remittance services executed for Shariah non-compliant purpose.

We were also informed on the causes of the events which were due to operational lapses in executing the contract and service. We noted that the Bank has taken its corrective as well as preventive measures in order to avoid the same events from occurring in the future which includes specific Shariah training as well as issuance of lesson learnt memo for staff.

We also confirm that all of the events together with the rectification plans were presented to us and the Board of Directors for approval, and was accordingly reported to Bank Negara Malaysia in accordance with the Shariah non-compliance reporting requirements imposed by the Islamic Financial Services Act 2013.

Within the financial year, the Bank received Shariah non-compliant income amounting to RM8,828.95 which includes commissions from Shariah non-compliant merchants of card business, interest on nostro accounts and rental purification from the Bank’s land that is being used to facilitate *bai` al-`inah* transactions.

The amount was disposed to charitable causes upon our approval as further described in the Note 23 – Sources and Uses of Charity Fund.

Business Zakat

In the financial year, the Bank has fulfilled its obligation to pay zakat on its business to State zakat authorities by adopting the growth capital computation method and in compliance with the Manual Pengurusan Zakat Perbankan issued by Jabatan Wakaf, Zakat dan Haji. The Bank paid the Zakat on its portion i.e. shareholders’ fund as well as other funds received by the Bank except for depositors’ fund.

Business Zakat (continued)

Several zakat authorities had refunded a portion of the zakat paid for the Bank to act as their agent (*wakil*) to distribute to eligible beneficiaries (*asnaf*) among needy individuals, mosque, non-governmental organisations, higher learning institutions (needy students welfare funds) and schools as guided by the Business Zakat Payment Guideline that was approved by us.

Safeguarding the Investment Account Holders ("IAH") Interest

In ensuring the interest of IAH is protected, we confirm that the profit allocation for the IAH is in accordance with Shariah rules and principles where the profit computation formula has been duly presented and approved by us. The performance of the Investment Accounts has also been properly disclosed and reported via issuance of Fund Performance Report (FPR) which is already made available on the Bank's website upon approval by us.

We have also reviewed the financial statements of the Bank and confirm that the financial statements are in compliance with the Shariah rules and principles.

Based on the above, in our opinion:

1. The contracts, transactions and dealings entered into by the Bank, excluding the two (2) Shariah non-compliant incidences mentioned above, during the financial year ended 31 December 2016 that were reviewed are in compliance with the Shariah rules and principles;

2. The allocation of profit and charging of losses relating to Investment Accounts conform to the basis that has been approved by us;

3. The computation, payment and distribution of business zakat are in compliance with the Shariah rules and principles; and

4. All earnings that have been realised from sources or by means prohibited by the Shariah rules and principles were disposed to charitable causes.

On that note, we, members of the Council, do hereby confirm, to our level best, that the operations of the Bank for the year ended 31 December 2016 have been conducted in conformity with the Shariah rules and principles.

Bank Islam Malaysia Berhad
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We bear witness only to what we know, and we could not well guard against the unseen!
(*Surah Yusuf, verse:81*)

Allah knows best.

……………………………………………….....
Professor Dato' Dr. Ahmad Hidayat Buang

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Ustaz Dr. Ahmad Shahbari@Sobri Salamon

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Ustaz Dr. Muhammad Syafii Antonio

……………………………………………….....
Assistant Professor Dr. Uzaimah Ibrahim

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Ustazah Dr. Yasmin Hanani Mohd Safian

Kuala Lumpur,

Date: 21 March 2017

Bank Islam Malaysia Berhad

(Company No. 98127-X)
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Statutory Declaration
pursuant to Section 251(1)(b) of the Companies Act, 2016

I, **Mohd Muazzam bin Mohamed** the officer primarily responsible for the financial management of Bank Islam Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 20 to 162 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named Mohd Muazzam bin Mohamed, in Kuala Lumpur on 21 March 2017.

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Mohd Muazzam bin Mohamed

Bank Islam Malaysia Berhad
(Company No. 98127-X)
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INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF BANK ISLAM MALAYSIA BERHAD

Report on the Financial Statements

Opinion

We have audited the financial statements of Bank Islam Malaysia Berhad, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Bank, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 20 to 162.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 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 auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and 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 the 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 information included in the Directors' Report and Report of the Shariah Supervisory Council, but does not include the financial statements of the Group and of the Bank and our auditors' report thereon.

Information Other than the Financial Statements and Auditors' Report Thereon (continued)

Our opinion on the financial statements of the Group and of the Bank does not cover the Directors' Report and Report of the Shariah Supervisory Council and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Bank, our responsibility is to read the Directors' Report and Report of the Shariah Supervisory Council and, in doing so, consider whether the Directors' Report and Report of the Shariah Supervisory Council is materially inconsistent with the financial statements of the Group and of the Bank or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Directors' Report and Report of the Shariah Supervisory Council, 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 Group and of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 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 Group and of the Bank that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

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

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

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

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Bank 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 Group and 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 Group or the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements of the Group and of the Bank represent the underlying transactions and events in a manner that gives a true and fair view.

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

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.

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Other Matters

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

KPMG Desa Megat PLT
Firm Number: LLP0010082-LCA & AF0759
Chartered Accountants

Ow Peng Li
Approval Number: 2666/09/17 (J)
Chartered Accountant

Date: 21 March 2017

Petaling Jaya

Bank Islam Malaysia Berhad
(Company No. 98127-X)
(Incorporated in Malaysia)

Statements of Financial Position as at 31 December 2016

	Note	Group 31.12.2016 RM'000	Group 31.12.2015 RM'000	Bank 31.12.2016 RM'000	Bank 31.12.2015 RM'000
Assets					
Cash and short-term funds	3	**3,963,417**	2,881,669	**3,963,268**	2,877,738
Deposits and placements with banks and other financial institutions	4	**100,000**	100,577	**100,000**	100,577
Financial assets held-for-trading	5	**574,835**	423,973	**569,750**	418,718
Derivative financial assets	6	**124,572**	119,259	**124,572**	119,259
Financial assets available-for-sale	7	**9,957,286**	9,937,716	**9,957,743**	9,938,173
Financial assets held-to-maturity	8	**57,703**	59,352	**57,703**	59,352
Financing, advances and others	9	**39,189,274**	34,294,690	**39,189,274**	34,294,690
Other assets	10	**99,015**	70,796	**95,928**	68,235
Statutory deposits with Bank Negara Malaysia	11	**1,374,876**	1,591,460	**1,374,876**	1,591,460
Current tax assets		**1,779**	40,127	**1,737**	40,111
Deferred tax assets	12	**48,378**	35,182	**48,378**	35,182
Investments in subsidiaries	13	**-**	-	**15,525**	15,525
Property and equipment	14	**185,562**	208,918	**184,547**	208,047
Total assets		**55,676,697**	49,763,719	**55,683,301**	49,767,067

The notes on pages 29 to 162 are an integral part of these financial statements.

Bank Islam Malaysia Berhad

(Company No. 98127-X)
(Incorporated in Malaysia)

Statements of Financial Position as at 31 December 2016 (continued)

		Group		Bank	
		31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Liabilities and equity					
Deposits from customers	15	**45,940,414**	43,556,350	**45,949,715**	43,594,947
Investment accounts of customers	16	**3,812,261**	676,105	**3,812,261**	676,105
Deposits and placements of banks and other financial institutions	17	**30,000**	-	**30,000**	-
Derivative financial liabilities	6	**111,089**	101,913	**111,089**	101,913
Bills and acceptance payable		**46,278**	122,577	**46,278**	122,577
Subordinated Sukuk Murabahah	18	**704,393**	704,380	**704,393**	704,380
Other liabilities	19	**601,750**	544,209	**598,591**	508,505
Zakat and taxation	20	**45,046**	25,617	**45,019**	25,587
Total liabilities		**51,291,231**	45,731,151	**51,297,346**	45,734,014
Equity					
Share capital	21	**2,404,384**	2,363,283	**2,404,384**	2,363,283
Reserves		**1,981,082**	1,669,285	**1,981,571**	1,669,770
Total equity		**4,385,466**	4,032,568	**4,385,955**	4,033,053
Total liabilities and equity		**55,676,697**	49,763,719	**55,683,301**	49,767,067
Restricted investment accounts managed by the Bank	16	**141,343**	82,567	**141,343**	82,567
Total Islamic banking asset owned and managed by the Bank		**55,818,040**	49,846,286	**55,824,644**	49,849,634
Commitments and contingencies	43	**13,704,559**	12,692,303	**13,704,559**	12,692,303

The notes on pages 29 to 162 are an integral part of these financial statements.

Bank Islam Malaysia Berhad

(Company No. 98127-X)
(Incorporated in Malaysia)

Statements of Profit or Loss and Other Comprehensive Income for the financial year ended 31 December 2016

		Group		Bank	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Income derived from investment of depositors' funds	24	**2,342,204**	2,203,683	**2,342,204**	2,203,683
Income derived from investment account funds	25	**113,893**	16,793	**113,893**	16,793
Income derived from investment of shareholders' funds	26	**407,357**	428,520	**398,392**	420,826
Allowance for impairment on financing and advances	27	**(92,105)**	(69,331)	**(92,105)**	(69,331)
Allowance for impairment on investments	28	**(255)**	(4,488)	**(255)**	(4,488)
Reversal of impairment on other assets		**608**	-	**608**	-
Direct expenses		**(20,387)**	(22,911)	**(20,387)**	(22,911)
Total distributable income		**2,751,315**	2,552,266	**2,742,350**	2,544,572
Wakalah performance incentive fees from restricted investment accounts	16	**5,328**	400	**5,328**	400
Income attributable to depositors	29	**(1,069,637)**	(1,028,949)	**(1,069,869)**	(1,029,168)
Income attributable to investment account holders	30	**(38,387)**	(2,744)	**(38,387)**	(2,744)
Total net income		**1,648,619**	1,520,973	**1,639,422**	1,513,060
Personnel expenses	31	**(506,673)**	(473,804)	**(500,177)**	(468,164)
Other overhead expenses	32	**(382,069)**	(348,479)	**(379,339)**	(346,736)
		759,877	698,690	**759,906**	698,160
Finance cost on Subordinated Sukuk Murabahah	18	**(39,465)**	(13,029)	**(39,465)**	(13,029)
Profit before zakat and tax		**720,412**	685,661	**720,441**	685,131
Zakat		**(12,859)**	(8,730)	**(12,844)**	(8,703)
Tax expense	35	**(176,591)**	(169,669)	**(176,590)**	(169,595)
Profit for the year		**530,962**	507,262	**531,007**	506,833
Earnings per share (sen)	36	**22.29**	21.71		

The notes on pages 29 to 162 are an integral part of these financial statements.

Bank Islam Malaysia Berhad
(Company No. 98127-X)
(Incorporated in Malaysia)

Statements of Profit or Loss and Other Comprehensive Income for the financial year ended 31 December 2016 (continued)

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Profit for the year	**530,962**	507,262	**531,007**	506,833
Other comprehensive income, net of tax:				
Items that are or may be reclassified subsequently to profit or loss				
Currency translation differences in respect of foreign operations	**(20,252)**	(84,907)	**(20,293)**	(85,031)
Fair value reserve				
Net change in fair value	**15,229**	17,087	**15,229**	17,087
Net amount transferred to profit or loss	**(51,249)**	(14,735)	**(51,249)**	(14,735)
Income tax credit relating to components of other comprehensive income	**8,645**	7,280	**8,645**	7,280
Other comprehensive expense for the year, net of tax	**(47,627)**	(75,275)	**(47,668)**	(75,399)
Total comprehensive income for the year	**483,335**	431,987	**483,339**	431,434

The notes on pages 29 to 162 are an integral part of these financial statements.

Bank Islam Malaysia Berhad
(Company No. 98127-X)
(Incorporated in Malaysia)

Consolidated Statement of Changes in Equity for the financial year ended 31 December 2016

		← *Attributable to equity holders of the Bank* →				
		← Non-distributable →			Distributable	
Group	**Note**	**Share capital RM'000**	**Share premium RM'000**	**Other reserves RM'000**	**Retained earnings RM'000**	**Total equity RM'000**
At 1 January 2015		**2,319,907**	**90,981**	**929,779**	**388,923**	**3,729,590**
Profit for the year		-	-	-	507,262	507,262
Currency translation difference in respect of foreign operations		-	-	(84,907)	-	(84,907)
Fair value reserve – Net change in fair value		-	-	17,087	-	17,087
– Net amount reclassified to profit or loss		-	-	(14,735)	-	(14,735)
Income tax credit relating to components of other comprehensive income		-	-	7,280	-	7,280
Total comprehensive income for the year		-	-	(75,275)	507,262	431,987
Transfer to statutory reserve		-	-	253,416	(253,416)	-
Dividends paid on ordinary shares	37	-	-	-	(256,856)	(256,856)
Issue of shares pursuant to Dividend Reinvestment Plan	37	43,376	84,471	-	-	127,847
At 31 December 2015/1 January 2016		**2,363,283**	**175,452**	**1,107,920**	**385,913**	**4,032,568**
Profit for the year					530,962	530,962
Currency translation difference in respect of foreign operations		-	-	(20,252)	-	(20,252)
Fair value reserve – Net change in fair value		-	-	15,229	-	15,229
– Net amount reclassified to profit or loss		-	-	(51,249)	-	(51,249)
Income tax credit relating to components of other comprehensive income		-	-	8,645	-	8,645
Total comprehensive income for the year		-	-	(47,627)	530,962	483,335
Transfer to statutory reserve		-	-	132,752	(132,752)	-
Dividends paid on ordinary shares	37	-	-	-	(260,876)	(260,876)
Issue of shares pursuant to Dividend Reinvestment Plan	37	41,101	89,338	-	-	130,439
At 31 December 2016		**2,404,384**	**264,790**	**1,193,045**	**523,247**	**4,385,466**
				Note 22		

The notes on pages 29 to 162 are an integral part of these financial statements.

Bank Islam Malaysia Berhad

(Company No. 98127-X)
(Incorporated in Malaysia)

Statement of Changes in Equity for the financial year ended 31 December 2016

		Attributable to equity holders of the Bank				
		Non-distributable			**Distributable**	
Bank	**Note**	**Share capital RM'000**	**Share premium RM'000**	**Other reserves RM'000**	**Retained earnings RM'000**	**Total Equity RM'000**
At 1 January 2015		**2,319,907**	**90,981**	**929,721**	**390,019**	**3,730,628**
Profit for the year		-	-	-	506,833	506,833
Currency translation difference in respect of foreign operations		-	-	(85,031)	-	(85,031)
Fair value reserve – Net change in fair value		-	-	17,087	-	17,087
– Net amount reclassified to profit or loss		-	-	(14,735)	-	(14,735)
Income tax credit relating to components of other comprehensive income		-	-	7,280	-	7,280
Total comprehensive income for the year		-	-	(75,399)	506,833	431,434
Transfer to statutory reserve		-	-	253,416	(253,416)	-
Dividends paid on ordinary shares	37	-	-	-	(256,856)	(256,856)
Issue of shares pursuant to Dividend Reinvestment Plan	37	43,376	84,471	-	-	127,847
At 31 December 2015/1 January 2016		**2,363,283**	**175,452**	**1,107,738**	**386,580**	**4,033,053**
Profit for the year		-	-	-	531,007	531,007
Currency translation difference in respect of foreign operations		-	-	(20,293)	-	(20,293)
Fair value reserve – Net change in fair value		-	-	15,229	-	15,229
– Net amount reclassified to profit or loss		-	-	(51,249)	-	(51,249)
Income tax credit relating to components of other comprehensive income		-	-	8,645	-	8,645
Total comprehensive income for the year		-	-	(47,668)	531,007	483,339
Transfer to statutory reserve		-	-	132,752	(132,752)	-
Dividends paid on ordinary shares	37	-	-	-	(260,876)	(260,876)
Issue of shares pursuant to Dividend Reinvestment Plan	37	41,101	89,338	-	-	130,439
At 31 December 2016		**2,404,384**	**264,790**	**1,192,822**	**523,959**	**4,385,955**
				Note 22		

The notes on pages 29 to 162 are an integral part of these financial statements.

Bank Islam Malaysia Berhad
(Company No. 98127-X)
(Incorporated in Malaysia)

Statements of Cash Flow
for the financial year ended 31 December 2016

	Group		Bank	
	2016 **RM'000**	**2015** **RM'000**	**2016** **RM'000**	**2015** **RM'000**
Cash flows from operating activities				
Profit before zakat and tax	**720,412**	685,661	**720,441**	685,131
Adjustments for:				
Depreciation of property and equipment	**59,582**	63,935	**59,338**	63,746
Net gain on disposal of property and equipment	**(527)**	(101)	**(527)**	(101)
Property and equipment written off	**8**	881	**8**	881
Collective assessment allowance	**161,667**	189,391	**161,667**	189,391
Individual assessment allowance	**30,662**	14,148	**30,662**	14,148
Reversal of impairment losses on other assets	**(608)**	-	**(608)**	-
Allowance for impairment loss on financial assets available-for-sale	**255**	4,620	**255**	4,620
Reversal of impairment loss on financial assets held-to-maturity	**-**	(132)	**-**	(132)
Net gain on sale of financial assets held-for-trading	**(5,605)**	(1,327)	**(5,260)**	(1,327)
Net gain on sale of financial assets available-for-sale	**(51,249)**	(10,998)	**(51,249)**	(10,998)
Fair value loss on financial assets held-for-trading	**4,074**	917	**3,904**	1,082
Dividends from securities	**(4,991)**	(2,595)	**(4,991)**	(2,595)
Net derivative loss	**4,515**	1,152	**4,515**	1,152
Finance cost on Subordinated Sukuk Murabahah	**39,465**	13,029	**39,465**	13,029
Operating profit before changes in assets and liabilities	**957,660**	958,581	**957,620**	958,027

Bank Islam Malaysia Berhad
(Company No. 98127-X)
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Statements of Cash Flow
for the financial year ended 31 December 2016 (continued)

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Changes in assets and liabilities:				
Deposits and placements with banks and other financial institutions	**30,000**	(300,000)	**30,000**	(300,000)
Financing, advances and others	**(5,086,913)**	(4,973,658)	**(5,086,913)**	(4,973,658)
Statutory deposits with Bank Negara Malaysia	**216,584**	(256,460)	**216,584**	(256,460)
Bills and other receivables	**(34,000)**	(2,081)	**(33,474)**	(1,152)
Deposits from customers	**2,384,064**	2,546,018	**2,354,768**	2,573,391
Investment accounts of customers	**3,136,156**	676,105	**3,136,156**	676,105
Bills and acceptance payable	**(76,299)**	(4,947)	**(76,299)**	(4,947)
Other liabilities	**62,210**	36,335	**94,748**	4,260
Cash generated from/(used in) operations	**1,589,462**	(1,320,107)	**1,593,190**	(1,324,434)
Zakat paid	**(8,721)**	(12,771)	**(8,704)**	(12,746)
Tax paid	**(138,380)**	(180,963)	**(138,284)**	(180,863)
Tax refund	**10,869**	66	**10,808**	-
Net cash generated from/(used in) operating activities	**1,453,230**	(1,513,775)	**1,457,010**	(1,518,043)
Cash flows from investing activities				
Purchase of property and equipment	**(36,887)**	(61,860)	**(36,500)**	(61,190)
Proceeds from disposal of property and equipment	**1,181**	145	**1,181**	145
Dividends from securities	**4,991**	2,595	**4,991**	2,595
Net proceeds from (purchase)/disposal of securities	**(151,202)**	808,376	**(151,547)**	808,376
Net cash (used in)/generated from investing activities	**(181,917)**	749,256	**(181,875)**	749,926

Statements of Cash Flow
for the financial year ended 31 December 2016 (continued)

	Group		Bank	
	2016 **RM'000**	**2015** **RM'000**	**2016** **RM'000**	**2015** **RM'000**
Cash flows from financing activities				
Subordinated Sukuk Murabahah	**-**	700,000	**-**	700,000
Dividend paid on ordinary shares	**(260,876)**	(256,856)	**(260,876)**	(256,856)
Proceeds from issuance of ordinary shares pursuant to Dividend Reinvestment Plan	**130,439**	127,847	**130,439**	127,847
Finance cost paid on Subordinated Sukuk Murabahah	**(39,452)**	(8,649)	**(39,452)**	(8,649)
Net cash (used in)/generated from financing activities	**(169,889)**	562,342	**(169,889)**	562,342
Net increase/(decrease) in cash and cash equivalents	**1,101,424**	(202,177)	**1,105,246**	(205,775)
Cash and cash equivalents at 1 January	**2,982,246**	3,269,353	**2,978,315**	3,269,127
Exchange difference on translation	**(20,253)**	(84,930)	**(20,293)**	(85,037)
Cash and cash equivalents at 31 December	**4,063,417**	2,982,246	**4,063,268**	2,978,315
Cash and cash equivalents comprise:				
Cash and short-term funds	**3,963,417**	2,881,669	**3,963,268**	2,877,738
Deposits and placements with banks and other financial institutions	**100,000**	100,577	**100,000**	100,577
	4,063,417	2,982,246	**4,063,268**	2,978,315

The notes on pages 29 to 162 are an integral part of these financial statements.

Notes to the financial statements for the financial year ended 31 December 2016

1. Principal activities and general information

The Bank is principally engaged in Islamic banking business and the provision of related financial services. The principal activities of its subsidiaries are as disclosed in Note 13 to the financial statements.

The Bank is a limited liability company, incorporated and domiciled in Malaysia. The address of its registered office and principal place of business is as follows:

Level 32, Menara Bank Islam
No. 22, Jalan Perak,
50450 Kuala Lumpur.

The immediate holding company of the Bank is BIMB Holdings Berhad, a public limited liability company incorporated in Malaysia and is listed on the Main Board of Bursa Malaysia Securities Berhad.

The ultimate holding entity is Lembaga Tabung Haji ("LTH"), a *hajj* pilgrims' funds board established under the Tabung Haji Act, 1995 (Act 535).

The consolidated financial statements comprise the Bank and its subsidiaries (together referred to as the "Group").

These financial statements were approved by the Board of Directors on 21 March 2017.

2. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been applied consistently by Group entities, unless otherwise stated.

2.1 Basis of preparation

(a) Statement of compliance

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

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Statement of compliance (continued)

The following are accounting standards, amendments and interpretations of the MFRS framework that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group and the Bank.

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- Amendments to MFRS 12, *Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

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

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

- MFRS 16, *Leases*

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

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

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Statement of compliance (continued)

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

- from the annual period beginning on 1 January 2017 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2017.
- from the annual period beginning on 1 January 2018 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2018.
- from the annual period beginning on 1 January 2019 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2019.

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

MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, Revenue - *Barter Transactions Involving Advertising Services*.

MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

MFRS 16, *Leases*

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

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 15, MFRS 9 and MFRS 16.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments, financial assets held-for-trading and financial assets available-for-sale, which have been measured at fair value.

(c) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia ("RM"), which is the Bank's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand (RM'000), unless otherwise stated.

(d) Use of estimates and judgement

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimates are revised and in any future periods affected.

Significant areas of estimation, uncertainty and critical judgements used in applying accounting policies that have significant effect in determining the amount recognised in the financial statements are described in the following notes:

- Note 2.5 and Note 40 – Fair value of financial instruments
- Note 2.10 – Impairment
- Note 12 – Deferred tax assets

2.2 Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Bank. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has *de facto* power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investments in subsidiaries are measured in the Bank's statement of financial position at cost less impairment losses, if any. Where there is indication of impairment, the carrying amount of the investment is assessed. A write down is made if the carrying amount exceeds its recoverable amount.

2. Summary of significant accounting policies (continued)

2.2 Basis of consolidation (continued)

(b) Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(c) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as a financial asset available-for-sale depending on the level of influence retained.

(d) Transactions eliminated on consolidation

In preparing the consolidated financial statements, intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions are eliminated.

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2. Summary of significant accounting policies (continued)

2.3 Foreign currency

(a) Foreign currency transactions

In preparing the financial statements of the Group entities, transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of reporting date are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

In the consolidated financial statements, when settlement of monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the Translation Reserve in equity.

(b) Foreign operations denominated in functional currencies other than Ringgit Malaysia ("RM")

The assets and liabilities of operations denominated in functional currencies other than RM, including fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting date. The income and expenses of the foreign operations are translated to RM at average exchange rates for the period.

All resulting exchange differences are recognised in other comprehensive income and accumulated in the Translation Reserve in equity.

2.4 Cash and cash equivalents

Cash and cash equivalents include cash and short-term funds, and deposits and placements with banks and other financial institutions.

2. Summary of significant accounting policies (continued)

2.5 Financial instruments

Financial instruments are classified and measured using accounting policies as mentioned below.

Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Bank becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

The Group and the Bank categorises its financial instruments as follows:

Financial assets

(a) Financing and receivables

Financing and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market and the Group does not intend to sell immediately or in the near term. The Group's financing and receivables consist of sale-based contracts (namely Bai' Bithaman Ajil, Bai Al-Inah, Murabahah, Bai Al-Dayn and At-Tawarruq), lease-based contracts (namely Ijarah Muntahiah Bit-Tamleek and Ijarah Thumma Al-Bai), construction-based contract (Istisna') and Ar-Rahnu contract.

These financing contracts are recorded in the Group's financial statements as financing and receivables based on concept of 'substance over form' and in accordance with MFRS 139.

These contracts are subsequently measured at amortised cost using effective profit rate method. These contracts are stated net of unearned income and any impairment loss.

(b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either:

(i) Held-for-trading

Financial assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term or it is part of a portfolio that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

2. Summary of significant accounting policies (continued)

2.5 Financial instruments (continued)

Financial assets (continued)

(b) Financial assets at fair value through profit or loss (continued)

(ii) Designated under fair value option

Financial assets meet at least one of the following criteria upon designation:

- it eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial assets, or recognising gains or losses on them, using different bases; or
- the financial asset contains an embedded derivative that would otherwise need to be separately recorded.

These financial assets are subsequently measured at their fair values and any gain or loss arising from a change in the fair value will be recognised in the profit or loss.

(c) Financial assets held-to-maturity

Financial assets held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity. These financial assets are subsequently measured at amortised cost using the effective profit rate method, less any impairment loss.

Any sale or reclassification of more than insignificant amount of financial assets held-to-maturity would result in the reclassification of all financial assets held-to-maturity to financial assets available-for-sale and the Group would be prevented from classifying any financial assets as financial assets held-to-maturity for the current and following two financial years.

(d) Financial assets available-for-sale

Financial assets available-for-sale are financial assets that are either designated in this category or not classified in any other category and are measured at fair value.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less any impairment loss. Any gain or loss arising from a change in the fair value is recognised in the fair value reserve through other comprehensive income except for impairment losses and foreign exchange gains and losses arising from monetary items which are recognised in profit or loss. On derecognition or disposal, the cumulative gains or losses previously recognised in other comprehensive income is reclassified from equity into profit or loss. Profit calculated for a debt instrument using the effective profit method is recognised in the profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment. See Note 2.10 Impairment.

2. Summary of significant accounting policies (continued)

2.5 Financial instruments (continued)

Derivative financial instruments

The Group and the Bank holds derivative financial instruments to hedge its foreign currency and profit rate exposures. However, the Group and the Bank elect not to apply hedge accounting. Hence, foreign exchange trading positions, including spot and forward contracts, are revalued at prevailing market rates at statement of financial position date and the resultant gains and losses for the financial year are recognised in the profit or loss.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

The financial liabilities measured at amortised cost are deposit from customers, investment accounts of customers, deposits and placement of banks and other financial institutions, derivative financial liabilities, bills and acceptance payables, Subordinated Sukuk Murabahah and other liabilities.

Fair value through profit or loss category comprises financial liabilities that are derivatives or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of equity instruments that do not have quoted price in an active market for identical instruments whose fair value otherwise cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

2. Summary of significant accounting policies (continued)

2.5 Financial instruments (continued)

Financial liabilities (continued)

(a) Investment accounts

Investment accounts are either:

(i) Unrestricted investment accounts

An unrestricted investment account ("URIA") refers to a type of investment account where the investment account holder ("IAH") provides the Bank with the mandate to make the ultimate decision without specifying any particular restrictions or conditions. The URIA is structured under Mudharabah and Wakalah contracts.

(ii) Restricted investment accounts

Restricted investment account ("RIA") refers to a type of investment account where the IAH provides a specific investment mandate to the Bank such as purpose, asset class, economic sector and period of investment.

RIA is accounted for as off balance sheet as the Bank has no rights and obligations in respect of the assets related to the RIA or to the residual cash flows from those assets except for the fee income generated by the Bank for managing the RIA. The Bank also has no ability to use power over the RIA to affect the amount of the Bank's return. The RIA is structured under Wakalah contract. Under Wakalah contract, IAH appoints the Bank as the agent to invest the funds provided by IAH to finance customers with a view of earning profits and the Bank will receive fees for the agency service provided.

Any impairment allowances required on the assets for investment accounts are charged to and borne by the investors.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

2. Summary of significant accounting policies (continued)

2.5 Financial instruments (continued)

Financial guarantee contracts (continued)

Fair value arising from financial guarantee contracts are classified as deferred income and are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

2.6 Property and equipment

(a) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

2. Summary of significant accounting policies (continued)

2.6 Property and equipment (continued)

(a) Recognition and measurement (continued)

The cost of property and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between knowledgeable willing parties in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of equipment is based on the quoted market prices for similar items when available and replacement cost when appropriate.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognised net within "other income" and "other expenses" respectively in profit or loss.

(b) Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Bank, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(c) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group and the Bank will obtain ownership by the end of the lease term. Property and equipment under construction are not depreciated until the assets are ready for their intended use.

2. Summary of significant accounting policies (continued)

2.6 Property and equipment (continued)

(c) Depreciation (continued

The estimated useful lives for the current and comparative periods are as follows:

*	Long term leasehold land	50 years
*	Building improvement and renovations	10 years
*	Furniture, fixtures and fittings	2 - 10 years
*	Office equipment	6 years
*	Motor vehicles	5 years
*	Computer equipment	
	- Core Banking System	7 years
	- Other hardware/software	5 years

Depreciation methods, useful lives and residual values are reassessed at end of the reporting period, and adjusted as appropriate.

2.7 Leased assets – Finance lease

Leases in terms of which the Group or the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property and equipment.

2.8 Leased assets – Operating lease

Leases, where the Group or the Bank does not assume substantially all the risks and rewards of ownership are classified as operating leases and, the leased assets are not recognised on the statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

2. Summary of significant accounting policies (continued)

2.8 Leased assets – Operating lease (continued)

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

2.9 Bills and other receivables

Bills and other receivables are stated at cost less any allowance for impairment.

2.10 Impairment

Financial assets

The Group and the Bank assess at each reporting date whether there is any objective evidence that financing and receivables, financial assets held-to-maturity or financial assets available-for-sale are impaired as a result of one or more events having an impact on the estimated future cash flows of the asset. A financial asset or a group of financial assets are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets and prior to the reporting date ("a loss event") and that loss event or events has an impact on the estimated future cash flow of the financial asset or the group of financial assets as that can be reliably estimated. The criteria that the Group and the Bank uses to determine that there is objective evidence of an impairment loss include:

i) significant financial difficulty of the issuer or obligor;
ii) a breach of contract, such as default or delinquency in profit or principal payments;
iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; or
iv) consecutive downgrade of two notches for external ratings.

Financing is classified as impaired when the principal or profit or both are past due for three months or more, or where a financing is in arrears for less than three months, the financing exhibits indications of credit weakness, or when the financing is classified as rescheduled and restructured in Central Credit Reference Information System ("CCRIS").

For financing and receivables, the Group and the Bank first assess whether objective evidence of impairment exists individually for financing and receivables that are individually significant, and collectively for financing and receivables that are not individually significant. If the Group and the Bank determines that no objective evidence of impairment exist for an individually assessed financing and receivable, whether significant or not, it includes the assets in a group of financing and receivables with similar credit risk characteristics and collectively assesses them for impairment. Financing and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment for impairment.

2. Summary of significant accounting policies (continued)

2.10 Impairment (continued)

Financial assets (continued)

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 asset's original effective profit rate. The amount of the loss is recognised using an allowance account and recognised in the profit or loss. The estimation of the amount and timing of the future cash flows requires management judgement. In estimating these cash flows, judgements are made about the realisable value of the collateral pledged and the borrower financial position. These estimations are based on assumptions and the actual results may differ from these, hence resulting in changes to impairment losses recognised.

For the purposes of a collective evaluation of impairment, financing and receivables are grouped on the basis of similar risk characteristics, taking into account the asset type, industry, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows for a group of financing and receivables that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and remove the effects of conditions in the historical period that do not currently exist.

When a financing is uncollectable, it is written off against the related allowance for impairment. Such financing are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequently, recoveries of amounts previously written off are credited to the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance for impairment account. The amount of reversal is recognised in the profit or loss.

In the case of available-for-sale equity securities, a significant or prolonged decline in their fair value of the security below its cost is also considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in the profit or loss. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as all other financial assets. Reversals of impairment of debt instruments are recognised in the comprehensive income statement.

2. Summary of significant accounting policies (continued)

2.10 Impairment (continued)

Financial assets (continued)

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Where a financing shows evidence of credit weaknesses, the Group or the Bank may seek to renegotiate the financing rather than taking possession of the collateral. This may involve an extension of the payment arrangements via rescheduling or the renegotiation of new financing terms and conditions via restructuring. Management monitors the renegotiated financing to ensure that all the revised terms are met and the repayments are made promptly for a continuous period. Where an impaired financing is renegotiated, the borrower must adhere to the revised and/or restructured repayment terms for a continuous period of six months before the financing is classified as non-impaired. These financing continue to be subjected to individual or collective impairment assessment.

Other assets

The carrying amount of other assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognised.

2.11 Bills and acceptances payable

Bills and acceptances payable represent the Group's and the Bank's own bills and acceptances rediscounted and outstanding in the market.

2. Summary of significant accounting policies (continued)

2.12 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The provisions are reviewed at each reporting date and if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

2.13 Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2.14 Contingent assets

Where it is not possible that there is an inflow of economic benefits, or the amount cannot be estimated reliably, the asset is not recognised in the statements of financial position and is disclosed as a contingent asset, unless the probability of inflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent assets unless the probability of inflow of economic benefits is remote.

2.15 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the Managing Director of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

2. Summary of significant accounting policies (continued)

2.16 Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

Share Capital
Ordinary shares are classified as equity in the statement of financial position. Cost directly attributable to the issuance of new equity shares are taken to equity as a deduction from the proceeds.

2.17 Recognition of income

Financing income

Financing income is recognised in the profit or loss using the effective profit rate method. The effective profit rate is the rate that 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 instruments. When calculating the effective profit rate, the Group and the Bank has considered all contractual terms of the financial instruments but does not consider future credit losses. The calculation includes all fees and transaction costs integral to the effective profit rate, as well as premium or discounts.

Income from a sale-based contract is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding whereas income from Ijarah (lease-based contract) is recognised on effective profit rate basis over the lease term.

Once a financial assets or a group of financial assets has been written down as a result of an impairment loss, income is recognised using the profit rate used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and other income recognition

Financing arrangement, management and participation fees, underwriting commissions, brokerage fees and wakalah performance incentive fees are recognised as income based on contractual arrangements. Fees from advisory and corporate finance activities are recognised net of service taxes and discounts on completion of each stage of the assignment.

Dividend income from subsidiaries and other investments are recognised when the Bank’s rights to receive payment is established.

2. Summary of significant accounting policies (continued)

2.18 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.19 Zakat

This represents business zakat that is paid on the Bank's portion. It is an obligatory amount payable by the Group and the Bank to comply with the rules and principles of Shariah.

2. Summary of significant accounting policies (continued)

2.20 Employee benefits

Short-term employee benefits

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

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

The Group's and the Bank's contribution to the Employees Provident Fund is charged to the profit or loss in the year to which they relate. Once the contributions have been paid, the Group and the Bank has no further payment obligations.

2.21 Earnings per ordinary shares

The Group presents basic earnings per share data for its ordinary shares ("EPS").

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.

2.22 Fair value measurements

'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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

2. Summary of significant accounting policies (continued)

2.22 Fair value measurements (continued)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3. Cash and short-term funds

	Group		Bank	
	31.12.2016 RM'000	31.12.2015 RM'000	31.12.2016 RM'000	31.12.2015 RM'000
Cash and balances with banks and other financial institutions	**932,674**	792,593	**932,525**	788,662
Money at call and interbank placements with remaining maturity not exceeding one month	**3,030,743**	2,089,076	**3,030,743**	2,089,076
	3,963,417	2,881,669	**3,963,268**	2,877,738

4. Deposits and placements with banks and other financial institutions

	Group and Bank	
	31.12.2016 RM'000	31.12.2015 RM'000
Licensed Islamic banks	**100,000**	100,577

5. Financial assets held-for-trading

	Group		Bank	
	31.12.2016 RM'000	31.12.2015 RM'000	31.12.2016 RM'000	31.12.2015 RM'000
At fair value				
Malaysian Government Investment Issues	**324,500**	241,717	**324,500**	241,717
Sukuk	**245,250**	177,001	**245,250**	177,001
Unit trust	**5,085**	5,255	**-**	-
	574,835	423,973	**569,750**	418,718

6. Derivative financial assets/(liabilities)

The following tables summarise the contractual or underlying principal amounts of derivative financial instruments held at fair value through profit or loss and hedging purposes. The principal or contractual amount of these instruments reflects the volume of transactions outstanding at financial position date, and do not represent amounts at risk.

Trading derivative financial instruments are revalued on a gross position and the unrealised gains or losses are reflected as derivative financial assets and liabilities respectively.

Group and Bank

	31.12.2016		
	Notional amount RM'000	**Fair value Assets RM'000**	**Fair value Liabilities RM'000**
Forward contracts	**3,117,570**	**117,445**	**(107,469)**
Profit rate swaps	**836,027**	**7,127**	**(3,620)**
	3,953,597	**124,572**	**(111,089)**

	31.12.2015		
	Notional amount RM'000	**Fair value Assets RM'000**	**Fair value Liabilities RM'000**
Forward contracts	2,323,286	106,402	(98,593)
Profit rate swaps	862,568	12,857	(3,320)
	3,185,854	119,259	(101,913)

7. Financial assets available-for-sale

	Group		Bank	
	31.12.2016 RM'000	31.12.2015 RM'000	31.12.2016 RM'000	31.12.2015 RM'000
At fair value				
Malaysian Government Investment Issues	**2,057,324**	2,556,539	**2,057,324**	2,556,539
Negotiable Islamic Debt Certificates	**496,681**	-	**496,681**	-
Sukuk	**7,367,563**	7,332,715	**7,368,020**	7,333,172
	9,921,568	9,889,254	**9,922,025**	9,889,711
At fair value				
Quoted shares - outside Malaysia	**21,124**	29,807	**21,124**	29,807
Quoted unit trust - in Malaysia	**9,294**	13,335	**9,294**	13,335
	30,418	43,142	**30,418**	43,142
At cost				
Unquoted shares in Malaysia	**25,468**	24,319	**25,468**	24,319
Less: Accumulated impairment loss*	**(20,187)**	(19,328)	**(20,187)**	(19,328)
	5,281	4,991	**5,281**	4,991
At cost				
Unquoted shares outside Malaysia	**329**	329	**329**	329
Less: Impairment loss	**(310)**	-	**(310)**	-
	19	329	**19**	329
	9,957,286	9,937,716	**9,957,743**	9,938,173

* Movement in accumulated impairment loss due to translation differences

8. Financial assets held-to-maturity

	Group and Bank	
	31.12.2016 RM'000	31.12.2015 RM'000
At amortised cost		
Unquoted securities in Malaysia: Sukuk	**64,590**	66,239
Less: Accumulated impairment loss	**(6,887)**	(6,887)
	57,703	59,352

9. Financing, advances and others

(a) By type and Shariah contract

Group and Bank 31 December 2016	Bai' Bithaman Ajil RM'000	Murabahah RM'000	Bai Al-Dayn RM'000	Bai Al-Inah RM'000	At-Tawarruq RM'000	Ijarah Muntahiah Bit-Tamleek RM'000	Ijarah Thumma Al-Bai RM'000	Istisna' RM'000	Ar-Rahnu RM'000	Total RM'000
At amortised cost										
Cash line	-	-	-	37,899	1,199,021	-	-	-	-	**1,236,920**
Term financing										
House financing ^	4,484,247	-	-	-	9,503,014	-	-	59,088	-	**14,046,349**
Syndicated financing	-	-	-	196,129	1,045,889	-	123,189	-	-	**1,365,207**
Leasing financing	-	-	-	-	-	90,610	902	-	-	**91,512**
Bridging financing	-	-	-	-	-	-	-	82,313	-	**82,313**
Personal financing ^	-	-	-	42,177	11,197,744	-	-	-	-	**11,239,921**
Other term financing	2,086,188	933,316	-	4,063	7,106,669	-	-	1,503	-	**10,131,739**
Staff financing	83,743	5,087	-	-	98,821	-	-	14,218	-	**201,869**
Credit cards	-	-	-	9,004	450,388	-	-	-	-	**459,392**
Trade bills discounted	-	741,037	180,010	-	-	-	-	-	-	**921,047**
Trust receipts	-	5,169	-	-	-	-	-	-	-	**5,169**
Pawn broking	-	-	-	-	-	-	-	-	85,315	**85,315**
Investment Account Platform *	-	-	-	-	5,690	-	-	-	-	**5,690**
	6,654,178	**1,684,609**	**180,010**	**289,272**	**30,607,236**	**90,610**	**124,091**	**157,122**	**85,315**	**39,872,443**
Allowance for impaired financing, advances and others										
- collective assessment allowance										**(554,971)**
- individual assessment allowance										**(128,198)**
Net financing, advances and others										**39,189,274**

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9. Financing, advances and others (continued)

(a) By type and Shariah contract (continued)

Group and Bank 31 December 2015	Bai' Bithaman Ajil RM'000	Murabahah RM'000	Bai Al-Dayn RM'000	Bai Al-Inah RM'000	At-Tawarruq RM'000	Ijarah Muntahiah Bit-Tamleek RM'000	Ijarah Thumma Al-Bai RM'000	Istisna' RM'000	Ar-Rahnu RM'000	Total RM'000
At amortised cost										
Cash line	-	-	-	62,300	997,097	-	-	-	-	**1,059,397**
Term financing										
House financing ^	4,851,790	-	-	-	6,628,865	-	-	62,580	-	**11,543,235**
Syndicated financing	8,603	-	-	164,301	1,021,805	-	127,399	-	-	**1,322,108**
Leasing financing	-	-	-	-	-	81,223	1,769	-	-	**82,992**
Bridging financing	-	-	-	-	-	-	-	87,630	-	**87,630**
Personal financing	-	-	-	82,054	10,247,851	-	-	-	-	**10,329,905**
Other term financing	2,583,462	685,973	-	18,444	5,385,013	-	-	1,762	-	**8,674,654**
Staff financing	96,919	1,515	-	-	68,007	-	-	16,401	-	**182,842**
Credit cards	-	-	-	12,695	430,848	-	-	-	-	**443,543**
Trade bills discounted	-	888,408	251,419	-	-	-	-	-	-	**1,139,827**
Trust receipts	-	20,210	-	-	-	-	-	-	-	**20,210**
Pawn broking	-	-	-	-	-	-	-	-	73,883	**73,883**
Investment Account Platform *	-	-	-	-	-	-	-	-	-	**-**
	7,540,774	**1,596,106**	**251,419**	**339,794**	**24,779,486**	**81,223**	**129,168**	**168,373**	**73,883**	**34,960,226**
Allowance for impaired financing, advances and others										
- collective assessment allowance										**(541,065)**
- individual assessment allowance										**(124,471)**
Net financing, advances and others										**34,294,690**

9. Financing, advances and others (continued)

(a) By type of and Shariah contract (continued)

^ Included in house financing and personal financing as at 31 December 2016 are underlying assets under the Unrestricted Investment Accounts ("URIA") amounting to RM 2,687,318,000 (2015: RM676,105,000) and RM 1,124,943,000 (2015: RM Nil) respectively as disclosed in Note 16 of these financial statements.

* This represents a term financing of the Group's and the Bank's participation through Investment Account Platform ("IAP") to finance viable ventures.

(b) By type of customer

	Group and Bank	
	31.12.2016	**31.12.2015**
	RM'000	**RM'000**
Domestic non-bank financial institutions	**1,376,559**	1,004,961
Domestic business enterprise	**6,908,806**	5,907,856
Small medium industries	**896,530**	939,552
Government & statutory bodies	**938,069**	897,923
Individuals	**28,957,975**	25,618,163
Other domestic entities	**7,239**	7,678
Foreign entities	**787,265**	584,093
	39,872,443	34,960,226

(c) By profit rate sensitivity

	Group and Bank	
	31.12.2016	**31.12.2015**
	RM'000	**RM'000**
Fixed rate		
House financing	**1,268,632**	1,403,863
Others	**4,059,422**	4,855,968
Floating rate		
House financing	**13,382,969**	10,733,848
Others	**21,161,420**	17,966,547
	39,872,443	34,960,226

9. Financing, advances and others (continued)

(d) By remaining contractual maturity

	Group and Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**
Maturity within one year	**4,312,581**	3,543,984
More than one year to three years	**1,400,480**	1,121,154
More than three years to five years	**2,197,573**	1,613,849
More than five years	**31,961,809**	28,681,239
	39,872,443	34,960,226

(e) By geographical distribution

	Group and Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**
Central Region	**18,853,925**	16,254,666
Eastern Region	**6,534,376**	5,856,505
Northern Region	**5,864,200**	5,297,531
Southern Region	**5,499,121**	4,725,173
East Malaysia Region	**3,120,821**	2,826,351
	39,872,443	34,960,226

(f) By sector

	Group and Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**
Primary agriculture	**377,285**	403,666
Mining and quarrying	**12,931**	13,494
Manufacturing (including agro-based)	**747,410**	930,013
Electricity, gas and water	**868,319**	681,984
Wholesale & retail trade, and hotels & restaurants	**1,274,954**	1,102,861
Construction	**2,161,215**	2,225,492
Real estate	**1,205,740**	1,088,961
Transport, storage and communications	**870,559**	395,914
Finance, insurance and business activities	**2,134,947**	1,406,399
Education, health and others	**1,256,209**	1,092,052
Household sectors	**28,962,874**	25,619,390
	39,872,443	34,960,226

9. Financing, advances and others (continued)

(g) Movement in impaired financing and advances ("impaired financing") are as follows:

	Group and Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**
At 1 January	**381,270**	344,539
Classified as impaired during the year	**580,341**	513,966
Reclassified as not impaired during the year	**(284,602)**	(205,690)
Amount recovered	**(112,502)**	(144,268)
Amount written off	**(178,052)**	(139,053)
Exchange differences	**2,990**	11,776
At 31 December	**389,445**	381,270
Gross impaired financing as a percentage of gross financing, advances and others	**0.98%**	1.09%

(h) Impaired financing by geographical distribution

	Group and Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**
Central Region	**142,841**	184,568
Eastern Region	**92,848**	47,369
Northern Region	**36,299**	35,880
Southern Region	**31,329**	29,892
East Malaysia Region	**86,128**	83,561
	389,445	381,270

9. Financing, advances and others (continued)

(i) Impaired financing by sector

	Group and Bank	
	31.12.2016	**31.12.2015**
	RM'000	**RM'000**
Primary agriculture	**1,311**	1,307
Manufacturing (including agro-based)	**36,739**	6,650
Wholesale & retail trade, and hotels & restaurants	**25,651**	24,986
Construction	**13,714**	56,344
Transport, storage and communications	**15,579**	29,332
Finance, insurance and business activities	**70,948**	69,533
Education, health & others	**3,076**	7,502
Household sectors	**222,427**	185,616
	389,445	381,270

(j) Movement of allowance for impaired financing

	Group and Bank	
	31.12.2016	**31.12.2015**
	RM'000	**RM'000**
<u>Collective assessment allowance</u>		
At 1 January 2016/1 January 2015	**541,065**	444,388
Allowance made during the year	**161,667**	189,391
Amount written off	**(146,725)**	(94,748)
Exchange differences	**(1,036)**	2,034
At 31 December 2016/31 December 2015	**554,971**	541,065
<u>Individual assessment allowance</u>		
At 1 January 2016/1 January 2015	**124,471**	142,753
Allowance made during the year	**54,566**	46,420
Amount recovered	**(23,904)**	(32,272)
Amount written off	**(29,928)**	(44,139)
Exchange differences	**2,993**	11,709
At 31 December 2016/31 December 2015	**128,198**	124,471

10. Other assets

	Group		Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**	**31.12.2016 RM'000**	**31.12.2015 RM'000**
Other receivables	**65,825**	34,206	**63,968**	32,608
Less: Impairment loss	**(256)**	(864)	**(256)**	(864)
	65,569	33,342	**63,712**	31,744
Deposit and prepayments	**32,741**	37,227	**31,441**	36,063
Related companies*	**705**	227	**775**	428
	99,015	70,796	**95,928**	68,235

* This relates to amounts due from holding and related companies that are non-trade in nature, not subject to financing charges and has no fixed term repayments.

11. Statutory deposits with Bank Negara Malaysia

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

12. Deferred tax assets

Recognised deferred tax assets
Deferred tax assets are attributable to the following:

Group and Bank	Assets		Liabilities		Net	
	31.12.2016 RM'000	**31.12.2015 RM'000**	**31.12.2016 RM'000**	**31.12.2015 RM'000**	**31.12.2016 RM'000**	**31.12.2015 RM'000**
Property and equipment	**-**	-	**(16,993)**	(20,252)	**(16,993)**	(20,252)
Provisions	**24,483**	23,087	**-**	-	**24,483**	23,087
Unabsorbed capital allowances	**24,963**	25,067	**-**	-	**24,963**	25,067
Change in fair value reserve	**15,925**	7,280	**-**	-	**15,925**	7,280
Tax assets/(liabilities)	**65,371**	55,434	**(16,993)**	(20,252)	**48,378**	35,182

Movement in temporary differences during the year:

Group and Bank	At 1.1.2015 RM'000	Recognised in profit or loss (Note 35) RM'000	Recognised in other comprehensive income RM'000	At 31.12.2015/ 1.1.2016 RM'000	Recognised in profit or loss (Note 35) RM'000	Recognised in other comprehensive income RM'000	At 31.12.2016 RM'000
Property and equipment	(23,207)	2,955	-	(20,252)	3,259	-	(16,993)
Provisions	27,205	(4,118)	-	23,087	1,396	-	24,483
Unabsorbed capital allowances	27,222	(2,155)	-	25,067	(104)	-	24,963
Change in fair value reserve	-	-	7,280	7,280	-	8,645	15,925
Total assets	31,220	(3,318)	7,280	35,182	4,551	8,645	48,378

12. Deferred tax assets (continued)

Unrecognised deferred tax assets
Deferred tax assets have not been recognised in respect of the following items:

	Group		Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**	**31.12.2016 RM'000**	**31.12.2015 RM'000**
Unabsorbed capital allowance	**28,475**	28,475	**28,440**	28,440
Unutilised tax losses	**6,701**	6,701	**-**	-
Deductible temporary differences	**329**	329	**-**	-
	35,505	35,505	**28,440**	28,440

The Bank's unabsorbed capital allowances of RM28,440,000 in respect of its leasing business whereby management considered it uncertain whether the Bank is able to utilise the benefits in the future. As such, deferred tax assets have not been recognised.

13. Investments in subsidiaries

	Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**
At cost		
Unquoted shares in Malaysia	**16,447**	16,447
Less: Accumulated impairment loss	**(922)**	(922)
	15,525	15,525

13. Investments in subsidiaries (continued)

Details of subsidiaries are as follows:

		Effective ownership interest	
		31.12.2016	**31.12.2015**
Name of Company	**Principal activities**	**%**	**%**
Al-Wakalah Nominees (Tempatan) Sdn. Bhd.	Provide nominee services	**100**	100
BIMB Investment Management Berhad	Managing Islamic Unit Trust Funds	**100**	100
Bank Islam Trust Company (Labuan) Ltd.	Provide services as a Labuan registered trust company	**100**	100
and its subsidiary:			
BIMB Offshore Company Management Services Sdn. Bhd.	Resident Corporate Secretary and Director for Offshore Companies	**100**	100
BIMB Foreign Currency Clearing Agency Sdn. Bhd.*	Liquidated	**-**	100
Farihan Corporation Sdn. Bhd.	Provide manpower for all type of executives, middle management staff, junior level staff, workers, labourers skilled/unskilled for the provision of services in the relevant areas.	**100**	100

* The date of the Company's last report was on 18 March 2014 and the Company was liquidated on 18 August 2016.

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14. Property and equipment

Group ***Cost***	**Long term leasehold land RM'000**	**Building improvements and renovations RM'000**	**Furniture, fixtures and fittings RM'000**	**Office equipment RM'000**	**Computer equipment RM'000**	**Motor vehicles RM'000**	**Renovation work-in-progress RM'000**	**Management information system under development RM'000**	**Total RM'000**
At 1 January 2015	14,784	31,479	116,899	75,872	286,929	1,342	826	5,412	533,543
Additions	-	1,427	3,970	11,654	29,108	680	262	14,759	61,860
Reclassifications	-	56	524	221	645	-	(801)	(645)	-
Disposals	-	-	(150)	(383)	(4,842)	(800)	-	-	(6,175)
Written off	-	(493)	(2,183)	(1,398)	(5,179)	-	-	-	(9,253)
Exchange difference	-	4	58	78	62	15	-	-	217
At 31 December 2015	14,784	32,473	119,118	86,044	306,723	1,237	287	19,526	580,192
Additions	-	670	2,618	4,361	11,824	-	1,434	15,980	36,887
Reclassifications	-	73	1,232	354	29,780	-	(1,659)	(29,780)	-
Disposals	-	(44)	(117)	(611)	(1,372)	(77)	-	-	(2,221)
Written off	-	-	-	(77)	-	-	-	-	(77)
Exchange difference	-	-	14	20	15	(3)	-	-	46
At 31 December 2016	**14,784**	**33,172**	**122,865**	**90,091**	**346,970**	**1,157**	**62**	**5,726**	**614,827**

14. Property and equipment (continued)

Group ***Accumulated depreciation***	**Long term leasehold land RM'000**	**Building improvements and renovations RM'000**	**Furniture, fixtures and fittings RM'000**	**Office equipment RM'000**	**Computer equipment RM'000**	**Motor vehicles RM'000**	**Renovation work-in-progress RM'000**	**Management information system under development RM'000**	**Total RM'000**
At 1 January 2015	1,304	18,492	59,109	55,078	186,503	1,162	-	-	321,648
Depreciation for the year	174	2,071	9,002	11,220	41,220	248	-	-	63,935
Disposals	-	-	(150)	(366)	(4,815)	(800)	-	-	(6,131)
Written off	-	(326)	(1,650)	(1,228)	(5,168)	-	-	-	(8,372)
Exchange difference	-	4	58	73	44	15	-	-	194
At 31 December 2015	1,478	20,241	66,369	64,777	217,784	625	-	-	371,274
Depreciation for the year	174	2,102	9,220	7,694	40,223	169	-	-	59,582
Disposals	-	(10)	(44)	(596)	(840)	(77)	-	-	(1,567)
Written off	-	-	-	(69)	-	-	-	-	(69)
Exchange difference	-	-	14	20	14	(3)	-	-	45
At 31 December 2016	**1,652**	**22,333**	**75,559**	**71,826**	**257,181**	**714**	**-**	**-**	**429,265**

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14. Property and equipment (continued)

Group *Carrying amounts*	Long term leasehold land RM'000	Building improvements and renovations RM'000	Furniture, fixtures and fittings RM'000	Office equipment RM'000	Computer equipment RM'000	Motor vehicles RM'000	Renovation work-in-progress RM'000	Management information system under development RM'000	Total RM'000
At 1 January 2015	13,480	12,987	57,790	20,794	100,426	180	826	5,412	211,895
At 31 December 2015	13,306	12,232	52,749	21,267	88,939	612	287	19,526	208,918
At 31 December 2016	**13,132**	**10,839**	**47,306**	**18,265**	**89,789**	**443**	**62**	**5,726**	**185,562**

14. Property and equipment (continued)

Bank *Cost*	**Long term leasehold land RM'000**	**Building improvements and renovations RM'000**	**Furniture, fixtures and fittings RM'000**	**Office equipment RM'000**	**Computer equipment RM'000**	**Motor vehicles RM'000**	**Renovation work-in-progress RM'000**	**Management information system under development RM'000**	**Total RM'000**
At 1 January 2015	14,784	31,353	116,859	75,553	285,919	1,342	826	5,412	532,048
Additions	-	1,372	3,935	11,648	28,534	680	262	14,759	61,190
Reclassifications	-	56	524	221	645	-	(801)	(645)	-
Disposals	-	-	(150)	(383)	(4,842)	(800)	-	-	(6,175)
Written off	-	(493)	(2,183)	(1,398)	(5,179)	-	-	-	(9,253)
Exchange difference	-	4	58	54	10	15	-	-	141
At 31 December 2015	14,784	32,292	119,043	85,695	305,087	1,237	287	19,526	577,951
Additions	-	662	2,617	4,355	11,452	-	1,434	15,980	36,500
Reclassification	-	73	1,232	354	29,780	-	(1,659)	(29,780)	-
Disposals	-	(44)	(117)	(611)	(1,372)	(77)	-	-	(2,221)
Written off	-	-	-	(77)	-	-	-	-	(77)
Exchange difference	-	-	14	13	3	(3)	-	-	27
At 31 December 2016	**14,784**	**32,983**	**122,789**	**89,729**	**344,950**	**1,157**	**62**	**5,726**	**612,180**

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14. Property and equipment (continued)

Bank *Accumulated depreciation*	**Long term leasehold land RM'000**	**Building improvements and renovations RM'000**	**Furniture, fixtures and fittings RM'000**	**Office equipment RM'000**	**Computer equipment RM'000**	**Motor vehicles RM'000**	**Renovation work-in-progress RM'000**	**Management information system under development RM'000**	**Total RM'000**
At 1 January 2015	1,304	18,424	59,089	54,783	185,764	1,162	-	-	320,526
Depreciation for the year	174	2,045	8,994	11,209	41,076	248	-	-	63,746
Disposals	-	-	(150)	(366)	(4,815)	(800)	-	-	(6,131)
Written off	-	(326)	(1,650)	(1,228)	(5,168)	-	-	-	(8,372)
Exchange difference	-	4	58	51	7	15	-	-	135
At 31 December 2015	1,478	20,147	66,341	64,449	216,864	625	-	-	369,904
Depreciation for the year	174	2,071	9,210	7,687	40,027	169	-	-	59,338
Disposals	-	(10)	(44)	(596)	(840)	(77)	-	-	(1,567)
Written off	-	-	-	(69)	-	-	-	-	(69)
Exchange difference	-	-	14	13	3	(3)	-	-	27
At 31 December 2016	**1,652**	**22,208**	**75,521**	**71,484**	**256,054**	**714**	**-**	**-**	**427,633**

14. Property and equipment (continued)

Bank *Carrying amounts*	**Long term leasehold land RM'000**	**Building improvements and renovations RM'000**	**Furniture, fixtures and fittings RM'000**	**Office equipment RM'000**	**Computer equipment RM'000**	**Motor vehicles RM'000**	**Renovation work-in-progress RM'000**	**Management information system under development RM'000**	**Total RM'000**
At 1 January 2015	13,480	12,929	57,770	20,770	100,155	180	826	5,412	211,522
At 31 December 2015	13,306	12,145	52,702	21,246	88,223	612	287	19,526	208,047
At 31 December 2016	**13,132**	**10,775**	**47,268**	**18,245**	**88,896**	**443**	**62**	**5,726**	**184,547**

15. Deposits from customers

(a) By type of deposit

	Group		Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**	**31.12.2016 RM'000**	**31.12.2015 RM'000**
Saving Deposit				
Wadiah	**4,131,604**	4,674,687	**4,131,604**	4,674,687
Demand Deposit				
Wadiah	**10,001,972**	10,581,603	**10,004,601**	10,613,180
Term Deposit	**31,700,310**	28,205,616	**31,706,982**	28,212,636
Special Investment Deposit				
Mudharabah	**27,711**	26,058	**27,711**	26,058
General Investment Deposit				
Mudharabah	**394,639**	478,802	**394,639**	478,802
Term Deposit-i				
Tawarruq	**28,208,548**	24,406,269	**28,215,220**	24,413,289
Negotiable Islamic Debt Certificates (NIDC)	**3,069,412**	3,287,644	**3,069,412**	3,287,644
Waheed-i	**-**	6,843	**-**	6,843
Others	**106,528**	94,444	**106,528**	94,444
Total Deposits	**45,940,414**	43,556,350	**45,949,715**	43,594,947

15. Deposits from customers (continued)

(b) Maturity structure of term deposits are as follows :

	Group		Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**	**31.12.2016 RM'000**	**31.12.2015 RM'000**
Due within six months	**26,475,051**	23,218,044	**26,481,013**	23,224,498
More than six months to one year	**4,166,465**	4,000,106	**4,166,465**	4,000,672
More than one year to three years	**690,590**	946,690	**691,300**	946,690
More than three years to five years	**368,204**	40,776	**368,204**	40,776
	31,700,310	28,205,616	**31,706,982**	28,212,636

(c) By type of customers

	Group		Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**	**31.12.2016 RM'000**	**31.12.2015 RM'000**
Domestic non-bank financial institutions	**15,501,713**	11,582,151	**15,511,014**	11,620,748
Business enterprises	**11,730,076**	12,183,999	**11,730,076**	12,183,999
Government and statutory bodies	**6,890,474**	7,419,397	**6,890,474**	7,419,397
Individuals	**4,817,561**	5,576,637	**4,817,561**	5,576,637
Domestic banking institutions	**2,994,256**	2,590,445	**2,994,256**	2,590,445
Others	**4,006,334**	4,203,721	**4,006,334**	4,203,721
	45,940,414	43,556,350	**45,949,715**	43,594,947

16. Investment accounts of customers

(a) By type and Shariah contract

	Group and Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**
Unrestricted investment accounts		
Without maturity		
Mudharabah	**1,516,844**	461,312
With maturity		
Wakalah	**2,295,417**	214,793
	3,812,261	676,105
Restricted investment accounts ("RIA") managed by the Bank^		
With maturity		
Wakalah	**141,343**	82,567

^ Included in RIA managed by the Bank is an arrangement between the Bank and its ultimate holding entity where the Bank acts as an investment agent to manage and administer the RIA, with underlying assets amounting to RM141,033,000 (2015:RM82,567,000).

(b) By type of customers

	Group and Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**
Individuals	**1,677,636**	458,801
Government and statutory bodies	**762,888**	9
Business Enterprises	**737,961**	397
Non-bank financial institutions	**476,125**	214,763
Bank and other financial institutions	**45,919**	-
Others	**111,732**	2,135
	3,812,261	676,105

16. Investment accounts of customers (continued)

(c) Movement of investment accounts of customers

	Unrestricted investment accounts			Restricted investment accounts
Group and Bank	**Mudharabah RM'000**	**Wakalah RM'000**	**Total RM'000**	**Wakalah RM'000**
As at 1 January 2015	-	-	-	-
Funding inflows/outflows:				
Net movement	461,046	-	461,046	-
New placement	-	212,315	212,315	83,998
Redemption/Principal repayment	-	-	-	(2,118)
Income from investment	13,861	2,932	16,793	1,087
Bank's share of profit:				
Profit distributed to Mudharib	(13,595)	-	(13,595)	-
Wakalah performance incentive fees	-	(454)	(454)	(400)
As at 31 December 2015/1 January 2016	461,312	214,793	676,105	82,567
Funding inflows/outflows:				
Net movement	1,054,331	-	1,054,331	-
New placement	-	13,090,638	13,090,638	75,412
Redemption /Principal repayment	-	(11,047,199)	(11,047,199)	(20,256)
Income from investment	61,379	52,514	113,893	8,948
Bank's share of profit:				
Profit distributed to Mudharib	(60,178)	-	(60,178)	-
Wakalah performance incentive fees	-	(15,329)	(15,329)	(5,328)
As at 31 December 2016	**1,516,844**	**2,295,417**	**3,812,261**	**141,343**
Investment portfolio:				
2016				
House financing	1,516,844	1,170,474	2,687,318	-
Personal financing	-	1,124,943	1,124,943	-
Other term financing	-	-	-	141,343
	1,516,844	**2,295,417**	**3,812,261**	**141,343**
2015				
House financing	461,312	214,793	676,105	-
Personal financing	-	-	-	-
Other term financing	-	-	-	82,567
	461,312	214,793	676,105	82,567

16. Investment accounts of customers (continued)

(d) By maturity structures, profit sharing ratio and rate of return

		Investment account holders		
	Total amount RM'000	Average profit sharing ratio (%)	Average rate of return (%)	Bank's wakalah performanc e incentive fee (%)
2016				
Unrestricted investment accounts:				
Less than 3 months				
- *Mudharabah*	**1,516,844**	**2**	**0.13**	**-**
- *Wakalah*	**2,101,430**	**-**	**3.61**	**1.27**
	3,618,274			
Between 3 to 12 months				
- *Wakalah*	**193,987**	**-**	**3.72**	**1.16**
	3,812,261			
Restricted investment accounts:				
Between 2 to 5 years	**141,343**	**-**	**3.00**	**1.18**
2015				
Unrestricted investment accounts:				
Less than 3 months				
- *Mudharabah*	461,312	2	0.12	-
- *Wakalah*	214,793	-	3.78	0.69
	676,105			
Restricted investment accounts:				
Between 2 to 5 years	82,567	-	3.00	0.98

17. Deposits and placements of banks and other financial institutions

	Group and Bank	
	31.12.2016 RM'000	31.12.2015 RM'000
Non-Mudharabah fund		
Licensed Islamic banks	**30,000**	-

18. Subordinated Sukuk Murabahah

	Note	Group and Bank 31.12.2016 RM'000	31.12.2015 RM'000
Issued under the RM1.0 billion Subordinated Sukuk Murabahah Programme			
First tranche, RM300 million 5.75% due in 2025	(a)	**303,308**	303,355
Second tranche, RM400 million 5.50% due in 2025	(b)	**401,085**	401,025
		704,393	704,380
Finance cost on Subordinated Sukuk Murabahah		**39,465**	13,029

The Bank issued the following tranches of Subordinated Sukuk Murabahah:

(a) On 22 April 2015, the Bank issued the first tranche of RM300 million in nominal value of Subordinated Sukuk Murabahah which are due on 22 April 2025, with optional redemption on 22 April 2020 or any periodic payment date thereafter. The Sukuk bears a profit rate of 5.75% per annum payable semi-annually in arrears.

(b) On 15 December 2015, the Bank issued the second tranche of RM400 million which are due on 15 December 2025, with optional redemption on 15 December 2020 or any periodic payment date thereafter. The Sukuk bears a profit rate of 5.50% per annum payable semi-annually in arrears.

The Subordinated Sukuk Murabahah qualifies as Tier II capital for the computation of the regulatory capital of the Bank in accordance with the Capital Adequacy Framework (Capital Components) for Islamic Banks issued by BNM.

19. Other liabilities

	Group		Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**	**31.12.2016 RM'000**	**31.12.2015 RM'000**
Other payables	**489,031**	435,065	**486,151**	401,478
Accruals	**112,719**	109,144	**112,440**	107,027
	601,750	544,209	**598,591**	508,505

Included in other payables is undistributed charity fund amounting to RM5,000 (2015: RM11,000) for the Group and the Bank respectively. Movement of sources and uses of charity fund are disclosed in Note 23.

20. Zakat and taxation

	Group		Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**	**31.12.2016 RM'000**	**31.12.2015 RM'000**
Zakat	**12,878**	8,740	**12,851**	8,711
Taxation	**32,168**	16,877	**32,168**	16,876
	45,046	25,617	**45,019**	25,587

21. Share capital

Group and Bank	Number of shares 31.12.2016 ’000	Number of shares 31.12.2015 ’000	Amount 31.12.2016 RM’000	Amount 31.12.2015 RM’000
Authorised:				
Ordinary shares of RM1.00 each	**2,540,000**	2,540,000	**2,540,000**	2,540,000
Issued and fully paid				
Ordinary shares of RM1.00 each				
At 1 January	**2,363,283**	2,319,907	**2,363,283**	2,319,907
Allotment of new ordinary shares	**41,101**	43,376	**41,101**	43,376
At 31 December	**2,404,384**	2,363,283	**2,404,384**	2,363,283

The Bank increased its issued and paid-up capital on 18 May 2016 from RM2,363,282,700 to RM2,384,209,700 via the issuance of 20,927,000 new ordinary shares of RM1.00 each at a consideration of RM3.10 each arising from the Dividend Reinvestment Plan of the fifty percent of the final dividend of approximately 5.49 sen per share in respect of financial year ended 31 December 2015, as disclosed in Note 37.

The Bank further increased its issued and paid-up capital on 22 September 2016 from RM2,384,209,700 to RM2,404,383,700 via the issuance of 20,174,000 new ordinary shares of RM1.00 each at a consideration of RM3.25 each arising from the Dividend Reinvestment Plan of the fifty percent of the interim dividend of approximately 5.50 sen per share in respect of financial year ending 31 December 2016, as disclosed in Note 37.

The increase in its issued paid up capital during the financial year ended 31 December 2015 to RM2,363,282,700 was via the issuance of 22,799,000 and 20,576,700 new ordinary shares at a consideration of RM2.90 and RM3.00 per share respectively arising from the Dividend Reinvestment Plan of fifty percent of dividends declared and paid, as disclosed in Note 37.

22. Other reserves

	Statutory reserve RM'000	Fair value reserve RM'000	Translation reserve RM'000	Total RM'000
Group				
At 1 January 2015	1,005,991	(32,686)	(43,526)	929,779
Foreign exchange translation differences	-	-	(84,907)	(84,907)
Fair value reserve				
- Net change in fair value	-	17,087	-	17,087
- Net amount reclassified to profit or loss	-	(14,735)	-	(14,735)
Income tax credit relating to components of other comprehensive income	-	7,280	-	7,280
Transfer from current year profit	253,416	-	-	253,416
At 31 December 2015/1 January 2016	1,259,407	(23,054)	(128,433)	1,107,920
Foreign exchange translation differences	-	-	(20,252)	(20,252)
Fair value reserve				
- Net change in fair value	-	15,229	-	15,229
- Net amount reclassified to profit or loss	-	(51,249)	-	(51,249)
Income tax credit relating to components of other comprehensive income	-	8,645	-	8,645
Transfer from current year profit	132,752	-	-	132,752
At 31 December 2016	**1,392,159**	**(50,429)**	**(148,685)**	**1,193,045**
Bank				
At 1 January 2015	1,005,991	(32,686)	(43,584)	929,721
Foreign exchange translation differences	-	-	(85,031)	(85,031)
Fair value reserve				
- Net change in fair value	-	17,087	-	17,087
- Net amount reclassified to profit or loss	-	(14,735)	-	(14,735)
Income tax credit relating to components of other comprehensive income	-	7,280	-	7,280
Transfer from current year profit	253,416	-	-	253,416
At 31 December 2015/1 January 2016	1,259,407	(23,054)	(128,615)	1,107,738
Foreign exchange translation differences	-	-	(20,293)	(20,293)
Fair value reserve				
- Net change in fair value	-	15,229	-	15,229
- Net amount reclassified to profit or loss	-	(51,249)	-	(51,249)
Income tax credit relating to components of other comprehensive income	-	8,645	-	8,645
Transfer from current year profit	132,752	-	-	132,752
At 31 December 2016	**1,392,159**	**(50,429)**	**(148,908)**	**1,192,822**

The statutory reserve is maintained in compliance with Section 57(2)(f) of the Islamic Financial Service Act, 2013 and is not distributable as cash dividends.

The fair value reserve includes the cumulative net change in the fair value of financial assets available-for-sale, excluding impairment losses, until the financial asset is derecognised.

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the offshore banking operations in the Federal Territory of Labuan.

23. Sources and uses of charity funds

Group and Bank	Charity funds RM'000	Shariah Non-compliance income RM'000	Total RM'000
Undistributed funds as at 1 January 2015	261	1	262
Funds collected/received during the year	2	8	10
Uses of funds during the year	(261)	-	(261)
Contribution to Non-profit Organisation	(23)	-	(23)
Contribution for poor/needy family	(117)	-	(117)
Contribution for Education Fund	(120)	-	(120)
Contribution to school	(1)	-	(1)
Undistributed funds as at 31 December 2015/1 January 2016	2	9	11
Funds collected /received during the year	1	9	10
Uses of funds during the year	(3)	(13)	(16)
Contribution to Non-profit Organisation	-	(5)	(5)
Contribution for Da'wah activities	(1)	(3)	(4)
Contribution for poor/needy family	(2)	-	(2)
Contribution to school	-	(5)	(5)
Undistributed funds as at 31 December 2016	**-**	**5**	**5**

24. Income derived from investment of depositors' funds

	Group and Bank 2016 RM'000	Group and Bank 2015 RM'000
Income derived from investment of:		
(i) General investment deposits	**55,715**	74,986
(ii) Term deposit-i	**1,339,854**	1,209,301
(iii) Saving and demand deposits	**793,868**	761,132
(iv) Other deposits	**152,767**	158,264
	2,342,204	2,203,683

24. Income derived from investment of depositors' funds (continued)

(i) Income derived from investment of general investment deposits

	Group and Bank	
	2016	**2015**
	RM'000	**RM'000**
Finance income and hibah		
Financing, advances and others	**46,815**	60,344
Financial assets:		
- held-for-trading	**497**	1,025
- available-for-sale	**6,207**	10,326
- held-to-maturity	**128**	174
Money at call and deposits with financial institutions	**697**	2,576
	54,344	74,445
Other dealing income		
Net gain from sale of financial assets held-for-trading	**149**	103
Net loss on revaluation of financial assets held-for-trading	**(70)**	(20)
	79	83
Other operating income		
Net gain from sale of financial assets available-for-sale	**1,292**	458
	55,715	74,986
of which		
Financing income earned on impaired financing	**827**	1,212

(ii) Income derived from investment of term deposit-i

	Group and Bank	
	2016	**2015**
	RM'000	**RM'000**
Finance income and hibah		
Financing, advances and others	**1,137,396**	1,014,402
Financial assets:		
- held-for-trading	**11,313**	13,613
- available-for-sale	**142,503**	139,074
- held-to-maturity	**2,861**	2,603
Money at call and deposits with financial institutions	**16,007**	33,529
	1,310,080	1,203,221
Other dealing income		
Net gain from sale of financial assets held-for-trading	**2,995**	695
Net loss on revaluation of financial assets held-for-trading	**(2,247)**	(603)
	748	92

24. Income derived from investment of depositors' funds (continued)

(ii) Income derived from investment of term deposit-i (continued)

	Group and Bank 2016 RM'000	Group and Bank 2015 RM'000
Other operating income		
Net gain from sale of financial assets available-for-sale	**29,026**	5,988
	1,339,854	1,209,301
of which		
Financing income earned on impaired financing	**18,818**	16,543

(iii) Income derived from investment of saving and demand deposits

	Group and Bank 2016 RM'000	Group and Bank 2015 RM'000
Finance income and hibah		
Financing, advances and others	**673,911**	638,463
Financial assets:		
- held-for-trading	**6,703**	8,568
- available-for-sale	**84,433**	87,533
- held-to-maturity	**1,695**	1,638
Money at call and deposits with financial institutions	**9,484**	21,103
	776,226	757,305
Other dealing income		
Net gain from sale of financial assets held-for-trading	**1,775**	438
Net loss on revaluation of financial assets held-for-trading	**(1,331)**	(380)
	444	58
Other operating income		
Net gain from sale of financial assets available-for-sale	**17,198**	3,768
	793,868	761,131
of which		
Financing income earned on impaired financing	**11,150**	10,413

24. Income derived from investment of depositors' funds (continued)

(iv) Income derived from investment of other deposits

	Group and Bank 2016 RM'000	Group and Bank 2015 RM'000
Finance income and hibah		
Financing, advances and others	**129,683**	132,757
Financial assets:		
- held-for-trading	**1,290**	1,782
- available-for-sale	**16,248**	18,201
- held-to-maturity	**327**	341
Money at call and deposits with financial institutions	**1,825**	4,388
	149,373	157,469
Other dealing income		
Net gain from sale of financial assets held-for-trading	**341**	91
Net loss on revaluation of financial assets held-for-trading	**(256)**	(79)
	85	12
Other operating income		
Net gain from sale of financial assets available-for-sale	**3,309**	783
	152,767	158,264
of which		
Financing income earned on impaired financing	**2,145**	2,164

25. Income derived from investment account funds

	Group and Bank 2016 RM'000	Group and Bank 2015 RM'000
Finance income		
Unrestricted investment accounts		
- *Mudharabah*	**61,379**	13,861
- *Wakalah*	**52,514**	2,932
	113,893	16,793

26. Income derived from investment of shareholders' funds

	Group		Bank	
	2016	**2015**	**2016**	**2015**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Finance income and hibah				
Financing, advances and others	**6,355**	6,033	**6,355**	6,033
Financial assets available-for-sale	**125,468**	144,473	**125,468**	144,473
Money at call and deposits with financial institutions	**193**	5,586	**193**	5,586
	132,016	156,092	**132,016**	156,092
Other dealing income				
Net gain from foreign exchange transactions	**73,114**	81,668	**73,114**	81,668
Net derivatives loss	**(4,515)**	(1,152)	**(4,515)**	(1,152)
Net gain from sale of financial assets held-for-trading	**345**	-	**-**	-
Net (loss)/gain on revaluation of financial assets held-for-trading	**(170)**	165	**-**	-
	68,774	80,681	**68,599**	80,516
Other operating income				
Net gain from sale of financial assets available-for-sale	**424**	-	**424**	-
Gain on liquidation of a subsidiary	**-**	-	**89**	-
Gain on liquidation of securities	**-**	3,737	**-**	3,737
Gross dividend income from securities				
- unquoted in Malaysia	**1,612**	1,612	**1,612**	1,612
- unit trust in Malaysia	**3,379**	901	**3,379**	901
- unit trust outside Malaysia	**-**	82	**-**	82
	5,415	6,332	**5,504**	6,332

26. Income derived from investment of shareholders' funds (continued)

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Fees and commission				
Card fees and commission	**67,002**	67,075	**67,002**	67,075
Takaful service fees and commission	**33,766**	18,778	**33,766**	18,778
Financing fees	**21,078**	21,972	**21,078**	21,972
Commission on MEPS	**12,022**	9,935	**12,022**	9,935
Ar-Rahnu fees	**10,964**	10,769	**10,964**	10,769
Unit trust management fees	**7,877**	6,878	**-**	-
Cheque issued and return, closing account and other fees	**7,510**	8,261	**7,510**	8,261
Corporate advisory fees	**4,041**	5,527	**4,041**	5,527
Processing fees	**3,172**	4,496	**3,171**	4,493
Ta'widh charges	**902**	936	**902**	936
Others	**29,698**	27,600	**28,461**	26,685
	198,032	182,227	**188,917**	174,431
Other income				
Rental income	**2,423**	2,952	**2,761**	3,290
Net gain on disposal of property and equipment	**527**	101	**527**	101
Other income	**170**	135	**68**	64
	3,120	3,188	**3,356**	3,455
	407,357	428,520	**398,392**	420,826

27. Allowance for impairment on financing and advances

	Group and Bank	
	2016 RM'000	**2015 RM'000**
Allowance for impaired financing, advances and others:		
- collective assessment allowance	**161,667**	189,391
- individual assessment allowance	**30,662**	14,148
Bad debts and financing recovered	**(100,224)**	(134,208)
	92,105	69,331

28. Allowance for impairment on investments

	Group		Bank	
	2016	**2015**	**2016**	**2015**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Allowance for/(Reversal of) impairment of financial assets:				
- available-for-sale	**255**	4,620	**255**	4,620
- held-to-maturity	**-**	(132)	**-**	(132)
	255	4,488	**255**	4,488

29. Income attributable to depositors

	Group		Bank	
	2016	**2015**	**2016**	**2015**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Deposits from customers:				
- Mudharabah fund	**18,467**	62,413	**18,467**	62,413
- Non-Mudharabah fund	**1,020,530**	960,238	**1,020,762**	960,457
Deposits and placements of banks and other financial institutions:				
- Mudharabah fund	**-**	2,261	**-**	2,261
- Non-Mudharabah fund	**30,640**	4,037	**30,640**	4,037
	1,069,637	1,028,949	**1,069,869**	1,029,168

30. Income attributable to investment account holders

	Group and Bank	
	2016	**2015**
	RM'000	**RM'000**
Unrestricted investment accounts		
- *Mudharabah*	**1,201**	266
- *Wakalah*	**37,186**	2,478
	38,387	2,744

31. Personnel expenses

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Salaries and wages	**261,319**	248,903	**257,284**	245,455
Allowances and bonuses	**133,184**	119,925	**132,458**	119,243
Employees' Provident Fund	**49,723**	45,178	**49,009**	44,618
Directors and Shariah Supervisory Council Members' remuneration	**9,992**	10,197	**9,325**	9,583
Medical benefits	**20,803**	21,564	**20,603**	21,352
Staff sales commission	**13,310**	12,336	**13,310**	12,336
Others	**18,342**	15,701	**18,188**	15,577
	506,673	473,804	**500,177**	468,164

32. Other overhead expenses

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Promotion				
Advertisement and publicity	**7,920**	6,893	**7,812**	6,547
Credit and debit card expenses	**25,513**	21,029	**25,513**	21,029
Others	**13,005**	9,778	**11,092**	7,721
	46,438	37,700	**44,417**	35,297
Establishment				
Depreciation of property and equipment	**59,582**	63,935	**59,338**	63,746
Office rental	**51,684**	50,377	**51,620**	50,321
Information technology expenses	**49,956**	32,010	**49,956**	32,010
Security services	**18,028**	13,994	**18,033**	13,993
Utilities	**15,686**	13,517	**15,611**	13,434
Takaful	**13,473**	8,613	**13,227**	8,525
Office maintenance	**10,416**	13,155	**10,312**	12,892
Rental of equipment	**3,715**	4,106	**3,641**	4,056
Others	**305**	305	**305**	305
	222,845	200,012	**222,043**	199,282

32. Other overhead expenses (continued)

	Group		Bank	
	2016	**2015**	**2016**	**2015**
	RM'000	**RM'000**	**RM'000**	**RM'000**
General expenses				
Auditors' remuneration				
- statutory audit fees	**700**	690	**618**	618
- others	**355**	348	**355**	348
Outsourcing fees	**20,891**	16,861	**20,891**	16,861
Travelling & transportation	**8,818**	8,734	**8,712**	8,594
Office supplies	**8,784**	7,848	**8,596**	7,734
Subscription fees	**3,851**	3,383	**3,851**	3,382
Professional fees	**3,453**	2,273	**3,291**	2,211
Processing charges	**852**	1,933	**852**	1,933
Property and equipment written off	**8**	881	**8**	881
Others	**65,074**	67,816	**65,705**	69,595
	112,786	110,767	**112,879**	112,157
	382,069	348,479	**379,339**	346,736

33. Directors and Shariah Supervisory Council Members' remuneration

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Directors of the Bank				
Executive Director:				
Salaries and other remuneration, including meeting allowances	**7,236**	7,529	**7,233**	7,522
Benefits-in-kind	**173**	200	**173**	200
	7,409	7,729	**7,406**	7,722
Non-Executive Directors:				
Fees	**1,076**	1,108	**1,064**	1,096
Other emoluments	**627**	631	**618**	622
Benefits-in-kind	**172**	184	**172**	184
	1,875	1,923	**1,854**	1,902
Directors of subsidiaries				
Executive Director:				
Salaries and other remuneration, including meeting allowances	**468**	343	-	-
	468	343	-	-
Non-Executive Directors:				
Fees	**81**	135	-	-
Other emoluments	**81**	94	-	-
	162	229	-	-
Total	**9,914**	10,224	**9,260**	9,624
Members of Shariah Supervisory Council (SSC)				
- SSC of the Bank	**416**	349	**410**	343
- SSC of a subsidiary	**7**	8	-	-
Total	**423**	357	**410**	343
Grand total (excluding benefits-in-kind) (Note 31)	**9,992**	10,197	**9,325**	9,583

33. Directors and Shariah Supervisory Council Members' remuneration (continued)

The total remuneration (including benefits-in-kind) of the Directors of the Bank is as follows:

	← Remuneration received from the Bank →				Bank	Remuneration received from subsidiaries		Group
	Salary and Bonus	Fees	Other Emoluments	Benefits -in-kind	Total	Fees	Other Emoluments	Total
31 December 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Executive Director:								
Dato' Sri Zukri Samat	5,639	-	1,594	173	7,406	-	3	7,409
Non-Executive Directors:								
Datuk Zamani Abdul Ghani	-	231	157	62	450	-	-	450
Tan Sri Dato' Dr. Abdul Shukor Husin	-	155	81	-	236	-	-	236
Datuk Zaiton Mohd Hassan	-	242	128	35	405	-	-	405
Dato' Johan Abdullah	-	15	40	-	55	-	-	55
Zahari @ Mohd Zin Idris	-	216	125	50	391	12	9	412
Mohamed Ridza Mohamed Abdulla	-	108	60	25	193	-	-	193
Nik Mohd Hasyudeen Yusoff	-	49	12	-	61	-	-	61
Noraini Che Dan	-	48	15	-	63	-	-	63
	-	1,064	618	172	1,854	12	9	1,875
	5,639	1,064	2,212	345	9,260	12	12	9,284

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33. Directors and Shariah Supervisory Council Members' remuneration (continued)

The total remuneration (including benefits-in-kind) of the Directors of the Bank is as follows (continued):

	← Remuneration received from the Bank			→	Bank	Remuneration received from subsidiaries		Group
	Salary and Bonus	Fees	Other Emoluments	Benefits -in-kind	Total	Fees	Other Emoluments	Total
31 December 2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Executive Director:								
Dato' Sri Zukri Samat	5,883	-	1,639	200	7,722	-	7	7,729
Non-Executive Directors:								
Datuk Zamani Abdul Ghani	-	228	143	44	415	-	-	415
Tan Sri Ismee Ismail	-	70	61	25	156	-	-	156
Tan Sri Dato' Dr. Abdul Shukor Husin	-	144	57	50	251	-	-	251
Datuk Zaiton Mohd Hassan	-	240	123	15	378	-	-	378
Dato' Johan Abdullah	-	90	53	25	168	-	-	168
Zahari @ Mohd Zin Idris	-	216	123	-	339	12	9	360
Mohamed Ridza Mohamed Abdulla	-	108	62	25	195	-	-	195
Nik Mohd Hasyudeen Yusoff	-	-	-	-	-	-	-	-
Noraini Che Dan	-	-	-	-	-	-	-	-
	-	1,096	622	184	1,902	12	9	1,923
	5,883	1,096	2,261	384	9,624	12	16	9,652

33. Directors and Shariah Supervisory Council Members' remuneration (continued)

The total remuneration of the members of the Shariah Supervisory Council of the Bank is as follows:

	Remuneration received from the Bank		Bank	Remuneration received from subsidiary	Group
	Fees	Other Emoluments	Total	Fees	Total
31 December 2016	RM'000	RM'000	RM'000	RM'000	RM'000
Professor Dato' Dr. Ahmad Hidayat Buang	60	36	96	-	96
Ustaz Dr. Ahmad Shahbari @ Sobri Salamon	54	23	77	6	83
Ustaz Dr. Muhammad Syafii Antonio	54	23	77	-	77
Assistant Professor Dr. Uzaimah Ibrahim	54	26	80	-	80
Ustazah Dr. Yasmin Hanani Mohd Safian	54	26	80	-	80
	276	134	410	6	416

33. Directors and Shariah Supervisory Council Members' remuneration (continued)

The total remuneration of the members of the Shariah Supervisory Council of the Bank is as follows (continued):

	Remuneration received from the Bank		Bank	Remuneration received from subsidiary	Group
	Fees	Other Emoluments	Total	Fees	Total
31 December 2015	RM'000	RM'000	RM'000	RM'000	RM'000
Professor Dato' Dr. Ahmad Hidayat Buang	58	11	69	-	69
Ustaz Dr. Ahmad Shahbari @ Sobri Salamon	55	9	64	6	70
Ustaz Dr. Muhammad Syafii Antonio	54	8	62	-	62
Assistant Professor Dr. Uzaimah Ibrahim	54	9	63	-	63
Ustazah Dr. Yasmin Hanani Mohd Safian	41	7	48	-	48
Dato' Mohd Bakir Hj. Mansor	13	24	37	-	37
	275	68	343	6	349

34. Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel include all the Directors of the Group, and certain senior management members of the Group.

The compensation for key management personnel other than the Directors' remuneration is as follows:

	Group and Bank 2016 RM'000	Group and Bank 2015 RM'000
Other key management personnel:		
- Short-term employee benefits	**18,525**	20,109

35. Tax expense

	Group 2016 RM'000	Group 2015 RM'000	Bank 2016 RM'000	Bank 2015 RM'000
Malaysian income tax:				
Current year	**182,542**	175,072	**182,500**	175,000
Over provision in prior years	**(1,400)**	(8,721)	**(1,359)**	(8,723)
	181,142	166,351	**181,141**	166,277
Deferred tax expense relating to origination and reversal of temporary differences arising from:				
Current year	**(5,026)**	804	**(5,026)**	804
Effect of changes in tax rate	**-**	1,196	**-**	1,196
Under provision in prior years	**475**	1,318	**475**	1,318
	(4,551)	3,318	**(4,551)**	3,318
	176,591	169,669	**176,590**	169,595

35. Tax expense (continued)

A reconciliation of effective tax expense for the Group and the Bank are as follows:

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Profit before tax	**720,412**	685,661	**720,441**	685,131
Income tax calculated using Malaysian tax rate of 24% (2015: 25%)	**172,899**	171,417	**172,906**	171,283
Income not subject to tax	**(1,406)**	(1,070)	**(1,406)**	(1,070)
Non-deductible expenses	**6,023**	5,402	**5,974**	5,318
	177,516	175,749	**177,474**	175,531
Deferred tax assets not recognised	**-**	127	**-**	273
Effect of changes in tax rate	**-**	1,196	**-**	1,196
(Over)/Under provision in prior years				
- Income tax	**(1,400)**	(8,721)	**(1,359)**	(8,723)
- Deferred tax	**475**	1,318	**475**	1,318
	176,591	169,669	**176,590**	169,595

36. Earnings per share

Basic earnings per share are calculated based on the net profit attributable to equity holders of the Group of RM530,962,000 (2015: RM507,262,000) and the weighted average number of ordinary shares outstanding during the year of 2,381,774,336 (2015: 2,337,037,729).

37. Dividends

Dividends paid by the Bank:

	Sen per share	Total amount RM'000	Date of payment
2016			
Single tier			
Final 2015	5.49	129,744	18 May 2016
Interim 2016	5.50	131,132	22 September 2016
		260,876	
2015			
Single tier			
Final 2014	5.75	133,395	30 June 2015
Interim 2015	5.27	123,461	22 September 2015
		256,856	

From the total dividend amount paid of RM129.7 million on 18 May 2016, approximately 50% or RM64.9 million was distributed as cash dividend whilst the remaining 50% amounting to RM64.8 million was reinvested to subscribe for 20,927,000 new ordinary shares of RM1.00 at RM3.10 each via the Dividend Reinvestment Plan.

From the total dividend amount paid of RM131.1 million on 22 September 2016, approximately 50% or RM65.6 million was distributed as cash dividend whilst the remaining 50% amounting to RM65.5 million was reinvested to subscribe for 20,174,000 new ordinary shares of RM1.00 at RM3.25 each via the Dividend Reinvestment Plan.

From the total dividend amount paid of RM133.4 million on 30 June 2015, approximately 50% or RM67.3 million was distributed as cash dividend whilst the remaining 50% amounting to RM66.1 million was reinvested to subscribe for 22,799,000 new ordinary shares of RM1.00 at RM2.90 each via the Dividend Reinvestment Plan.

From the total dividend amount paid of RM123.5 million on 22 September 2015, approximately 50% or RM61.8 million was distributed as cash dividend whilst the remaining 50% amounting to RM61.7 million was reinvested to subscribe for 20,576,700 new ordinary shares of RM1.00 at RM3.00 each via the Dividend Reinvestment Plan.

The dividend was reinvested by the sole shareholder, BIMB Holdings Berhad to strengthen the Bank's capital position to fund the business growth of the Bank.

37. Dividends (continued)

After the end of the financial year, the following dividend was proposed by the Directors. This dividend will be recognised in the subsequent financial year upon approval by the shareholder.

	Sen per share	Total amount RM'000
Final 2016 ordinary	5.58	**134,167**

It is also proposed that 100% of the proposed final dividend totalling RM134.167 million be reinvested to subscribe for new ordinary share of RM1.00 at RM3.25 each via the Dividend Reinvestment Plan ("DRP"). The proposed DRP is subject to approval by Bank Negara Malaysia.

38. Operating Segments

The Group's reportable segments, as described below, can be classified into four segments. Each segment offers different products and services. The following summary describes the operations in each of the segments:

• Consumer Banking	Includes financing, deposits and other transactions and balances with retail customers
• Corporate and Commercial Banking	Includes corporate finance activities, financing, deposits and other transactions and balances with corporate customers, commercial customers and small & medium enterprises
• Treasury	Undertakes funding activities through borrowings and investing in liquid assets such as short-term placements and corporate and government debt securities
• Shareholders unit	Operates shareholders' funds

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before allocation of overheads and income tax.

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38. Operating Segments (continued)

31 December 2016	Consumer Banking RM'000	Corporate and Commercial Banking RM'000	Treasury RM'000	Shareholders unit RM'000	Elimination RM'000	Group Total RM'000
Total Revenue	**1,715,082**	**570,896**	**407,371**	**181,974**	**(6,541)**	**2,868,782**
Net fund based income	866,086	394,541	(35,294)	202,575	-	**1,427,908**
Non-fund based income	144,540	39,739	130,696	24,184	(6,309)	**332,850**
Net income	**1,010,626**	**434,280**	**95,402**	**226,759**	**(6,309)**	**1,760,758**
Allowances for impairment	(63,109)	(28,996)	353	-	-	**(91,752)**
Profit before overheads, zakat and tax	**947,517**	**405,284**	**95,755**	**226,759**	**(6,309)**	**1,669,006**
Operating expenses						**(948,594)**
Profit before zakat and tax						**720,412**
Segment assets	28,586,902	10,602,372	13,840,512	34,450	(25,529)	**53,038,707**
Unallocated assets						**2,637,990**
Total assets						**55,676,697**

38. Operating Segments (continued)

31 December 2015	Consumer Banking RM'000	Corporate and Commercial Banking RM'000	Treasury RM'000	Shareholders unit RM'000	Elimination RM'000	Group Total RM'000
Total Revenue	**1,563,465**	**470,613**	**441,377**	**182,241**	**(8,300)**	**2,649,396**
Net fund based income	809,766	363,946	(19,514)	179,834	-	**1,334,032**
Non-fund based income	131,542	39,376	94,725	26,109	(8,081)	**283,671**
Net income	**941,308**	**403,322**	**75,211**	**205,943**	**(8,081)**	**1,617,703**
Allowances for impairment	(108,608)	39,277	(4,488)	-	-	**(73,819)**
Profit before overheads, zakat and tax	**832,700**	**442,599**	**70,723**	**205,943**	**(8,081)**	**1,543,884**
Operating expenses						**(858,223)**
Profit before zakat and tax						**685,661**
Segment assets	25,251,798	9,042,892	12,725,156	67,083	(54,906)	**47,032,023**
Unallocated assets						**2,731,696**
Total assets						**49,763,719**

39. Financial Risk Management

Overview

The Bank's mission with respect to risk management is to advance its risk management capabilities, culture and practices so as to be in line with internationally accepted standards and practices.

In that regard, the objectives of managing risk are to:

- Inculcate a risk-awareness culture throughout the Bank;
- Establish a standard approach and methodology in managing credit, market, liquidity, operational and business risks across the Bank;
- Clarify functional structures including objectives, roles and responsibilities;
- Implement and use a risk management information system that meets international standards on confidentiality, integrity and its availability;
- Develop and use tools, such as economic capital, value at risk, scoring models and stress testing to support the measurement of risks and enhance risk-based decisions;
- Ensure that risk policies and overall risk appetite are in line with business targets;
- Ensure that the Bank's capital can support current and planned business needs in terms of risk exposures.

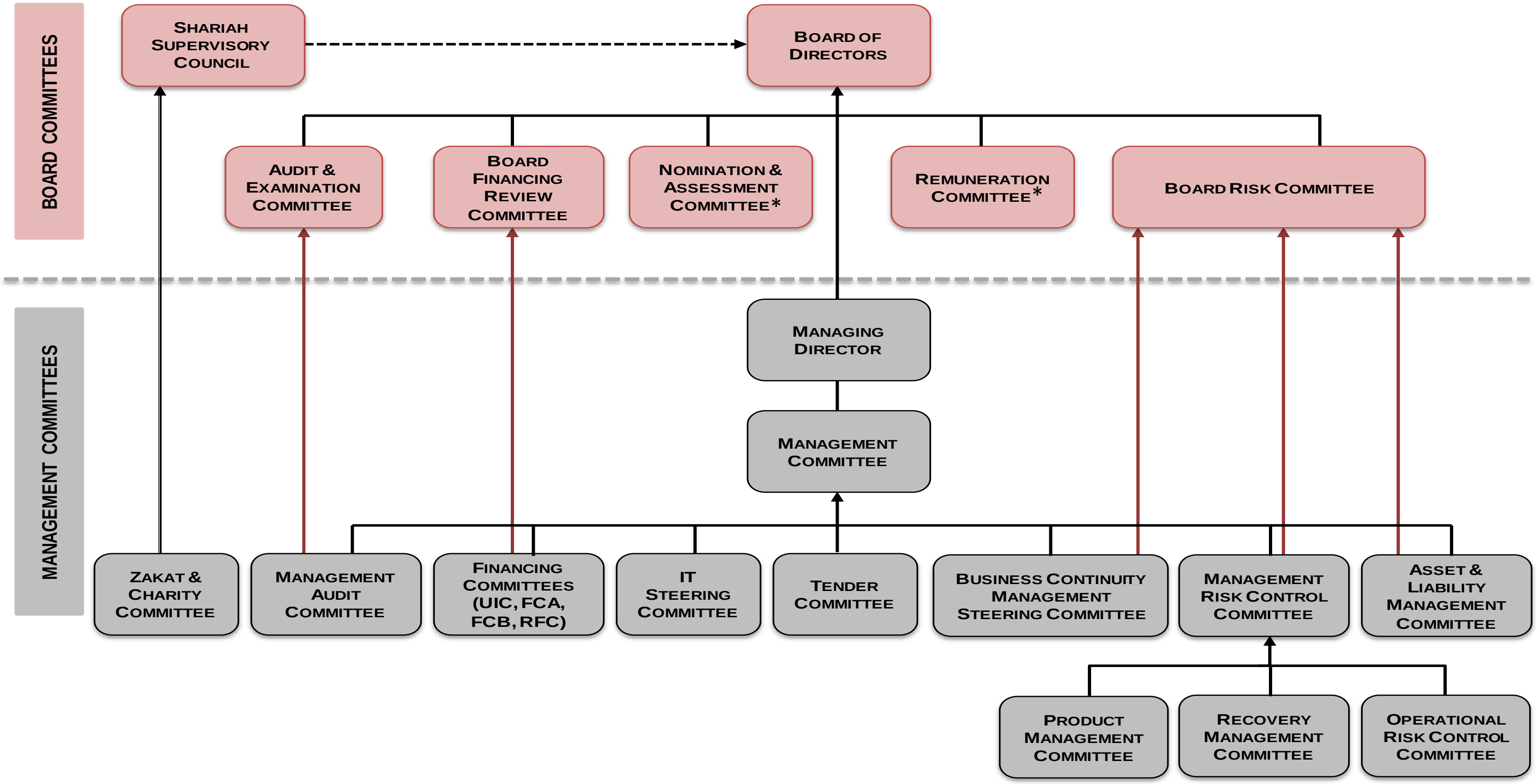
Risk Management Functional and Governance Structure

The Bank has realigned its risk organisational responsibilities with the objective of ensuring a common view of risks across the Bank. As a matter of good business practice and prudence, the Bank's core risk management functions, which report to the Board of Directors through its Board Risk Committee ("BRC"), are independent and clearly segregated from the business divisions and centralised at head office.

39. Financial Risk Management (continued)

Risk Management Functional and Governance Structure (continued)

The following illustrates the Bank's governance structure:



* The Nomination & Assessment Committee and the Remuneration Committee has been combined into a single committee named Nomination & Remuneration Committee effective 1 January 2017.

39. Financial Risk Management (continued)

The Bank recognises the fact that the essence of banking and financial services is centred on risk taking. The Bank therefore:

- Recognises that it has to manage risks to effectively conduct its business;
- Aims to reach an optimum level of risk-return in order to maximise stakeholders' value; and
- Implements risk management processes that are commensurate with the size and complexity of the current and future operations of the Bank within its risk appetite and tolerance.

The Bank has established a Risk Appetite Framework that forms an integral part of the Bank's strategy and business plans. Risk appetite is an expression of the maximum level of risk that the Bank is prepared to accept in support of a stated strategy, impacting all business from a credit, market and operational risk viewpoint.

In order to have sufficient capital to support all its business and risk taking activities, the Bank has implemented capital management processes in its management systems and processes. A detailed capital management process, also known as Internal Capital Adequacy Assessment Process ("ICAAP"), has been adopted by the Bank as a key enabler for value creation and the long term sustainability of the Bank. This capital management includes risk assessment and risk management embedded within the risk governance structure of the Bank.

(a) Financial instruments by categories

The tables below provide an analysis of financial instruments categorised as follows:

- Financing, advances and receivables ("F&R")
- Fair value through profit or loss ("FVTPL")
- Financial assets available-for-sale ("AFS")
- Financial assets held-to-maturity ("HTM")
- Financial liabilities measured at amortised cost ("FL")

39. Financial Risk Management (continued)

(a) Financial instruments by categories (continued)

Bank
31 December 2016

RM'000	**Carrying amount**	**F&R/(FL)**	**FVTPL**	**AFS**	**HTM**	**Derivatives**
Financial assets						
Cash, balances and placements with banks	4,063,268	4,063,268	-	-	-	-
Financial assets held-for-trading	569,750	-	569,750	-	-	-
Derivative financial assets	124,572	-	-	-	-	124,572
Financial assets available-for-sale	9,957,743	-	-	9,957,743	-	-
Financial assets held-to-maturity	57,703	-	-	-	57,703	-
Financing, advances and others	39,189,274	39,189,274	-	-	-	-
Other assets	95,928	95,928	-	-	-	-
Statutory deposits with Bank Negara Malaysia	1,374,876	1,374,876	-	-	-	-
	55,433,114	**44,723,346**	**569,750**	**9,957,743**	**57,703**	**124,572**
Financial liabilities						
Deposits from customers	(45,949,715)	(45,949,715)	-	-	-	-
Investment accounts of customers	(3,812,261)	(3,812,261)	-	-	-	-
Deposits and placements of banks and other financial institutions	(30,000)	(30,000)	-	-	-	-
Derivative financial liabilities	(111,089)	-	-	-	-	(111,089)
Bills and acceptance payable	(46,278)	(46,278)	-	-	-	-
Subordinated Sukuk Murabahah	(704,393)	(704,393)	-	-	-	-
Other liabilities	(598,591)	(598,591)	-	-	-	-
	(51,252,327)	**(51,141,238)**	**-**	**-**	**-**	**(111,089)**

The Group's financial instruments are not materially different from the Bank's financial instruments

39. Financial Risk Management (continued)

(a) Financial instruments by categories (continued)

Bank 31 December 2015 RM'000	Carrying amount	F&R/(FL)	FVTPL	AFS	HTM	Derivatives
Financial assets						
Cash, balances and placements with banks	2,978,315	2,978,315	-	-	-	-
Financial assets held-for-trading	418,718	-	418,718	-	-	-
Derivative financial assets	119,259	-	-	-	-	119,259
Financial assets available-for-sale	9,938,173	-	-	9,938,173	-	-
Financial assets held-to-maturity	59,352	-	-	-	59,352	-
Financing, advances and others	34,294,690	34,294,690	-	-	-	-
Other assets	68,235	68,235	-	-	-	-
Statutory deposits with Bank Negara Malaysia	1,591,460	1,591,460	-	-	-	-
	49,468,202	**38,932,700**	**418,718**	**9,938,173**	**59,352**	**119,259**
Financial liabilities						
Deposits from customers	(43,594,947)	(43,594,947)	-	-	-	-
Investment accounts of customers	(676,105)	(676,105)	-	-	-	-
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-
Derivative financial liabilities	(101,913)	-	-	-	-	(101,913)
Bills and acceptance payable	(122,577)	(122,577)	-	-	-	-
Subordinated Sukuk Murabahah	(704,380)	(704,380)	-	-	-	-
Other liabilities	(508,505)	(508,505)	-	-	-	-
	(45,708,427)	**(45,606,514)**	**-**	**-**	**-**	**(101,913)**

The Group's financial instruments are not materially different from the Bank's financial instruments

39. Financial Risk Management (continued)

(b) Credit risk

Overview
Credit risk arises from all transactions that could lead to actual, contingent or potential claims against any party, customer or obligor. The types of credit risks that the Bank considers to be material includes: Default Risk, Counterparty Risk, Pre-Settlement Risk, Credit Concentration Risk, Residual/Credit Mitigation Risk, and Migration Risk.

Credit risk governance
The management of credit risk is principally carried out by using sets of policies and guidelines approved by the BRC, guided by the Board of Directors' approved Risk Appetite Statement.

The Management Risk Control Committee ("MRCC") is responsible under the authority delegated by the BRC for managing credit risk at strategic level. The MRCC reviews the Bank's credit risk policies and guidelines, aligns credit risk management with business strategies and planning, reviews credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance levels.

The Bank's credit risk management governance includes the establishment of credit risk policies, guidelines and procedures which document the Bank's financing standards, discretionary powers for financing approval, credit risk ratings methodologies and models, acceptable collaterals and valuation, and the review, rehabilitation and restructuring of problematic and delinquent financing.

Management of Credit Risk
The management of credit risk is being performed by Credit Management Division ("CMD") and Risk Management Division ("RMD"), and two other units outside of the CMD and RMD domain, namely, Credit Administration Department and Credit Recovery. The combined objectives are, amongst others:

- To build a high quality credit portfolio in line with the Bank's overall strategy and risk appetite;
- To ensure that the Bank is compensated for the risk taken, balancing/optimising the risk/return relationship;
- To develop an increasing ability to recognise, measure and avoid or mitigate potential credit risk problem areas; and
- To conform with statutory, regulatory and internal credit requirements.

The Bank monitors its credit exposures either on a portfolio or individual basis through annual reviews. Credit risk is proactively monitored through a set of early warning signals that could trigger immediate reviews of (certain parts of) the portfolio. The affected portfolio or financing is placed on a watchlist to enforce close monitoring and prevent financing from turning impaired and to increase chances of full recovery.

39. Financial Risk Management (continued)

(b) Credit risk (continued)

Management of Credit Risk (continued)

A limit structure is in place to ensure that risks taken are within the risk appetite as set by the Board and to avoid credit risk concentration to a single customer, sector, product, Shariah contract, etc.

Credit risk arising from dealing and investing activities are managed by the establishment of limits which include counter parties limits and permissible acquisition of private debt securities, subject to a specified minimum rating threshold. Furthermore, the dealing and investing activities are monitored by an independent middle office unit.

Maximum exposure to credit risk

The following table presents the Group's and the Bank's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, without taking into account any collateral held or other credit enhancements. For on-balance sheet assets, the exposure to credit risk equals their carrying amount. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Group and the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

	Group		Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**	**31.12.2016 RM'000**	**31.12.2015 RM'000**
Cash and short-term funds	**3,963,417**	2,881,669	**3,963,268**	2,877,738
Deposits and placements with banks and other financial institutions	**100,000**	100,577	**100,000**	100,577
Financial assets held-for-trading	**574,835**	423,973	**569,750**	418,718
Derivative financial assets	**124,572**	119,259	**124,572**	119,259
Financial assets available-for-sale	**9,957,286**	9,937,716	**9,957,743**	9,938,173
Financial assets held-to-maturity	**57,703**	59,352	**57,703**	59,352
Financing, advances and others	**39,189,274**	34,294,690	**39,189,274**	34,294,690
Sub-total	**53,967,087**	47,817,236	**53,962,310**	47,808,507
Credit related obligation:				
Credit commitments	**9,750,962**	9,506,449	**9,750,962**	9,506,449
Sub-total	**9,750,962**	9,506,449	**9,750,962**	9,506,449
Total credit exposures	**63,718,049**	57,323,685	**63,713,272**	57,314,956

39. Financial Risk Management (continued)

(b) Credit risk (continued)

(i) Concentration of credit risk for Group and Bank

Group As at 31 December 2016	Cash and short-term funds and deposits and placements with financial institutions RM'000	Financial assets held-for-trading RM'000	Derivative financial assets RM'000	Financial assets available-for-sale RM'000	Financial assets held-to-maturity RM'000	Financing, advances and others RM'000	On-Balance Sheets Total RM'000	Commitments and contingencies* RM'000
Primary agriculture	-	-	-	-	-	370,064	370,064	111,408
Mining and quarrying	-	-	-	-	-	12,563	12,563	409,084
Manufacturing (including agro-based)	-	-	2,948	-	-	712,228	715,176	1,228,303
Electricity, gas and water	-	-	-	2,109,964	-	852,028	2,961,992	452,780
Wholesale & retail trade, and hotels & restaurants	-	-	1,609	95,959	-	1,220,744	1,318,312	600,832
Construction	-	5,092	-	650,738	57,703	2,126,845	2,840,378	1,544,578
Real estate	-	-	1,780	435,171	-	1,183,849	1,620,800	21,003
Transport, storage and communications	-	-	-	994,468	-	843,398	1,837,866	411,536
Finance, insurance and business activities	3,130,743	569,743	118,235	5,670,986	-	2,032,703	11,522,410	1,538,418
Education, health and others	-	-	-	-	-	1,240,340	1,240,340	1,595,137
Household sectors	-	-	-	-	-	28,594,512	28,594,512	592,299
Other sectors	932,674	-	-	-	-	-	932,674	1,245,584
	4,063,417	**574,835**	**124,572**	**9,957,286**	**57,703**	**39,189,274**	**53,967,087**	**9,750,962**

* Commitments and contingencies excluding derivative financial assets

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39. Financial Risk Management (continued)

(b) Credit risk (continued)

(i) Concentration of credit risk for Group and Bank (continued)

Group As at 31 December 2015	Cash and short-term funds and deposits and placements with financial institutions RM'000	Financial assets held-for-trading RM'000	Derivative financial assets RM'000	Financial assets available-for-sale RM'000	Financial assets held-to-maturity RM'000	Financing, advances and others RM'000	On-Balance Sheets Total RM'000	Commitments and contingencies* RM'000
Primary agriculture	-	-	-	-	-	395,930	395,930	115,190
Mining and quarrying	-	-	-	-	-	12,834	12,834	411,404
Manufacturing (including agro-based)	-	-	953	50,327	-	916,497	967,777	1,103,518
Electricity, gas and water	-	5,030	-	2,070,842	-	671,307	2,747,179	573,917
Wholesale & retail trade, and hotels & restaurants	-	-	88	45,087	-	1,050,360	1,095,535	749,872
Construction	-	44,699	300	620,108	59,352	2,173,214	2,897,673	1,397,160
Real estate	-	-	901	220,637	-	1,071,698	1,293,236	280,828
Transport, storage and communications	-	20,725	-	1,213,064	-	369,858	1,603,647	369,211
Finance, insurance and business activities	2,189,654	353,519	116,865	5,717,651	-	1,319,296	9,696,985	1,055,373
Education, health and others	-	-	-	-	-	1,071,714	1,071,714	1,601,395
Household sectors	-	-	5	-	-	25,241,982	25,241,987	657,927
Other sectors	792,592	-	147	-	-	-	792,739	1,190,654
	2,982,246	**423,973**	**119,259**	**9,937,716**	**59,352**	**34,294,690**	**47,817,236**	**9,506,449**

* Commitments and contingencies excluding derivative financial assets

39. Financial Risk Management (continued)

(b) Credit risk (continued)

(i) Concentration of credit risk for Group and Bank (continued)

Bank **As at 31 December 2016**	**Cash and short-term funds and deposits and placements with financial institutions RM'000**	**Financial assets held-for-trading RM'000**	**Derivative financial assets RM'000**	**Financial assets available-for-sale RM'000**	**Financial assets held-to-maturity RM'000**	**Financing, advances and others RM'000**	**On-Balance Sheets Total RM'000**	**Commitments and contingencies* RM'000**
Primary agriculture	-	-	-	-	-	370,064	370,064	111,408
Mining and quarrying	-	-	-	-	-	12,563	12,563	409,084
Manufacturing (including agro-based)	-	-	2,948	-	-	712,228	715,176	1,228,303
Electricity, gas and water	-	-	-	2,109,964	-	852,028	2,961,992	452,780
Wholesale & retail trade, and hotels & restaurants	-	-	1,609	95,959	-	1,220,744	1,318,312	600,832
Construction	-	5,092	-	650,738	57,703	2,126,845	2,840,378	1,544,578
Real estate	-	-	1,780	435,171	-	1,183,849	1,620,800	21,003
Transport, storage and communications	-	-	-	994,468	-	843,398	1,837,866	411,536
Finance, insurance and business activities	3,130,743	564,658	118,235	5,671,443	-	2,032,703	11,517,782	1,538,418
Education, health and others	-	-	-	-	-	1,240,340	1,240,340	1,595,137
Household sectors	-	-	-	-	-	28,594,512	28,594,512	592,299
Other sectors	932,525	-	-	-	-	-	932,525	1,245,584
	4,063,268	**569,750**	**124,572**	**9,957,743**	**57,703**	**39,189,274**	**53,962,310**	**9,750,962**

* Commitments and contingencies excluding derivative financial assets

39. Financial Risk Management (continued)

(b) Credit risk (continued)

(i) Concentration of credit risk for Group and Bank (continued)

Bank As at 31 December 2015	Cash and short-term funds and deposits and placements with financial institutions RM'000	Financial assets held-for-trading RM'000	Derivative financial assets RM'000	Financial assets available-for-sale RM'000	Financial assets held-to-maturity RM'000	Financing, advances and others RM'000	On-Balance Sheets Total RM'000	Commitments and contingencies* RM'000
Primary agriculture	-	-	-	-	-	395,930	395,930	115,190
Mining and quarrying	-	-	-	-	-	12,834	12,834	411,404
Manufacturing (including agro-based)	-	-	953	50,327	-	916,497	967,777	1,103,518
Electricity, gas and water	-	5,030	-	2,070,842	-	671,307	2,747,179	573,917
Wholesale & retail trade, and hotels & restaurants	-	-	88	45,087	-	1,050,360	1,095,535	749,872
Construction	-	44,699	300	620,108	59,352	2,173,214	2,897,673	1,397,160
Real estate	-	-	901	220,637	-	1,071,698	1,293,236	280,828
Transport, storage and communications	-	20,725	-	1,213,064	-	369,858	1,603,647	369,211
Finance, insurance and business activities	2,189,653	348,264	116,865	5,718,108	-	1,319,296	9,692,186	1,055,373
Education, health and others	-	-	-	-	-	1,071,714	1,071,714	1,601,395
Household sectors	-	-	5	-	-	25,241,982	25,241,987	657,927
Other sectors	788,662	-	147	-	-	-	788,809	1,190,654
	2,978,315	**418,718**	**119,259**	**9,938,173**	**59,352**	**34,294,690**	**47,808,507**	**9,506,449**

* Commitments and contingencies excluding derivative financial assets

39. Financial Risk Management (continued)

(b) Credit risk (continued)

(ii) Collateral

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

- For residential mortgages – charges over residential properties
- For commercial property financing – charges over the properties being financed
- For vehicle financing under Ijarah Thumma Al-Bai – ownership claims over the vehicles financed
- For other financing and advances – charges over business assets such as premises, inventories, trade receivables and/or cash deposits

(iii) Credit quality of gross financing and advances

Gross financing and advances are classified as follows:

- Neither past due nor impaired financing
  Financing for which the customer has not missed a contractual payment (profit or principal) when contractually due and is not impaired and there is no objective evidence of impairment
- Past due but not impaired financing
  Financing for which its contractual profit or principal payments are past due, but the Group and the Bank believe that impairment is not appropriate on the basis of the level of collateral available and/or the stage of collection amounts owed to the Group and the Bank
- Impaired financing
  Financing is classified as impaired when the principal or profit or both are past due for three months or more, or where a financing is in arrears for less than three months, but the financing exhibits indications of significant credit weakness, or when the financing is classified as rescheduled and restructured in Central Credit Reference Information System ("CCRIS").

39. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit quality of gross financing and advances (continued)

The table below summarises the credit quality of the Group's and the Bank's gross financing according to the above classifications.

	Group and Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**
Neither past due nor impaired	**38,788,825**	33,797,333
Past due but not impaired	**694,173**	781,623
Impaired	**389,445**	381,270
	39,872,443	34,960,226
Allowance for impaired financing, advances and others		
- collective assessment allowance	**(554,971)**	(541,065)
- individual assessment allowance	**(128,198)**	(124,471)
	39,189,274	34,294,690

Neither past due nor impaired financing

	Group and Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**
Excellent to good	**31,981,235**	27,422,414
Satisfactory	**6,352,707**	5,968,683
Fair	**454,883**	406,236
	38,788,825	33,797,333

Internal rating definition:-

Excellent to Good: Sound financial position with no difficulty in meeting its obligations.

Satisfactory: Adequate safety of meeting its current obligations but more time is required to meet the entire obligation in full.

Fair: High risks on payment obligations. Financial performance may continue to deteriorate.

39. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit quality of gross financing and advances (continued)

Past due but not impaired financing

	Group and Bank			
	31.12.2016		31.12.2015	
	RM'000	% to gross financing	RM'000	% to gross financing
By ageing				
Month-in-arrears 1	**439,600**	**1.10%**	596,525	1.71%
Month-in-arrears 2	**254,573**	**0.64%**	185,098	0.53%
	694,173	**1.74%**	781,623	2.24%

Impaired financing

	Group and Bank	
	31.12.2016 RM'000	31.12.2015 RM'000
Individually assessed	**203,374**	211,198
of which:		
Month-in-arrears 0	***15,614***	*38,490*
Month-in-arrears 1	***240***	*28,259*
Month-in-arrears 2	***7,623***	*13,235*
Month-in-arrears 3 and above	***179,897***	*131,214*
Collectively assessed	**186,071**	170,072
	389,445	381,270

Impaired financing of which rescheduled and restructured financing

	Group and Bank	
	31.12.2016 RM'000	31.12.2015 RM'000
Consumer	**25,950**	38,592
Business	**73,093**	72,030
	99,043	110,622

Rescheduled and restructured financings are financings that have been rescheduled or restructured due to deterioration in the customers' financial positions and the Bank has made concessions that it would not otherwise consider. Once the financing is rescheduled or restructured, its satisfactory performance is monitored for a period of six months before it can be reclassified to performing.

39. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit quality of gross financing and advances (continued)

Financing, advances and others by line of business assessed by reference to the Bank's internal rating system:

Group and Bank As at 31 December 2016	**Consumer RM'000**	**Business RM'000**	**Total RM'000**
Excellent to good	**23,435,587**	**8,545,648**	**31,981,235**
Satisfactory	**4,286,898**	**2,065,809**	**6,352,707**
Fair	**454,484**	**399**	**454,883**
Past due but not impaired	**559,685**	**134,488**	**694,173**
Impaired	**222,349**	**167,096**	**389,445**
Total	**28,959,003**	**10,913,440**	**39,872,443**

Group and Bank As at 31 December 2015	**Consumer RM'000**	**Business RM'000**	**Total RM'000**
Excellent to good	20,401,560	7,020,854	27,422,414
Satisfactory	4,013,318	1,955,365	5,968,683
Fair	404,473	1,763	406,236
Past due but not impaired	606,586	175,037	781,623
Impaired	185,542	195,728	381,270
Total	25,611,479	9,348,747	34,960,226

39. Financial Risk Management (continued)

(b) Credit risk (continued)

(iv) Credit quality of other financial assets

Credit quality of other financial assets by external rating is as follows:

Bank **As at 31 December 2016**	**Financial assets held-for -trading RM'000**	**Derivative financial assets RM'000**	**Financial assets available -for-sale RM'000**	**Financial assets held-to-maturity RM'000**	**Total RM'000**
Government bonds and treasury bills	324,500	-	2,359,521	-	**2,684,021**
Islamic debts securities					
Rated AAA	225,237	-	1,915,961	-	**2,141,198**
Rated AA1 to AA3	-	-	1,585,060	-	**1,585,060**
Rated A1 to A3	-	-	-	-	**-**
Lower than A	-	-	20,415	-	**20,415**
Unrated – Government guaranteed bonds	20,013	-	4,040,610	-	**4,060,623**
Unrated – Others	-	-	36,176	57,703	**93,879**
Derivative financial assets					
Bank and financial institution counterparties	-	118,234	-	-	**118,234**
Corporate	-	6,338	-	-	**6,338**
	569,750	**124,572**	**9,957,743**	**57,703**	**10,709,768**

Note: The Group's financial assets are not materially different from the Bank's financial assets.

39. Financial Risk Management (continued)

(b) Credit risk (continued)

(iv) Credit quality of other financial assets (continued)

Credit quality of other financial assets by external rating is as follows (continued):

Bank **As at 31 December 2015**	**Financial assets held-for -trading RM'000**	**Derivative financial assets RM'000**	**Financial assets available -for-sale RM'000**	**Financial assets held-to-maturity RM'000**	**Total RM'000**
Government bonds and treasury bills	241,717	-	3,183,371	-	**3,425,088**
Islamic debts securities					
Rated AAA	96,112	-	2,457,979	-	**2,554,091**
Rated AA1 to AA3	-	-	1,207,996	-	**1,207,996**
Rated A1 to A3	-	-	45,968	-	**45,968**
Lower than A	-	-	-	-	**-**
Unrated – Government guaranteed bonds	80,889	-	2,993,736	-	**3,074,625**
Unrated – Others	-	-	49,123	59,352	**108,475**
Derivative financial assets					
Bank and financial institution counterparties	-	116,865	-	-	**116,865**
Corporate	-	2,394	-	-	**2,394**
	418,718	**119,259**	**9,938,173**	**59,352**	**10,535,502**

Note: The Group's financial assets are not materially different from the Bank's financial assets.

39. Financial Risk Management (continued)

(c) Market risk

Overview
All the Bank's financial instruments are subject to the risk that market prices and rates will move, resulting in profit or losses to the Bank. Furthermore, significant or sudden movements in rates could affect the Bank's liquidity/funding position. The Bank is exposed to the following main market/liquidity risk factors:

- **Rate of Return or Profit Rate Risk**: the potential impact on the Bank's profitability caused by changes in the market rate of return, either due to general market movements or due to issuer/customer specific reasons;
- **Foreign Exchange Risk**: the impact of exchange rate movements on the Bank's currency positions;
- **Equity Investment Risk**: the profitability impact on the Bank's equity positions or investments caused by changes in equity prices or values;
- **Commodity Inventory Risk**: the risk of loss due to movements in commodity prices;
- **Liquidity Risk**: the potential inability of the Bank to meet its funding requirements at a reasonable cost (funding liquidity risk) or its inability to liquidate positions quickly at a reasonable price (market liquidity risk).

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market risk profile consistent with the Bank's approved risk appetite.

The Bank separates exposures to market risk into either trading or non-trading portfolios. Trading portfolios include those positions arising from market making, proprietary position taking and other marked-to-market positions so designated as per the approved Trading Book Policy Statements. Non-trading portfolios primarily arise from the Bank's customer driven assets and liabilities and from the Bank's investment of its surplus funds.

Market risk governance
The management of market risk is principally carried out by using risk limits approved by the BRC, guided by the Risk Appetite Statement approved by the Board of Directors.

The Asset and Liability Management Committee ("ALCO") is responsible under the authority delegated by the BRC for managing market risk at strategic level.

39. Financial Risk Management (continued)

(c) Market risk (continued)

Management of market risk
All market risk exposures are managed by Treasury as it has the necessary skills, tools, management and governance to manage such risks. Limits are set for portfolios, products and risk types, with market liquidity and credit quality being the principal factors in determining the level of limits set.

The Market Risk Management Department ("MRMD") is the independent risk control function and is responsible for the implementation of market risk management policies. MRMD is also responsible for developing the Bank's market risk management guidelines, measurement techniques, behavioural assumptions and limit setting methodologies. Any excesses against the prescribed limits are reported to the Senior Management. Escalation procedures are documented and approved by the BRC. In addition, the market risk exposures and limits are reported to the ALCO and the BRC.

Other controls to ensure that market risk exposures remain within tolerable levels include stress testing, rigorous new product approval procedures and a list of permissible instruments that can be traded. Stress test results are produced monthly to determine the impact of changes in profit rates, foreign exchange rates and other risk factors on the Bank's profitability, capital adequacy and liquidity. The stress test provides the Management and the BRC with an assessment of the financial impact of identified extreme events on the market risk exposures of the Bank.

(i) Profit rate risk

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

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39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

Group As at 31 December 2016	Non trading book 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	Non profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
Assets									
Cash, balances and placements with banks	**3,030,743**	**100,000**	**-**	**-**	**-**	**932,674**	**-**	**4,063,417**	**1.80%**
Financial assets held-for-trading	**-**	**-**	**-**	**-**	**-**	**-**	**574,835**	**574,835**	**4.08%**
Derivative financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**124,572**	**124,572**	**3.15%**
Financial assets available-for-sale	**35,719**	**214,317**	**1,475,514**	**4,775,032**	**3,456,704**	**-**	**-**	**9,957,286**	**4.53%**
Financial assets held-to-maturity	**-**	**-**	**-**	**-**	**57,703**	**-**	**-**	**57,703**	**8.71%**
Financing, advances and others									
- non-impaired	**1,879,099**	**1,628,096**	**705,215**	**3,428,018**	**31,842,570**	**-**	**-**	**39,482,998**	**5.77%**
- impaired net of allowances *	**-**	**-**	**-**	**-**	**-**	**(293,724)**	**-**	**(293,724)**	
Other assets	**-**	**-**	**-**	**-**	**-**	**1,709,610**	**-**	**1,709,610**	
Total assets	**4,945,561**	**1,942,413**	**2,180,729**	**8,203,050**	**35,356,977**	**2,348,560**	**699,407**	**55,676,697**	

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired financing.

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39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

Group **As at 31 December 2016**	**Non trading book** **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**	**Non profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective profit rate %**
Liabilities									
Deposits from customers	**16,904,998**	**9,948,300**	**4,436,940**	**410,072**	**-**	**14,240,104**	**-**	**45,940,414**	**2.52%**
Investment accounts of customers	**923,998**	**1,177,432**	**193,987**	**-**	**-**	**1,516,844**	**-**	**3,812,261**	**3.38%**
Deposits and placements of banks and other financial institutions	**30,000**	**-**	**-**	**-**	**-**	**-**	**-**	**30,000**	**4.47%**
Derivative financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**111,089**	**111,089**	**2.81%**
Bills and acceptance payable	**-**	**-**	**-**	**-**	**-**	**46,278**	**-**	**46,278**	
Subordinated Sukuk Murabahah	**-**	**-**	**-**	**700,000**	**-**	**4,393**	**-**	**704,393**	**5.56%**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**646,796**	**-**	**646,796**	
Total liabilities	**17,858,996**	**11,125,732**	**4,630,927**	**1,110,072**	**-**	**16,454,415**	**111,089**	**51,291,231**	
Equity									
Equity attributable to equity holder of the Bank	**-**	**-**	**-**	**-**	**-**	**4,385,466**	**-**	**4,385,466**	
Total equity	**-**	**-**	**-**	**-**	**-**	**4,385,466**	**-**	**4,385,466**	
Total liabilities and shareholders' equity	**17,858,996**	**11,125,732**	**4,630,927**	**1,110,072**	**-**	**20,839,881**	**111,089**	**55,676,697**	

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39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

Group As at 31 December 2016	Non trading book 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	Non profit sensitive RM'000	Trading book RM'000	Total RM'000
On-balance sheet profit sensitivity gap	**(12,913,435)**	**(9,183,319)**	**(2,450,198)**	**7,092,978**	**35,356,977**	**(18,491,321)**	**588,318**	-
Off-balance sheet profit sensitivity gap (profit rate swaps)	**300,000**	**300,000**	**(200,000)**	**(400,000)**	**-**	**-**	**-**	-
Total profit sensitivity gap	**(12,613,435)**	**(8,883,319)**	**(2,650,198)**	**6,692,978**	**35,356,977**	**(18,491,321)**	**588,318**	-

39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

Group As at 31 December 2015	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	Non profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	← Non trading book					→			
Assets									
Cash, balances and placements with banks	2,189,653	-	-	-	-	792,593	-	2,982,246	2.31
Financial assets held-for-trading	-	-	-	-	-	-	423,973	423,973	3.70
Derivative financial assets	-	-	-	-	-	-	119,259	119,259	3.74
Financial assets available-for-sale	464,693	159,507	1,225,106	5,787,501	2,300,909	-	-	9,937,716	4.02
Financial assets held-to-maturity	-	-	-	-	59,352	-	-	59,352	7.94
Financing, advances and others									
- non-impaired	27,020,445	826,661	399,167	1,448,247	4,884,436	-	-	34,578,956	6.07
- impaired net of allowances *	-	-	-	-	-	(284,266)	-	(284,266)	-
Other assets	-	-	-	-	-	1,946,483	-	1,946,483	-
Total assets	29,674,791	986,168	1,624,273	7,235,748	7,244,697	2,454,810	543,232	49,763,719	

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired financing.

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39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

Group	← Non trading book →								Effective
As at 31 December 2015	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	Non profit sensitive RM'000	Trading book RM'000	Total RM'000	profit rate %
Liabilities									
Deposits from customers	17,705,682	5,322,685	5,097,995	79,254	-	15,350,734	-	43,556,350	2.48
Investment accounts of customers	175,916	38,877	-	-	-	461,312	-	676,105	1.28
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	-	-	-	-	-	101,913	101,913	3.20
Bills and acceptance payable	-	-	-	-	-	122,577	-	122,577	-
Subordinated Sukuk Murabahah	-	-	-	-	700,000	4,380	-	704,380	5.61
Other liabilities	-	-	-	-	-	569,826	-	569,826	-
Total liabilities	17,881,598	5,361,562	5,097,995	79,254	700,000	16,508,829	101,913	45,731,151	
Equity									
Equity attributable to equity holder of the Bank	-	-	-	-	-	4,032,568	-	4,032,568	
Total equity	-	-	-	-	-	4,032,568	-	4,032,568	
Total liabilities and shareholders' equity	17,881,598	5,361,562	5,097,995	79,254	700,000	20,541,397	101,913	49,763,719	

39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

Group As at 31 December 2015	Non trading book 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	Non profit sensitive RM'000	Trading book RM'000	Total RM'000
On-balance sheet profit sensitivity gap	11,793,193	(4,375,394)	(3,473,722)	7,156,494	6,544,697	(18,086,587)	441,319	-
Off-balance sheet profit sensitivity gap (profit rate swaps)	300,000	300,000	-	(600,000)	-	-	-	-
Total profit sensitivity gap	12,093,193	(4,075,394)	(3,473,722)	6,556,494	6,544,697	(18,086,587)	441,319	-

39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

Bank	Non trading book								Effective
As at 31 December 2016	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	Non profit sensitive RM'000	Trading book RM'000	Total RM'000	Profit rate %
Assets									
Cash, balances and placements with banks	**3,030,743**	**100,000**	**-**	**-**	**-**	**932,525**	**-**	**4,063,268**	**1.79%**
Financial assets held-for-trading	**-**	**-**	**-**	**-**	**-**	**-**	**569,750**	**569,750**	**4.09%**
Derivative financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**124,572**	**124,572**	**3.15%**
Financial assets available-for-sale	**36,176**	**214,317**	**1,475,514**	**4,775,032**	**3,456,704**	**-**	**-**	**9,957,743**	**4.53%**
Financial assets held-to-maturity	**-**	**-**	**-**	**-**	**57,703**	**-**	**-**	**57,703**	**8.71%**
Financing, advances and others									
- non-impaired	**1,879,099**	**1,628,096**	**705,215**	**3,428,018**	**31,842,570**	**-**	**-**	**39,482,998**	**5.77%**
- impaired net of allowances*	**-**	**-**	**-**	**-**	**-**	**(293,724)**	**-**	**(293,724)**	
Other assets	**-**	**-**	**-**	**-**	**-**	**1,720,991**	**-**	**1,720,991**	
Total assets	**4,946,018**	**1,942,413**	**2,180,729**	**8,203,050**	**35,356,977**	**2,359,792**	**694,322**	**55,683,301**	

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired financing.

39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

Bank	←		**Non trading book**		→				**Effective**
As at 31 December 2016	**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**	**Non profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**profit rate %**
Liabilities									
Deposits from customers	**16,907,009**	**9,951,240**	**4,438,661**	**410,072**	**-**	**14,242,733**	**-**	**45,949,715**	**2.52%**
Investment accounts of customers	**923,998**	**1,177,432**	**193,987**	**-**	**-**	**1,516,844**	**-**	**3,812,261**	**3.38%**
Deposits and placements of banks and other financial institutions	**30,000**	**-**	**-**	**-**	**-**	**-**	**-**	**30,000**	**4.47%**
Derivative financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**111,089**	**111,089**	**2.81%**
Bills and acceptance payable	**-**	**-**	**-**	**-**	**-**	**46,278**	**-**	**46,278**	
Subordinated Sukuk Murabahah	**-**	**-**	**-**	**700,000**	**-**	**4,393**	**-**	**704,393**	**5.56%**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**643,610**	**-**	**643,610**	
Total liabilities	**17,861,007**	**11,128,672**	**4,632,648**	**1,110,072**	**-**	**16,453,858**	**111,089**	**51,297,346**	
Equity									
Equity attributable to equity holders of the Bank	**-**	**-**	**-**	**-**	**-**	**4,385,955**	**-**	**4,385,955**	
Total equity	**-**	**-**	**-**	**-**	**-**	**4,385,955**	**-**	**4,385,955**	
Total liabilities and shareholders' equity	**17,861,007**	**11,128,672**	**4,632,648**	**1,110,072**	**-**	**20,839,813**	**111,089**	**55,683,301**	

39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

Bank	**Non trading book**							
As at 31 December 2016	**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**	**Non profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
On-balance sheet profit sensitivity gap	**(12,914,989)**	**(9,186,259)**	**(2,451,919)**	**7,092,978**	**35,356,977**	**(18,480,021)**	**583,233**	
Off-balance sheet profit sensitivity gap (profit rate swaps)	**300,000**	**300,000**	**(200,000)**	**(400,000)**	**-**	**-**	**-**	
Total profit sensitivity gap	**(12,614,989)**	**(8,886,259)**	**(2,651,919)**	**6,692,978**	**35,356,977**	**(18,480,021)**	**583,233**	

39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

Bank As at 31 December 2015	← Non trading book 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	Non profit sensitive RM'000 →	Trading book RM'000	Total RM'000	Effective Profit rate %
Assets									
Cash, balances and placements with banks	2,189,653	-	-	-	-	788,662	-	2,978,315	2.61
Financial assets held-for-trading	-	-	-	-	-	-	418,718	418,718	4.20
Derivative financial assets	-	-	-	-	-	-	119,259	119,259	3.74
Financial assets available-for-sale	465,150	159,507	1,225,106	5,787,501	2,300,909	-	-	9,938,173	4.06
Financial assets held-to-maturity	-	-	-	-	59,352	-	-	59,352	7.95
Financing, advances and others									
- non-impaired	27,020,445	826,661	399,167	1,448,247	4,884,436	-	-	34,578,956	5.95
- impaired net of allowances*	-	-	-	-	-	(284,266)	-	(284,266)	-
Other assets	-	-	-	-	-	1,958,560	-	1,958,560	-
Total assets	29,675,248	986,168	1,624,273	7,235,748	7,244,697	2,462,956	537,977	49,767,067	

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired financing.

39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

Bank As at 31 December 2015	Non trading book 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	Non profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
Liabilities									
Deposits from customers	17,708,475	5,326,031	5,098,876	79,254	-	15,382,311	-	43,594,947	2.48
Investment accounts of customers	175,916	38,877	-	-	-	461,312	-	676,105	1.28
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	-	-	-	-	-	101,913	101,913	3.20
Bills and acceptance payable	-	-	-	-	-	122,577	-	122,577	-
Subordinated Sukuk Murabahah	-	-	-	-	700,000	4,380	-	704,380	5.61
Other liabilities	-	-	-	-	-	534,092	-	534,092	-
Total liabilities	17,884,391	5,364,908	5,098,876	79,254	700,000	16,504,672	101,913	45,734,014	
Equity									
Equity attributable to equity holders of the Bank	-	-	-	-	-	4,033,053	-	4,033,053	
Total equity	-	-	-	-	-	4,033,053	-	4,033,053	
Total liabilities and shareholders' equity	17,884,391	5,364,908	5,098,876	79,254	700,000	20,537,725	101,913	49,767,067	

39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

Bank As at 31 December 2015	Non trading book 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	Non profit sensitive RM'000	Trading book RM'000	Total RM'000
On-balance sheet profit sensitivity gap	11,790,857	(4,378,740)	(3,474,603)	7,156,494	6,544,697	(18,074,769)	436,064	-
Off-balance sheet profit sensitivity gap (profit rate swaps)	300,000	300,000	-	(600,000)	-	-	-	-
Total profit sensitivity gap	12,090,857	(4,078,740)	(3,474,603)	6,556,494	6,544,697	(18,074,769)	436,064	-

39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

Profit rate risk in the non-trading portfolio

Profit rate risk in the non-trading portfolio is managed and controlled using measurement tools known as economic value of equity ("EVE") and earnings-at-risk ("EaR"). EVE and EaR limits are approved by the BRC and independently monitored by the MRMD. Exposures and limits are discussed and reported to the ALCO and the BRC.

The Bank manages market risk in non-trading portfolios by monitoring the sensitivity of projected EaR and EVE under varying profit rate scenarios (simulation modeling). For simulation modeling, a combination of standard scenarios and non-standard scenarios relevant to the local market are used. The standard scenarios monitored monthly include a 100 and 200 basis points parallel fall or rise in the profit rate yield curve and historical simulation of past events. The scenarios assume no management action. Hence, they do not incorporate actions that would be taken by Treasury to mitigate the impact of the profit rate risk. In reality, depending on the view on future market movements, Treasury would proactively seek to change the profit rate exposure profile to minimise losses and to optimise net revenues. The nature of the hedging and risk mitigation strategies corresponds to the market instruments available. These strategies range from the use of derivative financial instruments, such as profit rate swaps, to more intricate hedging strategies to address inordinate profit rate risk exposures.

The table below shows the projected sensitivity to a 100 basis points parallel shift to profit rates across all maturities applied on the Group's and Bank's profit rate sensitivity gap as at reporting date.

	2016		**2015**	
	-100bps	**+100bps**	**-100bps**	**+100bps**
		Increase/(Decrease)		
	RM million	**RM million**	**RM million**	**RM million**
Bank				
Impact on EaR	**(28.46)**	**28.46**	(10.38)	10.38
Impact on EVE	**266.25**	**(266.25)**	326.12	(326.12)

39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

Profit rate risk in the non-trading portfolio (continued)

Other controls to contain profit rate risk in the non-trading portfolio include stress testing and applying sensitivity limits to the available-for-sale financial assets. Sensitivity is measured by the present value of a 1 basis point change ("PV01") and is independently monitored by the MRMD on a daily basis against limits approved by the BRC. PV01 exposures and limits are discussed and reported to the ALCO and the BRC.

(ii) Market risk in the Trading Portfolio

Market risk in the trading portfolio is monitored and controlled using Value-at-Risk ("VaR"). VaR limit is approved by the BRC and independently monitored daily by the MRMD. Exposures and limits are discussed and reported to the ALCO and the BRC.

Value-at-Risk

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VaR models used by the Bank are based on historical simulation. These models derive plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as profit rates and foreign exchange rates. The historical simulation models used by the Bank incorporate the following features:

- Potential market movements are calculated with reference to data from the past four years;
- Historical market rates and prices are calculated with reference to foreign exchange rates and profit rates;
- VaR is calculated using a 99 per cent confidence level and for a one-day holding period. The nature of the VaR model means that an increase in observed market volatility will lead to an increase in VaR without any changes in the underlying positions; and
- The dataset is updated on daily basis.

39. Financial Risk Management (continued)

(c) Market risk (continued)

(ii) Market risk in the Trading Portfolio (continued)

Value-at-Risk (continued)

Statistically, the Bank would expect to see losses in excess of VaR only 1 per cent of the time over a one-year period. The actual number of excesses over this period can therefore be used to gauge how well the models are performing.

A summary of the VaR position of the Bank's trading portfolios at the reporting date is as follows:

Bank	As at 31.12.2016 RM million	1.1.2016 to 31.12.2016 Average RM million	Maximum RM million	Minimum RM million
Profit rate risk	**1.39**	**2.09**	**4.34**	**0.94**
Foreign exchange risk	**0.04**	**0.13**	**0.52**	**0.01**
Overall	**1.43**	**2.22**	**4.81**	**0.95**

	As at 31.12.2015 RM million	1.1.2015 to 31.12.2015 Average RM million	Maximum RM million	Minimum RM million
Profit rate risk	1.81	1.69	4.61	0.40
Foreign exchange risk	0.17	0.14	0.94	0.01
Overall	1.98	1.83	4.77	0.48

Although a valuable guide to risk, VaR should always be viewed in the context of its limitations. For example:

- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- The use of a 1-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a 1-day holding period may be insufficient to liquidate or hedge all positions fully;
- The use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence;
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures; and
- VaR is unlikely to reflect the loss potential on exposures that might arise under significant market movements.

The Bank recognises these limitations by augmenting the VaR limits with other limits such as maximum loss limits, position limits and PV01 limits. These limits are approved by the BRC and independently monitored daily by the MRMD. Exposures and limits are discussed and reported to the ALCO and the BRC.

39. Financial Risk Management (continued)

(c) Market risk (continued)

(ii) Market risk in the Trading Portfolio (continued)

Value-at-Risk (continued)

Other controls to contain market risk at an acceptable level are through stress testing, rigorous new product approval processes and a list of permissible instruments to be traded. Stress tests are produced monthly to determine the impact of changes in profit rates, foreign exchange rates and other main economic indicators on the Group's and the Bank's profitability, capital adequacy and liquidity. The stress-testing provides the Management and the BRC with an assessment of the financial impact of identified extreme events on the market risk exposures of the Bank.

(iii) Foreign exchange risk

Trading positions

In addition to VaR and stress-testing, the Bank controls the foreign exchange risk within the trading portfolio by limiting the open exposure to individual currencies, and on an aggregate basis.

Overall (trading and non-trading positions)

The Bank controls the overall foreign exchange risk by limiting the open exposure to non-Ringgit positions on an aggregate basis.

Foreign exchange limits are approved by the BRC and independently monitored daily by the MRMD. Exposures and limits are discussed and reported to the ALCO and the BRC.

39. Financial Risk Management (continued)

(c) Market risk (continued)

(iii) Foreign exchange risk (continued)

Sensitivity Analysis

Considering that other risk variables remain constant, the foreign currency revaluation sensitivity for the Group and Bank as at reporting date is summarised as follows (only exposures in currencies that account for more than 5 percent of the net open positions are shown in its specific currency in the table below. For other currencies, these exposures are grouped as 'Others'):

	2016		2015	
	-1% Depreciation RM'000	+1% Appreciation RM'000	-1% Depreciation RM'000	+1% Appreciation RM'000
Group and Bank				
US Dollar	11,503	(11,503)	14,349	(14,349)
Euro	8,098	(8,098)	4,973	(4,973)
Others	(96)	96	827	(827)

(d) Liquidity risk

Overview

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations when they fall due, or might have to fund these obligations at excessive cost. This risk can arise from mismatches in the timing of cash flows. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms when required.

The Bank maintains a diversified and stable funding base comprising core retail, commercial, corporate customer deposits and institutional balances. This is augmented by wholesale funding and portfolios of highly liquid assets.

The objective of the Bank's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due and that wholesale market remains accessible and cost effective.

Current accounts and savings deposits payable on demand or at short notice form part of the Bank's funding profile, and the Bank places considerable importance on maintaining their stability. For deposits, stability depends upon preserving depositor confidence in the Bank and the Bank's capital strength and liquidity, and on competitive and transparent pricing.

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Overview (continued)

The management of liquidity and funding is primarily carried out in accordance with the Bank Negara Malaysia's requirements and practices and limits and triggers approved by the BRC and the ALCO. These limits and triggers vary to take account of the depth and liquidity of the local market in which the Bank operates. The Bank maintains a strong liquidity position and manages the liquidity profile of its assets, liabilities and commitments to ensure that cash flows are appropriately balanced and all obligations are met when due.

The Bank's liquidity and funding management process includes:

- Daily projection of cash flows and ensuring that the Bank has sufficient liquidity surplus and reserves to sustain a sudden liquidity shock;
- Projecting cash flows and considering the level of liquid assets necessary in relation thereto;
- Maintaining liabilities of appropriate term relative to the asset base;
- Maintaining a diverse range of funding sources with adequate back-up facilities;
- Monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- Managing the maturities and diversifying funding liabilities across products and counterparties.

Liquidity and funding risk governance

The management of liquidity and funding risk is principally undertaken using risk limit mandates approved by the BRC and management action triggers assigned by the ALCO.

The ALCO is responsible under the authority delegated by the BRC for managing liquidity and funding risk at strategic level.

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Management of liquidity and funding risk

All liquidity risk exposures are managed by Treasury as it has the necessary skills, tools, management and governance to manage such risks. Limits and triggers are set to meet the following objectives:

- Maintaining sufficient liquidity surplus and reserves to sustain a sudden liquidity shock;
- Ensuring that cash flows are relatively diversified across all maturities;
- Ensuring that the deposit base is not overly concentrated to a relatively small number of depositors;
- Maintaining sufficient borrowing capacity in the Interbank market and highly liquid financial assets to back it up; and
- Not over-extending financing activities relative to the deposit base.

The MRMD is the independent risk control function and is responsible for the implementation of liquidity and funding risk management policies. The MRMD is also responsible for developing the Bank's liquidity and funding risk management guidelines, measurement techniques, behavioural assumptions and limit setting methodologies. Any excesses against the prescribed limits and triggers are reported to the Senior Management. Escalation procedures are documented and approved by the BRC, with proper authorities to ratify or approve the excess. In addition, the market risk exposures and limits are reported to the ALCO and the BRC.

Another control to ensure that liquidity and funding risk exposures remain within tolerable level is stress testing. Stress testing and scenario analysis are important tools in the Bank's liquidity management framework. Stress test results are produced monthly to determine the impact of a sudden liquidity shock. The stress-testing provides the Management and the BRC with an assessment of the financial impact of identified extreme events on the liquidity and funding risk exposures of the Bank.

A final key control feature of the Bank's liquidity and funding risk management are the approved and documented liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications to the Bank.

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Maturity analysis

The table below summarises the Group's and Bank's assets and liabilities based on remaining contractual maturities.

Group As at 31 December 2016	On demand RM'000	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	Over 1 year RM'000	Total RM'000
Assets							
Cash, balances and placements with banks	932,674	3,030,743	100,000	-	-	-	4,063,417
Securities portfolio	-	45,896	434,461	545,248	930,266	8,633,953	10,589,824
Derivatives financial assets	-	2,210	36,151	55,080	25,401	5,730	124,572
Financing and advances	-	1,879,099	1,628,096	363,191	342,024	34,976,864	39,189,274
Other assets	-	-	-	-	-	1,709,610	1,709,610
Total assets	**932,674**	**4,957,948**	**2,198,708**	**963,519**	**1,297,691**	**45,326,157**	**55,676,697**
Liabilities							
Deposits from customers	14,240,104	16,904,998	9,948,300	2,890,179	1,546,761	410,072	45,940,414
Investment accounts of customers	1,516,844	923,998	1,177,432	192,268	1,719	-	3,812,261
Deposits and placements of banks and other financial institutions	-	30,000	-	-	-	-	30,000
Derivative financial liabilities	-	2,448	16,618	66,606	23,334	2,083	111,089
Subordinated Sukuk Murabahah	-	-	-	-	4,393	700,000	704,393
Other liabilities	-	-	-	-	-	693,074	693,074
Total liabilities	**15,756,948**	**17,861,444**	**11,142,350**	**3,149,053**	**1,576,207**	**1,805,229**	**51,291,231**

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Maturity analysis (continued)

Group As at 31 December 2016	On demand RM'000	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	Over 1 year RM'000	Total RM'000
Equity							
Equity attributable to equity holders of the Bank	-	-	-	-	-	4,385,466	4,385,466
On Balance Sheet Net liquidity gap	(14,824,274)	(12,903,496)	(8,943,642)	(2,185,534)	(278,516)	39,135,462	-
Commitments and contingencies	3,614	2,075,726	2,969,757	2,415,705	1,870,769	4,368,988	13,704,559
Net liquidity gap	(14,827,888)	(14,979,222)	(11,913,399)	(4,601,239)	(2,149,285)	34,766,474	(13,704,559)

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Maturity analysis (continued)

Group As at 31 December 2015	**On demand RM'000**	**Up to 1 month RM'000**	**>1 to 3 months RM'000**	**>3 to 6 months RM'000**	**>6 to 12 months RM'000**	**Over 1 year RM'000**	**Total RM'000**
Assets							
Cash, balances and placements with banks	792,593	2,189,653	-	-	-	-	2,982,246
Securities portfolio	-	536,669	159,507	680,974	554,331	8,489,560	10,421,041
Derivatives financial assets	2,648	8,618	94,809	327	-	12,857	119,259
Financing and advances	-	774,128	1,548,207	393,573	735,472	30,843,310	34,294,690
Other assets	-	-	-	-	-	1,946,483	1,946,483
Total assets	**795,241**	**3,509,068**	**1,802,523**	**1,074,874**	**1,289,803**	**41,292,210**	**49,763,719**
Liabilities							
Deposits from customers	15,350,734	17,705,682	5,322,685	2,846,530	2,251,465	79,254	43,556,350
Investment accounts of customers	461,312	175,916	38,877	-	-	-	676,105
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-
Derivative financial liabilities	2,746	20,500	74,932	415	-	3,320	101,913
Subordinated Sukuk Murabahah	-	-	-	-	4,380	700,000	704,380
Other liabilities	-	-	-	-	-	692,403	692,403
Total liabilities	**15,814,792**	**17,902,098**	**5,436,494**	**2,846,945**	**2,255,845**	**1,474,977**	**45,731,151**

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Maturity analysis (continued)

Group **As at 31 December 2015**	**On demand** **RM'000**	**Up to 1 month** **RM'000**	**>1 to 3 months** **RM'000**	**>3 to 6 months** **RM'000**	**>6 to 12 months** **RM'000**	**Over 1 year** **RM'000**	**Total** **RM'000**
Equity							
Equity attributable to equity holders of the Bank	-	-	-	-	-	4,032,568	4,032,568
On Balance Sheet Net liquidity gap	(15,019,551)	(14,393,030)	(3,633,971)	(1,772,071)	(966,042)	35,784,665	-
Commitments and contingencies	2,469,997	1,340,825	2,652,505	1,795,806	1,606,570	2,826,600	12,692,303
Net liquidity gap	(17,489,548)	(15,733,855)	(6,286,476)	(3,567,877)	(2,572,612)	32,958,065	(12,692,303)

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Maturity analysis (continued)

Bank **As at 31 December 2016**	**On demand RM'000**	**Up to 1 month RM'000**	**>1 to 3 months RM'000**	**>3 to 6 months RM'000**	**>6 to 12 months RM'000**	**Over 1 year RM'000**	**Total RM'000**
Assets							
Cash, balances and placements with banks	932,525	3,030,743	100,000	-	-	-	4,063,268
Securities portfolio	-	41,268	434,461	545,248	930,266	8,633,953	10,585,196
Derivatives financial assets	-	2,210	36,151	55,080	25,401	5,730	124,572
Financing and advances	-	1,879,099	1,628,096	363,191	342,024	34,976,864	39,189,274
Other assets	-	-	-	-	-	1,720,991	1,720,991
Total assets	**932,525**	**4,953,320**	**2,198,708**	**963,519**	**1,297,691**	**45,337,538**	**55,683,301**
Liabilities							
Deposits from customers	14,242,733	16,907,009	9,951,240	2,891,900	1,546,761	410,072	45,949,715
Investment accounts of customers	1,516,844	923,998	1,177,432	192,268	1,719	-	3,812,261
Deposits and placements of banks and other financial institutions	-	30,000	-	-	-	-	30,000
Derivative financial liabilities	-	2,448	16,618	66,606	23,334	2,083	111,089
Subordinated Sukuk Murabahah	-	-	-	-	4,393	700,000	704,393
Other liabilities	-	-	-	-	-	689,888	689,888
Total liabilities	**15,759,577**	**17,863,455**	**11,145,290**	**3,150,774**	**1,576,207**	**1,802,043**	**51,297,346**

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Maturity analysis (continued)

Bank **As at 31 December 2016**	**On demand** **RM'000**	**Up to 1 month** **RM'000**	**>1 to 3 months** **RM'000**	**>3 to 6 months** **RM'000**	**>6 to 12 months** **RM'000**	**Over 1 year** **RM'000**	**Total** **RM'000**
Equity							
Equity attributable to equity holders of the Bank	-	-	-	-	-	4,385,955	4,385,955
On Balance Sheet Net liquidity gap	(14,827,052)	(12,910,135)	(8,946,582)	(2,187,255)	(278,516)	39,149,540	-
Commitments and contingencies	3,614	2,075,726	2,969,757	2,415,705	1,870,769	4,368,988	13,704,559
Net liquidity gap	(14,830,666)	(14,985,861)	(11,916,339)	(4,602,960)	(2,149,285)	34,780,552	(13,704,559)

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Maturity analysis (continued)

Bank **As at 31 December 2015**	**On demand RM'000**	**Up to 1 month RM'000**	**>1 to 3 months RM'000**	**>3 to 6 months RM'000**	**>6 to 12 months RM'000**	**Over 1 year RM'000**	**Total RM'000**
Assets							
Cash, balances and placements with banks	788,662	2,189,653	-	-	-	-	2,978,315
Securities portfolio	-	531,871	159,507	680,974	554,331	8,489,560	10,416,243
Derivatives financial assets	2,648	8,618	94,809	327	-	12,857	119,259
Financing and advances	-	774,128	1,548,207	393,573	735,472	30,843,310	34,294,690
Other assets	-	-	-	-	-	1,958,560	1,958,560
Total assets	**791,310**	**3,504,270**	**1,802,523**	**1,074,874**	**1,289,803**	**41,304,287**	**49,767,067**
Liabilities							
Deposits from customers	15,382,311	17,708,475	5,326,031	2,846,845	2,252,031	79,254	43,594,947
Investment accounts of customers	461,312	175,916	38,877	-	-	-	676,105
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-
Derivative financial liabilities	2,746	20,500	74,932	415	-	3,320	101,913
Subordinated Sukuk Murabahah	-	-	-	-	4,380	700,000	704,380
Other liabilities	-	-	-	-	-	656,669	656,669
Total liabilities	**15,846,369**	**17,904,891**	**5,439,840**	**2,847,260**	**2,256,411**	**1,439,243**	**45,734,014**

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39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Maturity analysis (continued)

Bank **As at 31 December 2015**	**On demand** **RM'000**	**Up to** **1 month** **RM'000**	**>1 to 3** **months** **RM'000**	**>3 to 6** **months** **RM'000**	**>6 to 12** **months** **RM'000**	**Over** **1 year** **RM'000**	**Total** **RM'000**
Equity							
Equity attributable to equity holders of the Bank	-	-	-	-	-	4,033,053	4,033,053
On Balance Sheet Net liquidity gap	(15,055,059)	(14,400,621)	(3,637,317)	(1,772,386)	(966,608)	35,831,991	-
Commitments and contingencies	2,469,997	1,340,825	2,652,505	1,795,806	1,606,570	2,826,600	12,692,303
Net liquidity gap	(17,525,056)	(15,741,446)	(6,289,822)	(3,568,192)	(2,573,178)	33,005,391	(12,692,303)

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Contractual maturity of financial liabilities on an undiscounted basis

The table below present the cash flows payable by the bank under financial liabilities by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flows:

Bank **As at 31 December 2016**	**Up to 1 month RM'000**	**>1 to 3 months RM'000**	**>3 to 6 months RM'000**	**>6 to 12 months RM'000**	**Over 1 year RM'000**	**Total RM'000**
Financial Liabilities						
Deposit from customers	31,213,148	10,035,417	2,934,954	1,577,290	475,389	46,236,198
Investment accounts of customers	2,243,331	1,442,873	190,963	1,710	-	3,878,877
Deposit from placements of banks and other financial institutions	30,005	-	-	-	-	30,005
Derivatives financial liabilities	5,528	17,158	65,069	23,334	-	111,089
Forward contract	2,448	16,618	65,069	23,334	-	107,469
Islamic Profit Rate Swap	3,080	540	-	-	-	3,620
Structured deposits	-	-	-	-	-	-
Bills and acceptance payable	46,278	-	-	-	-	46,278
Subordinated Sukuk Murabahah	-	-	19,571	19,632	1,005,519	1,044,722
Other liabilities	643,610	-	-	-	-	643,610
	34,181,900	11,495,448	3,210,557	1,621,966	1,480,908	51,990,779
Commitment and Contingencies						
Direct credit substitutes	26,791	61,781	22,339	82,479	94,571	287,961
Transaction related contingent items	116,380	57,291	61,654	225,820	491,042	952,187
Short term self liquidating trade related contingencies	190,681	83,402	16,076	10,330	11,763	312,252
	333,852	202,474	100,069	318,629	597,376	1,552,400

The Group's figures are not materially different from the Bank's figures.

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Contractual maturity of financial liabilities on an undiscounted basis (continued)

Bank **As at 31 December 2015**	**Up to 1 month RM'000**	**>1 to 3 months RM'000**	**>3 to 6 months RM'000**	**>6 to 12 months RM'000**	**Over 1 year RM'000**	**Total RM'000**
Financial Liabilities						
Deposit from customers	33,039,670	5,995,394	2,632,430	1,965,003	83,882	43,716,379
Investment accounts of customers	637,570	39,042	-	-	-	676,612
Deposit from placements of banks and other financial institutions	-	-	-	-	-	-
Derivatives financial liabilities	5,555	21,007	74,936	415	-	101,913
Forward contract	2,746	20,496	74,936	415	-	98,593
Islamic Profit Rate Swap	2,809	511	-	-	-	3,320
Structured deposits	-	-	-	-	-	-
Bills and acceptance payable	122,577	-	-	-	-	122,577
Subordinated Sukuk Murabahah	-	-	-	8,649	1,084,174	1,092,823
Other liabilities	534,092	-	-	-	-	534,092
	34,339,464	6,055,443	2,707,366	1,974,067	1,168,056	46,244,396
Commitment and Contingencies						
Direct credit substitutes	53,897	13,690	30,175	115,142	124,109	337,013
Transaction related contingent items	59,394	126,479	104,411	185,896	480,641	956,821
Short term self liquidating trade related contingencies	185,386	108,685	16,702	12,553	25,115	348,441
	298,677	248,854	151,288	313,591	629,865	1,642,275

The Group's figures are not materially different from the Bank's figures.

39. Financial Risk Management (continued)

(e) Operational Risk ("OpRisk")

Overview
Operational Risk ("OpRisk") is defined as the "risk of loss arising from inadequate or failed internal processes, people and systems and external events, which includes legal risk and shariah compliance risk but excludes strategic and reputational risk".

Management of OpRisk
The Bank recognises and emphasises the importance of operational risk management ("ORM") and manages this risk through a control-based environment where processes are documented, authorisation is independent, transactions are reconciled and monitored and business activities are carried out within the established OpRisk guidelines, procedures and limits.

The Bank's overall governance approach in managing OpRisk is premised on the Three Lines of Defence Approach:

a) **1st line of defence** – the risk owner or risk taking unit i.e. Business or Support Unit is accountable for putting in place a robust control environment within their respective units. They are responsible for the day to day management of OpRisk. To reinforce accountability and ownership of risk and control, a Risk Controller for each risk taking unit is appointed to assist in driving the risk and control programme for the Bank.

b) **2nd line of defence** – The Operational Risk Management Department ("ORMD") is responsible for establishing and maintaining the ORM Framework, developing various ORM tools to facilitate the management of OpRisk, monitoring the effectiveness of ORM, assessing OpRisk issues from the risk owner and escalating OpRisk issues to the relevant governance level with recommendations on appropriate risk mitigation strategies. In creating a strong risk culture, ORMD is also responsible to promote risk awareness across the Bank.

   Both Shariah Risk Management ("SRM") and Compliance Division complement the role of ORM as the second line of defence. SRM is responsible for managing the Shariah compliance risk ("SCR") by establishing & maintaining appropriate SRM guidelines, facilitating the process of identifying, assessing, controlling & monitoring SCR and promoting SCR awareness.

   Compliance Division is responsible for ensuring effective oversight on compliance-related risks such as regulatory compliance risk, compliance risk as well as money laundering and terrorism financing risks through proper classification of risks and developing, reviewing and enhancing compliance-related training programmes as well as conducting training that promotes awareness creation.

c) **3rd line of defence** – Internal Audit provides independent assurance to the Board and senior management on the effectiveness of the ORM process.

40. Fair value of financial instruments

Financial instruments comprise financial assets, financial liabilities and off-balance sheet instruments. Fair value is the amount at which the financial assets could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the estimates of fair values as at the financial position date.

Quoted and observable market prices where available, are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the assumptions could materially affect these estimates and the corresponding fair values.

Fair value information for non-financial assets and liabilities such as investments in subsidiaries and taxation are excluded, as they do not fall within the scope of MFRS 7, "Financial Instruments: Disclosure and Presentation" which requires the fair value information to be disclosed.

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

Deposits and placements with banks and other financial institutions

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

Financial assets held-for-trading, available-for-sale and held-to-maturity

The estimated fair values are generally based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been estimated by reference to market indicative yields or net tangible asset backing of the investee.

Financing, advances and others

The fair values are estimated by discounting the estimated future cash flows using the prevailing market rates of financing with similar credit risks and maturities. The fair values are represented by their carrying value, net of impairment loss, being the recoverable amount.

40. Fair value of financial instruments (continued)

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

Deposits from customers and investment accounts of customers

The fair values of deposits and investment accounts are deemed to approximate their carrying amounts as rate of returns are determined at the end of their holding periods based on the profit generated from the assets invested.

Deposits and placements of banks and other financial institutions

The estimated fair values of deposits and placements of banks and other financial institutions with maturities of less than six months approximate the carrying values. For deposits and placements with maturities of six months or more, the fair values are estimated based on discounted cash flows using prevailing money market profit rates for deposits and placements with similar remaining period to maturities.

Bills and acceptance payable

The estimated fair values of bills and acceptance payables with maturity of less than six months approximate their carrying values. For bills and acceptance payable with maturities of six months or more, the fair values are estimated based on discounted cash flows using prevailing market rates for borrowings with similar risks profile.

Fair value hierarchy

MFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the Group's market assumptions. The fair value hierarchy is as follows:

- Level 1 – Quoted price (unadjusted) in active markets for the identical assets or liabilities. This level includes listed equity securities and debt instruments.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes profit rates swap and structured debt. The sources of input parameters include Bank Negara Malaysia ("BNM") indicative yields or counterparty credit risk.
- Level 3 – Inputs for asset or liability that are not based on observable market data (unobservable inputs). This level includes equity instruments and debt instruments with significant unobservable components.

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position. The table does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values.

40. Fair value of financial instruments (continued)

Fair value hierarchy (continued)

Group 31 December 2016 RM'000	Fair value of financial instruments carried at fair value Level 1	Level 2	Level 3	Total	Fair value of financial instruments not carried at fair value Level 3	Total fair value	Carrying amount
Financial assets							
Financial assets held-for-trading	-	574,835	-	574,835	-	574,835	574,835
Derivative financial assets	-	124,572	-	124,572	-	124,572	124,572
Financial assets available-for-sale	21,124	9,930,862	-	9,951,986	5,300	9,957,286	9,957,286
Financial assets held-to-maturity	-	-	-	-	57,703	57,703	57,703
Financing, advances and others	-	-	-	-	39,233,082	39,233,082	39,189,274
Financial liabilities							
Derivative financial liabilities	-	111,089	-	111,089	-	111,089	111,089
Subordinated Sukuk Murabahah	-	-	-	-	740,110	740,110	704,393

40. Fair value of financial instruments (continued)

Fair value hierarchy (continued)

Group 31 December 2015 RM'000	Fair value of financial instruments carried at fair value Level 1	Level 2	Level 3	Total	Fair value of financial instruments not carried at fair value Level 3	Total fair value	Carrying amount
Financial assets							
Financial assets held-for-trading	-	423,973	-	423,973	-	423,973	423,973
Derivative financial assets	-	119,259	-	119,259	-	119,259	119,259
Financial assets available-for-sale	29,807	9,902,589	-	9,932,396	5,320	9,937,716	9,937,716
Financial assets held-to-maturity	-	-	-	-	59,352	59,352	59,352
Financing, advances and others	-	-	-	-	34,334,821	34,334,821	34,294,690
Financial liabilities							
Derivative financial liabilities	-	101,913	-	101,913	-	101,913	101,913
Subordinated Sukuk Murabahah	-	-	-	-	712,983	712,983	704,380

40. Fair value of financial instruments (continued)

Fair value hierarchy (continued)

Bank 31 December 2016 RM'000	Fair value of financial instruments carried at fair value Level 1	Level 2	Level 3	Total	Fair value of financial instruments not carried at fair value Level 3	Total fair value	Carrying amount
Financial assets							
Financial assets held-for-trading	-	569,750	-	569,750	-	569,750	569,750
Derivative financial assets	-	124,572	-	124,572	-	124,572	124,572
Financial assets available-for-sale	21,124	9,931,319	-	9,952,443	5,300	9,957,743	9,957,743
Financial assets held-to-maturity	-	-	-	-	57,703	57,703	57,703
Financing, advances and others	-	-	-	-	39,233,082	39,233,082	39,189,274
Financial liabilities							
Derivative financial liabilities	-	111,089	-	111,089	-	111,089	111,089
Subordinated Sukuk Murabahah	-	-	-	-	740,110	740,110	704,393

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40. Fair value of financial instruments (continued)

Fair value hierarchy (continued)

Bank 31 December 2015 RM'000	Fair value of financial instruments carried at fair value Level 1	Level 2	Level 3	Total	Fair value of financial instruments not carried at fair value Level 3	Total fair value	Carrying amount
Financial assets							
Financial assets held-for-trading	-	418,718	-	418,718	-	418,718	418,718
Derivative financial assets	-	119,259	-	119,259	-	119,259	119,259
Financial assets available-for-sale	29,807	9,903,046	-	9,932,853	5,320	9,938,173	9,938,173
Financial assets held-to-maturity	-	-	-	-	59,352	59,352	59,352
Financing, advances and others	-	-	-	-	34,334,821	34,334,821	34,294,690
Financial liabilities							
Derivative financial liabilities	-	101,913	-	101,913	-	101,913	101,913
Subordinated Sukuk Murabahah	-	-	-	-	712,983	712,983	704,380

40. Fair value of financial instruments (continued)

Fair value hierarchy (continued)

The following table presents the changes in Level 3 instruments for the financial year ended 31 December 2016 for the Group and the Bank:

	2016 RM'000	2015 RM'000
Financial assets available-for-sale		
At 1 January	-	4,620
Allowance for impairment	-	(4,620)
At 31 December	-	-

Unobservable inputs used in measuring fair value

The following tables show the valuation techniques used in the determination of fair values within Level 3, as well as the key unobservable inputs used in the valuation models.

(a) Financial instruments carried at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets available-for-sale	Valued at cost less impairment	Not applicable	Not applicable

(b) Financial instruments not carried at fair value

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

(i) Financial investments held-to-maturity ("HTM")

The fair values of securities that are actively traded is determined by quoted bid prices. For non-actively traded securities, the fair values are valued at cost less impairment or estimated using discounted cash flows analysis. Where discounted cash flows technique is used, the estimated future cash flows are discounted using applicable prevailing market or indicative rates of similar instruments at the reporting date.

(ii) Financing and advances

The fair values of variable rate financing 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.

40. Fair value of financial instruments (continued)

Unobservable inputs used in measuring fair value (continued)

(b) Financial instruments not carried at fair value (continued)

(iii) Subordinated Sukuk Murabahah

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.

41. Lease commitments

The Group and the Bank have lease commitments in respect of equipment on hire and rental of premises, all of which are classified as operating leases. A summary of the non-cancellable long term commitments are as follows:

	Group		**Bank**	
	31.12.2016 RM'000	**31.12.2015 RM'000**	**31.12.2016 RM'000**	**31.12.2015 RM'000**
Within one year	**47,378**	45,276	**46,916**	44,881
Between one and five years	**123,950**	119,885	**123,851**	119,656
More than five years	**264,744**	284,477	**264,744**	284,477
	436,072	449,638	**435,511**	449,014

Included in the above are lease rentals with the ultimate holding entity amounting to RM384,811,000 (2015: RM404,184,000)

42. Capital commitments

	Group and Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**
Property and equipment		
Contracted but not provided for in the financial statements	**85,773**	70,142
Approved but not contracted for and provided for in the financial statements	**24,346**	18,938
	110,119	89,080

43. Commitments and contingencies

The off-Balance Sheet and counterparties credit risk for the Group and the Bank are as follows:

31 December 2016

Nature of item	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Asset RM'000
Credit related exposures				
Direct credit substitutes	294,460		294,460	293,848
Assets sold with recourse	-		-	-
Transaction related contingent items	952,188		476,094	443,165
Short term self-liquidating trade related contingencies	341,524		68,305	67,309
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- not exceeding one year	591,031		118,206	88,979
- exceeding one year	1,792,008		896,004	715,873
Unutilised credit card lines	1,140,141		228,028	171,563
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	4,639,610		-	-
	9,750,962		2,081,097	1,780,737
Derivative Financial Instruments				
Foreign exchange related contracts				
- less than one year	3,117,570	117,445	163,823	79,734
Profit rate related contracts				
- less than one year	200,000	1,397	200	40
- one year to less than five years	400,000	2,729	9,497	1,899
- five years and above	236,027	3,001	18,971	11,606
	3,953,597	124,572	192,491	93,279
Total	13,704,559	124,572	2,273,588	1,874,016

43. Commitments and contingencies (continued)

The off-Balance Sheet and counterparties credit risk for the Group and the Bank are as follows (continued):

31 December 2015

Nature of item	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Asset RM'000
Credit related exposures				
Direct credit substitutes	343,731		343,731	301,001
Assets sold with recourse	2		2	2
Transaction related contingent items	956,822		478,411	413,964
Short term self-liquidating trade related contingencies	374,892		74,978	72,446
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- not exceeding one year	2,014		403	403
- exceeding one year	837,455		418,728	333,700
Unutilised credit card lines	1,169,445		233,889	176,494
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	5,822,088		-	-
	9,506,449		1,550,142	1,298,010
Derivative Financial Instruments				
Foreign exchange related contracts				
- less than one year	2,323,286	106,402	139,771	67,272
Profit rate related contracts				
- less than one year	-	-	-	-
- one year to less than five years	600,000	9,200	20,504	4,101
- five years and above	262,568	3,657	24,048	13,688
	3,185,854	119,259	184,323	85,061
Total	12,692,303	119,259	1,734,465	1,383,071

44. Capital adequacy

Total capital and capital adequacy ratios of the Bank have been computed based on BNM's Capital Adequacy Framework for Islamic Banks (Capital Components and Risk-Weighted Assets) issued on 13 October 2015. The minimum regulatory capital adequacy ratios requirement for Common Equity Tier I ("CET I") capital ratio, Tier I capital ratio and total capital ratio are 5.125%, 6.625% and 8.625% respectively for year 2016 (2015: 4.5%, 6.0% and 8.0%). The Bank has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk.

The capital adequacy ratios of the Group and the Bank are set out below:

	Group		Bank	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
Common Equity Tier I ("CET I") Capital Ratio	**12.397%**	12.087%	**12.362%**	12.049%
Total Capital Ratio	**15.518%**	15.320%	**15.484%**	15.284%

The components of CET I, Tier I and Tier II capital:

	Group		Bank	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Paid-up share capital	**2,404,384**	2,363,283	**2,404,384**	2,363,283
Share premium	**264,790**	175,452	**264,790**	175,452
Retained earnings	**523,247**	385,913	**523,959**	386,580
Other reserves	**1,193,045**	1,107,920	**1,192,822**	1,107,738
Less: Deferred tax assets	**(48,378)**	(35,182)	**(48,378)**	(35,182)
Less: Investment in subsidiaries	**-**	-	**(15,525)**	(15,525)
Total CET I and Tier I Capital	**4,337,088**	3,997,386	**4,322,052**	3,982,346
Sukuk Murabahah	**700,000**	700,000	**700,000**	700,000
Collective assessment allowance ^	**391,782**	369,414	**391,727**	369,357
Total Tier II Capital	**1,091,782**	1,069,414	**1,091,727**	1,069,357
Total Capital	**5,428,870**	5,066,800	**5,413,779**	5,051,703

^ Collective assessment allowance on non-impaired financing subject to maximum of 1.25% of total credit risk-weighted assets less credit absorbed by unrestricted investment accounts.

	Group		Bank	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Credit risk	**33,908,778**	29,841,140	**33,904,311**	29,836,588
Less: Credit risk absorbed by unrestricted investment accounts	**(2,566,180)**	(288,030)	**(2,566,180)**	(288,030)
Market risk	**609,931**	668,158	**609,931**	668,158
Operational risk	**3,031,801**	2,851,129	**3,014,802**	2,834,709
	34,984,330	33,072,397	**34,962,864**	33,051,425

45. Related party transactions

Identity of related parties

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

The Group has a related party relationship with its subsidiaries (see Note 13) and substantial shareholders of the holding company.

(a) The significant related party transactions of the Group and the Bank, other than key management personnel compensation, are as follows:

	Group Transactions amount for		**Bank Transactions amount for**	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Ultimate holding entity				
<u>*Income*</u>				
Gain from foreign exchange transactions	**62**	239	**62**	239
Wakalah performance incentive fee	**5,328**	400	**5,328**	400
Office rental	**73**	40	**73**	40
Fees and commission	**1**	-	**1**	-
<u>*Expenses*</u>				
Income attributable to depositors	**27,196**	94,232	**27,196**	94,232
Finance cost on Subordinated Sukuk Murabahah	**5,782**	4,001	**5,782**	4,001
Office rental	**22,942**	22,610	**22,942**	22,610
Other rental	**412**	617	**412**	617
Holding company				
<u>*Income*</u>				
Office rental	**986**	976	**986**	976
Others	**19**	19	**19**	19
<u>*Expenses*</u>				
Income attributable to depositors	**3**	3,697	**3**	3,697
Income attributable to investment account holders	**10,382**	2,478	**10,382**	2,478

45. Related party transactions (continued)

(a) The significant related party transactions of the Group and the Bank, other than key management personnel compensation, are as follows (continued):

	Group Transactions amount for		Bank Transactions amount for	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Subsidiaries				
Income				
Fees and commission	**-**	-	**4,296**	4,854
Gain from foreign exchange transactions	**-**	-	**7**	1
Office rental	**-**	-	**358**	383
Others	**-**	-	**72**	808
Expenses				
Fees and commission	**-**	-	**2,458**	2,240
Income attributable to depositors	**-**	-	**232**	253
Other related companies				
Income				
Income from financing, advances and others	**547**	22	**547**	22
Fees and commission income	**49**	193	**49**	193
Gain/(loss) from foreign exchange transactions	**432**	(111)	**432**	(111)
Bancatakaful service fee	**29,059**	22,637	**29,059**	22,637
Office rental	**-**	9	**-**	9
Others	**61**	7	**61**	7
Expenses				
Income attributable to depositors	**11,243**	12,427	**11,243**	12,427
Income attributable to investment account holders	**1,230**	-	**1,230**	-
Finance cost on Subordinated Sukuk Murabahah	**2,765**	128	**2,765**	128
Office rental	**3,119**	3,086	**3,119**	3,086
Other rental	**42**	40	**42**	40
Takaful fee	**3,308**	1,866	**3,064**	1,782

45. Related party transactions (continued)

(a) The significant related party transactions of the Group and the Bank, other than key management personnel compensation, are as follows (continued):

	Group Transactions amount for		Bank Transactions amount for	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Co-operative society in which the employees have interest				
Income				
Income from financing, advances and others	**2,389**	1,696	**2,389**	1,696
Expenses				
Income attributable to depositors	**4**	-	**4**	-
Other rental	**2,130**	2,414	**2,130**	2,414
Others	**173**	132	**173**	132

(b) The significant outstanding balances of the Group and the Bank with related party, are as follows:

	Group Net balance outstanding as at		Bank Net balance outstanding as at	
	31.12.2016 RM'000	**31.12.2015 RM'000**	**31.12.2016 RM'000**	**31.12.2015 RM'000**
Ultimate holding entity				
Amount due from				
Other receivables	**30**	6	**30**	6
Amount due to				
Deposits from customers	**2,309,846**	673,712	**2,309,846**	673,712
Income payable to depositors	**1,438**	5,201	**1,438**	5,201
Subordinated Sukuk Murabahah	**100,000**	100,000	**100,000**	100,000
Finance cost Payable on Subordinated Sukuk Murabahah	**1,103**	1,118	**1,103**	1,118
Commitment and contingencies	**60**	127	**60**	127
Other payables	**27**	-	**27**	-
Holding company				
Amount due from				
Other receivables	**175**	215	**175**	215

45. Related party transactions (continued)

(b) The significant outstanding balances of the Group and the Bank with related party, are as follows (continued):

	Group Net balance outstanding as at		Bank Net balance outstanding as at	
	31.12.2016 RM'000	**31.12.2015 RM'000**	**31.12.2016 RM'000**	**31.12.2015 RM'000**
Holding company (continued)				
Amount due to				
Deposits from customers	**640**	619	**640**	619
Investment account of customers	**204,735**	213,827	**204,735**	213,827
Income payable to investment account holders	**1,242**	966	**1,242**	966
Other payables	**-**	65	**-**	65
Subsidiaries				
Amount due from				
Redeemable non-cumulative preference shares	**-**	-	**2,011**	2,011
Others	**-**	-	**70**	188
Amount due to				
Deposits from customers	**-**	-	**8,853**	38,082
Income payable to depositors	**-**	-	**48**	19
Other related companies				
Amount due from				
Financing, advances and others	**3,590**	442	**3,590**	442
Other receivables	**-**	7	**-**	7
Amount due to				
Deposits from customers	**709,037**	444,969	**709,037**	444,969
Investment account of customers	**33,655**	-	**33,655**	
Income payable to depositors	**2,381**	569	**2,381**	569
Income payable to investment account holders	**7**	-	**7**	-

45. Related party transactions (continued)

(b) The significant outstanding balances of the Group and the Bank with related party, are as follows (continued):

	Group Net balance outstanding as at		Bank Net balance outstanding as at	
	31.12.2016 RM'000	**31.12.2015 RM'000**	**31.12.2016 RM'000**	**31.12.2015 RM'000**
Other related companies (continued)				
Amount due to				
Subordinated Sukuk Murabahah	**50,000**	50,000	**50,000**	50,000
Finance cost payable on Subordinated Sukuk Murabahah	**136**	128	**136**	128
Commitment and contingencies	**6,772**	7,163	**6,772**	7,163
Co-operative society in which the employees have interest				
Amount due from				
Financing, advances and others	**38,357**	38,436	**38,357**	38,436
Amount due to				
Deposits from customers	**2,138**	435	**2,138**	435

46. Credit transactions and exposures with Connected Parties

	Group and Bank	
	31.12.2016 RM'000	**31.12.2015 RM'000**
Outstanding credit exposures with connected parties	**2,235,730**	1,095,130
% of outstanding credit exposures to connected parties as a proportion of total credit exposures	**5.61%**	3.13%
% of outstanding credit exposures with connected parties which is non-performing or in default	**0.001%**	0.001%

The above disclosure on Credit Transaction and Exposures with Connected Parties is presented in accordance with Para 9.1 of Bank Negara Malaysia's Revised Guidelines on Credit Transaction and Exposures with Connected Parties.

47. Subsequent event

There were no material events subsequent to the end of the financial year that require disclosure or adjustments to the financial statements.