

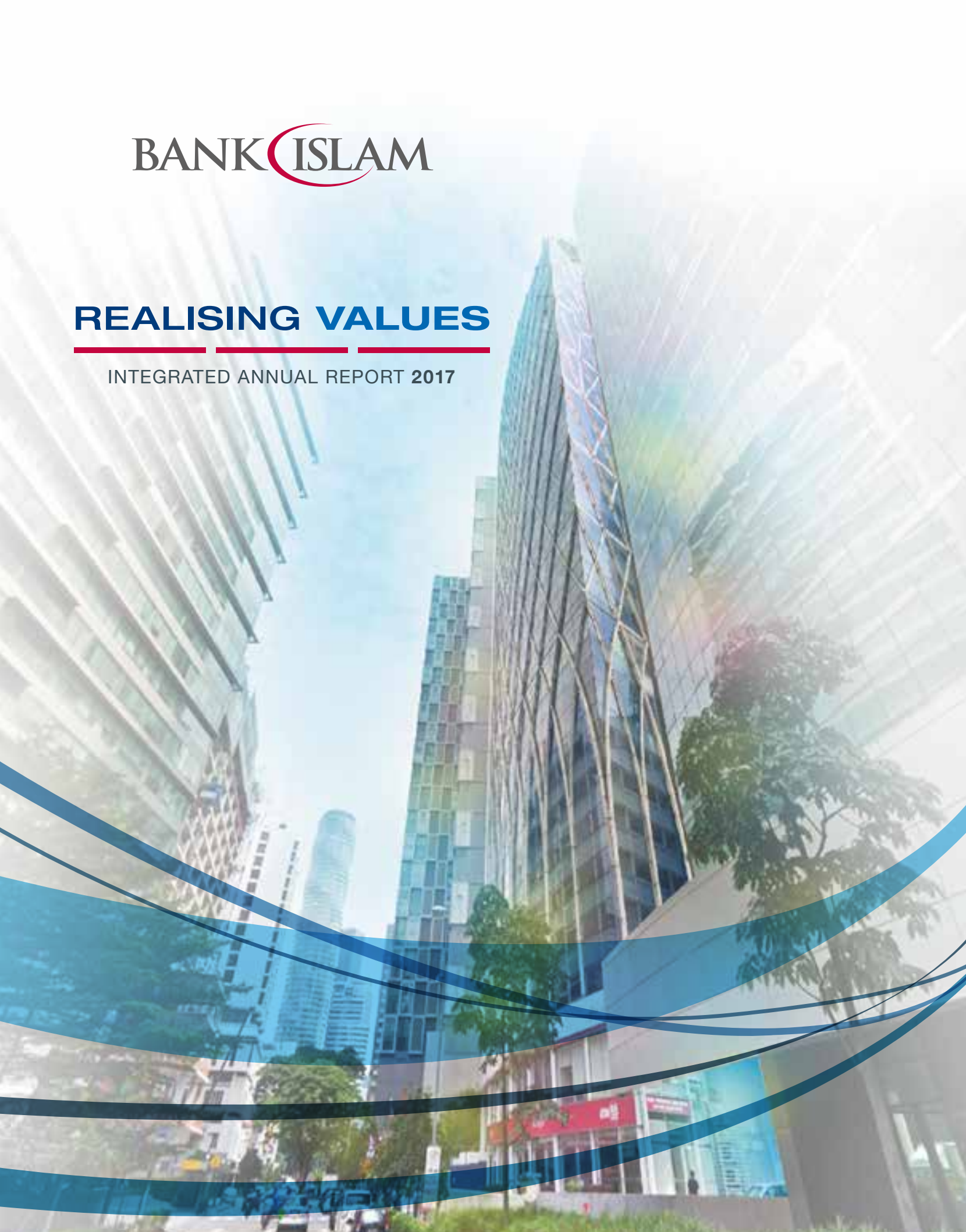


BANK ISLAM

# REALISING VALUES

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INTEGRATED ANNUAL REPORT 2017



# ABOUT THIS REPORT



Bank Islam is one of Malaysia's nine Islamic banking players committed as an early adopter of Bank Negara Malaysia's Value-based Intermediation initiative. This is aimed at moving the Islamic financial industry to the next level of growth by strengthening the impact of Islamic banking institutions in generating positive and sustainable impact to the economy, community and environment by relying on Shariah in determining underlying values, moral compass and priorities.

Our 2017 annual report is an integrated report that allows us to demonstrate our commitment to realise value for our stakeholders and provide details of our opportunities and challenges in doing so, as well as our strategies for the future.



## REALISING VALUES

[www.bankislam.com.my/home/corporate-info/annual-reports/](http://www.bankislam.com.my/home/corporate-info/annual-reports/)

This year's Integrated Annual Report's theme of Realising Values conveys the importance we continue to place on our core values, Islamic values and the real value we intend to generate for our economy and society. Key to our progress as an organisation is the ability to create and deliver value to our multitude of stakeholders – customers, employees, regulators, shareholders, vendors, suppliers, communities. In 2017, we have begun to prioritise greater stakeholder engagement to better understand what they value, so we can generate real benefits for them, and create positive impact to our business.

## OUR COMMITMENT TO INTEGRATED REPORTING

We are committed to the principles of integrated reporting as it aligns with our long-term value creation and the role we play as an Islamic bank in society, and makes corporate reporting more transparent and meaningful for our stakeholders. We are mindful that there is more we need to do to truly claim to be an integrated report. Our journey has just begun and together with us, our subsidiaries too have taken the initial step towards developing an integrated reporting mindset.



As part of our efforts to create greater accessibility through technology, and in line with environmental efforts to go paperless, scan this QR Code with your smartphone to view this integrated annual report online.



### Get it

Download the "QR Code Reader" app from the Google Play (Android Market), BlackBerry AppWorld, App Store (iOS/iPhone) or Windows Phone Store



### Run it

Run the QR Code Reader app and point your camera at the QR Code



### Access it

Access information and updated news about Bank Islam

## COMPLIANCE AND ASSURANCE

Our report complies to Malaysian Financial Reporting Standards and reporting requirements under the Companies Act 2016. The annual financial statements for the financial year ended 31 December 2017 are audited by KPMG Malaysia.

## SCOPE

All information included in this report refers to the year ended 31 December 2017, unless otherwise stated. The content of this report is the result of extensive engagement with our Board of Directors and Management Team as well as initial feedback from our stakeholder engagement efforts. A significant component of this stakeholder engagement is the materiality assessment which identifies the material matters that are most likely to impact our business. For more information on the material matters refer to page 28 of this report.



## DRIVERS

The Bank is committed to four common underpinning thrusts of Value-based Intermediation as established by Bank Negara Malaysia for Islamic banking institutions:

### ENTREPRENEURIAL MINDSET:

Greater involvement in facilitating entrepreneurial activities through holistic offerings.

### BEST CONDUCT :

Adoption of practices that improve offerings, processes and treatment towards stakeholders.

### COMMUNITY EMPOWERMENT:

Through provision of financial solutions that create positive impact with a balanced consideration between commercial and social aspects.

### GOOD SELF-GOVERNANCE:

Inculcating organisational discipline and ensuring meaningful participation of all stakeholders in the governance framework.

These thrusts are incorporated in the following material matters of our parent company, BIMB Holdings Berhad, upon which our strategies are solidly anchored.



### RESPONSIBLE FINANCE

Developing ethical products and services that bring positive economic, social and environmental benefits



### RESPONSIBLE EMPLOYER

Growing our employees to become valuable assets and be the best they can be



### INCLUSIVE GROWTH

Ensuring that all layers of community grow along with us through inclusive financial offerings



### ETHICAL PRACTICE & REPORTING

Ensuring that our practices are governed by our core values, and that social and environmental considerations are consistently our top priorities

More information on these drivers can be found on Our Value Creation

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# BANK ISLAM'S AWARDS & ACCOLADES

We achieved a holistic array of awards that reflect the Bank's focus on delivering value in all aspects of our business.



- **VOTED TOP 3 MOST POPULAR GRADUATE EMPLOYER**

in Banking and Financial Services Sector 2017

- **RANKED TOP 20 IN MALAYSIA'S 100 LEADING GRADUATE EMPLOYERS 2017**

for the fourth consecutive years, putting us amongst the country's top recruiters

- **BEST SUSTAINABILITY**

at the Islamic Business & Finance South East Asia Awards 2017

- **BEST ADVERTISING CAMPAIGN**

at the Islamic Business & Finance South East Asia Awards 2017

- **MOST OUTSTANDING ISLAMIC RETAIL BANK**

at the KLIF Islamic Finance Awards 2017

- **COMPANY OF THE YEAR AWARD (BANKING CATEGORY – GLC)**

at the CSR Malaysia Awards 2017

- **LARGEST PAYMENT VOLUME – ISLAMIC DEBIT CARD AWARD**

by Visa Malaysia Bank Awards

- **HIGHEST PAYMENT VOLUME GROWTH – DEBIT CO-BRAND CARD AWARD**

by Visa Malaysia Bank Awards

- **BEST ISLAMIC ESG BANK**

by The Assets Asian Awards 2017

- **BEST ISLAMIC FINTECH DEAL**

by The Assets Asian Awards 2017

- **BEST CUSTOMER EXPERIENCE (DIRECTDEBIT)**

at the Malaysian e-Payments Excellence Awards 2017 by MyClear

- **HIGHLY COMMENDED AWARD FOR BEST NEW PRODUCT, SERVICE OR INNOVATION LAUNCH**

at the Retail Banker International Asia Trailblazer Awards 2017 by Retail Banker International



The full list of 2017 awards and past awards can be accessed at [www.bankislam.com.my](http://www.bankislam.com.my)



ABOUT  
US

**In 1983, we took a bold step to become the first Islamic bank in Malaysia. Since then, we have been growing as a full-fledged Islamic banking institution with more than four million customers nationwide at present. In addition, we have been recognised as the source of Islamic banking reference and guidance, with the responsibility to grow the industry and bringing further advancement to the Islamic financial system.**

Right from the start, Bank Islam has lived up to its name by offering pure Shariah-compliant solutions. Through our continuous innovations, we offer a diversified range of solutions that meet our customers' financial needs. Our structured operations and capable people are dedicated to delivering exceptional banking experience to our customers and supporting them in the moments that matter most. We provide the widest network of dedicated Islamic banking channels with 147 branches and more than 1,100 self-service terminals nationwide.

Our effort to expand our market presence is intensified by our endeavour to build our digital banking capability. We develop strategies and platforms related to Financial Technology ("FinTech") that will enable us to better connect with our customers, ushering in a new era of banking experience and service excellence. Our continuous digital innovations help us to promote the idea of inclusive growth as we aim at creating more economic opportunities within our business and the communities we operate in, supporting our ongoing efforts to develop the **real economy**.

Through our strict adherence to Shariah rules and principles, we have earned a reputation as an ethical and trustworthy banking institution. Our commitment to upholding strong

corporate governance has ensured that we consistently make the right decisions in looking after the best interest of our stakeholders.

Being a fully Shariah-compliant organisation, our ingrained values and principles have instilled upon us a sense of responsibility in ensuring the well-being of the society and natural environment. Through our community engagement programmes, we have been instrumental in uplifting the lives of needy communities as well as preserving our precious natural ecosystem.

Today, Bank Islam is taking another step forward as we assume our responsibility to strengthen the role and impact of Islamic finance. By adopting the principles of **Value-based Intermediation ("VBI")** as advocated by Bank Negara Malaysia, we commit ourselves to becoming a responsible financial institution that is dedicated to upholding the shared values of integrity, inclusivity and sustainability. As we embark on this journey, Bank Islam is building a sustainable future that promotes inclusive economic and social progress for our stakeholders, and at the same time offers a better, faster and fairer service for the benefit of all.



# OUR VISION, MISSION & CORE VALUES



## VISION TO BE A GLOBAL LEADER IN ISLAMIC BANKING

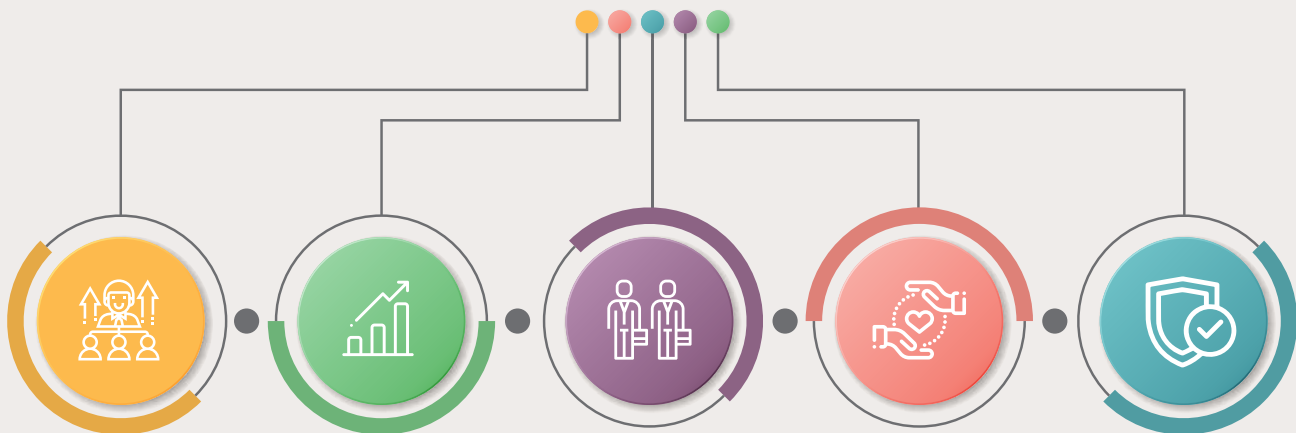
“**Global Leader**” is defined as being the ultimate guidance and source of reference for innovative Shariah-based products and services



## MISSION STATEMENT

- To continually develop and innovate universally accepted financial solutions in line with Shariah principles
- To provide a reasonable and sustainable return to shareholders
- To provide a conducive working environment and to become an Employer of Choice for top talents in the market
- To deliver comprehensive financial solutions of global standards using state-of-the-art technology
- To be a responsible and prudent corporate citizen

OUR VALUES DEFINE WHO WE ARE AS AN ORGANISATION AND WHAT DISTINGUISH US FROM OTHER BANKS



**A LEADER**

Our Islamic products are the Benchmark.  
Reputed as the pioneer in Islamic banking, we helped build the Islamic banking industry.

**DYNAMIC**

Progressive and Innovative.  
We are constantly moving ahead as we offer new and technologically advanced products and services.

**PROFESSIONAL**

Fast, Efficient and Responsive Service.  
We are knowledgeable and equipped to handle global business challenges.

**CARING**

Approachable and Supportive Partner.  
We help fulfil every customer's financial needs.

**TRUSTWORTHY**

Dependable and Reliable.  
100% Shariah-compliant products, services and corporate values.

# OUR EMPLOYEE VALUE PROPOSITION



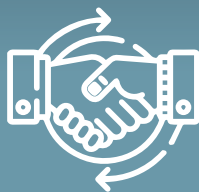
**WORKING WITH THOUGHT  
LEADERS OF ISLAMIC FINANCE**



**MAXIMISING POTENTIAL**



**BEYOND WORK AND LIFE**



**LIVING THE UNIVERSALLY  
ACCEPTED GOOD VALUES**

## What it means to be here...

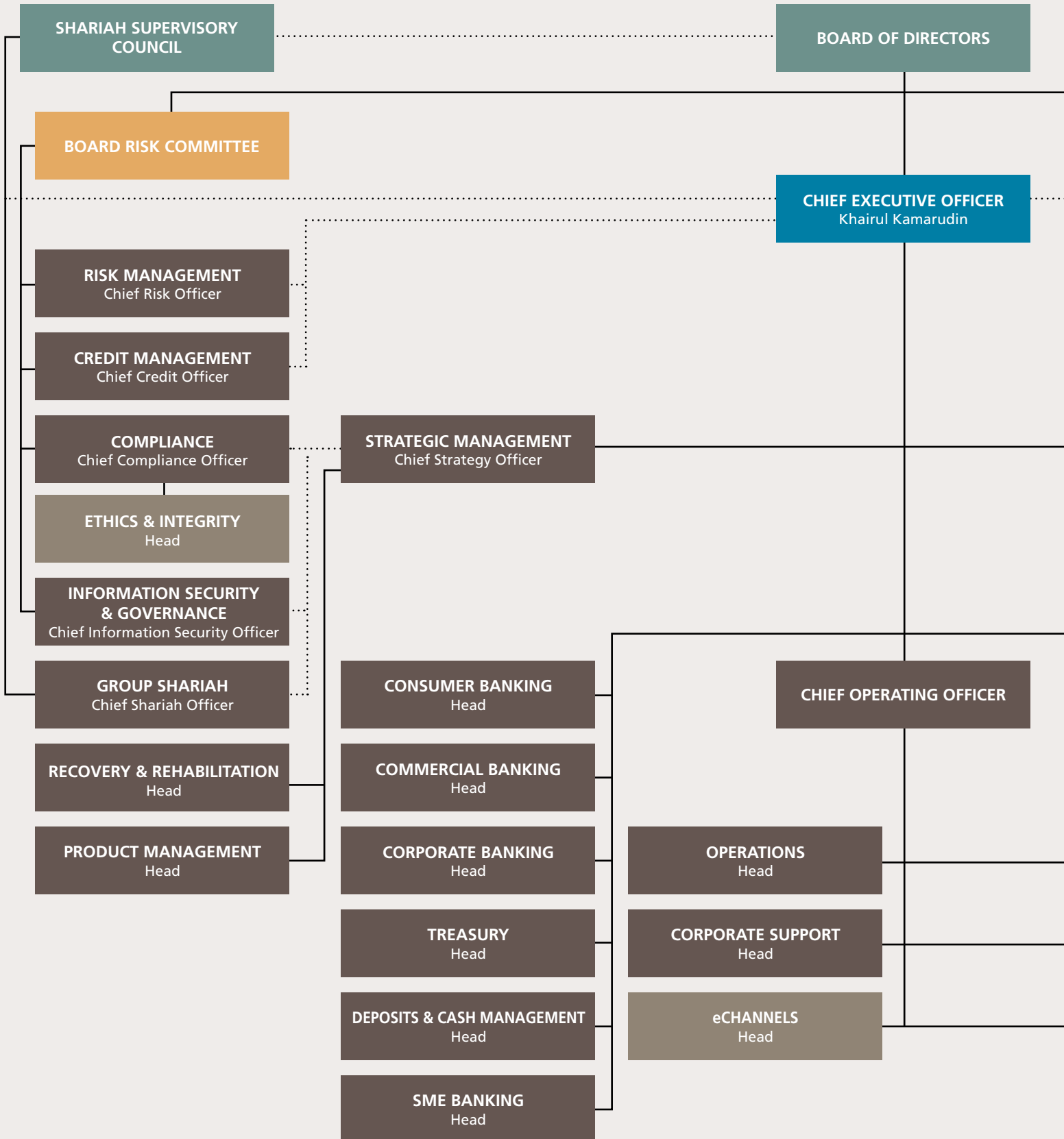
Working in Bank Islam means working with the best minds in the industry. We are the pioneer and acknowledged leader of Islamic finance which continue to meet the needs for Shariah-compliant financial solutions. It provides great opportunities for idea sharing and knowledge development.

We bring out the best in our people through a lifelong and multi-faceted learning approach. We provide a platform which allows employees to explore, develop and fulfil their ambitions, both personally and professionally. We go beyond the norm to ensure the holistic development of our people.

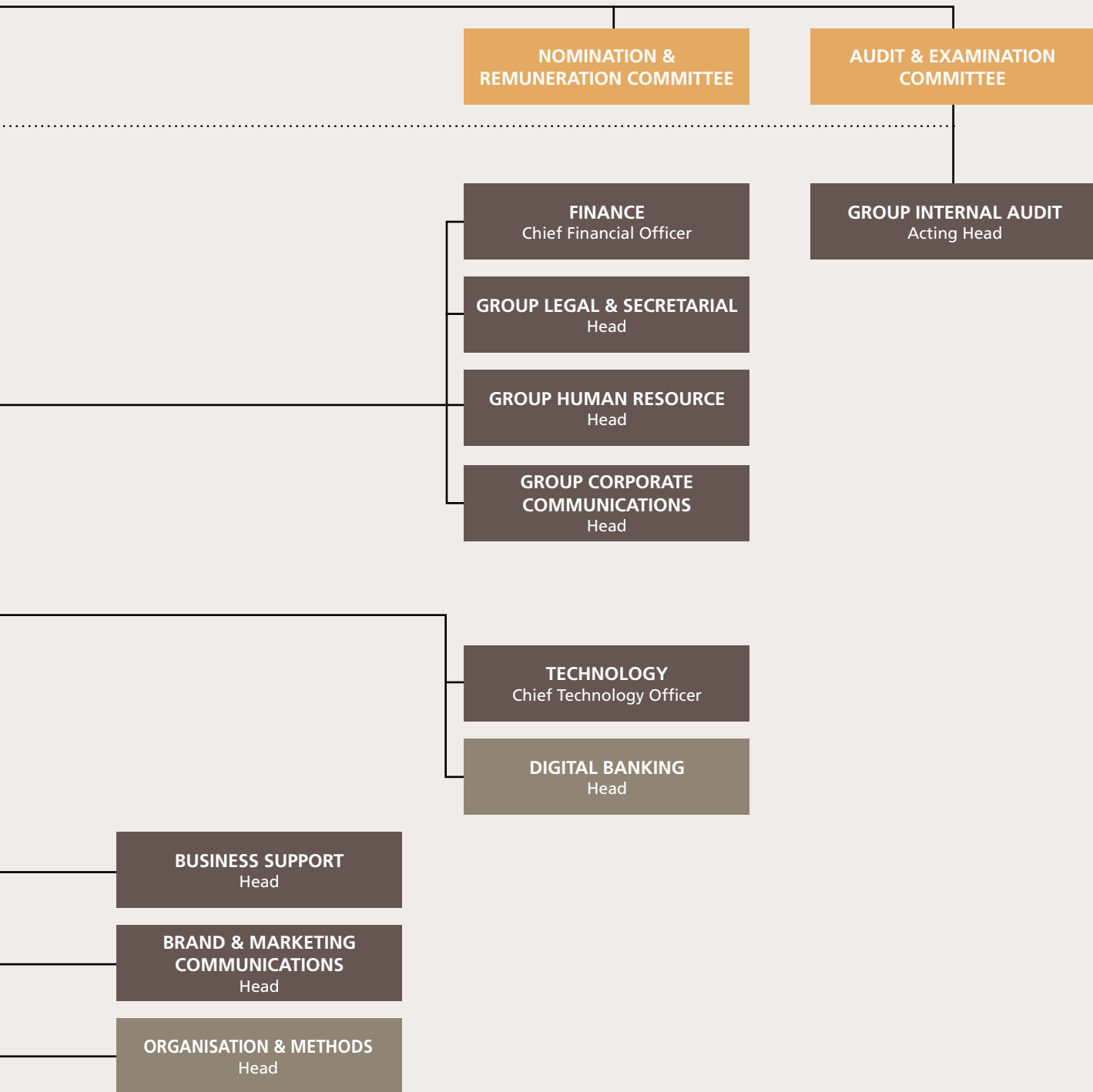
We believe in a balanced approach to work and life, allowing our employees to grow and benefit both professionally and spiritually. As we grow our businesses, we believe in giving back to society through various initiatives as this would enable the community to develop further. We also recognise the importance of contributing back to the ecosystem we operate in.

At Bank Islam, we believe in living the universally accepted good values. You will discover a workplace that thrives on professionalism, integrity, mutual respect and care for each other. We also believe in being inclusive in propagating and practicing these good values.

# OUR ORGANISATION CHART







DIVISION

DEPARTMENT

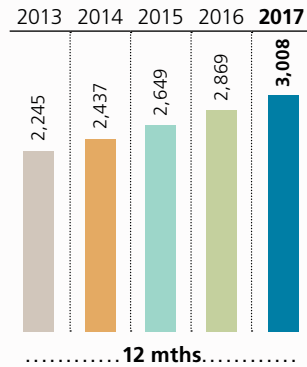
# OUR FINANCIAL HIGHLIGHTS

## GROUP FINANCIAL YEAR ENDED 31 DECEMBER

	2017	2016	2015	2014	2013
<b>Operating Results (RM'000)</b>					
Total Revenue	3,008,181	2,868,781	2,649,396	2,436,826	2,245,105
Income attributable to depositors and investment account holders	1,208,337	1,108,024	1,031,693	851,126	779,465
Profit before Zakat and Tax	767,053	720,412	685,661	702,751	677,283
Profit after Zakat and Tax	566,118	530,962	507,262	510,502	485,726
<b>Key Statements of Financial Position Items (RM'000)</b>					
Total Assets	57,742,914	55,676,697	49,763,719	45,820,682	42,811,371
Total Financing	42,113,420	39,189,274	34,294,690	29,524,571	23,740,948
<i>of which:</i>					
Gross Impaired Financing	398,277	389,445	381,270	344,539	285,302
Securities	9,633,608	10,589,824	10,421,041	11,219,044	13,697,143
Deposits from Customers	46,192,910	45,940,414	43,556,350	41,010,332	37,245,002
<i>of which:</i>					
Current and Savings Deposits ("CASA")	15,472,127	14,133,576	15,256,290	15,626,738	14,562,601
Investment Accounts of Customers	4,260,185	3,812,261	676,105	–	–
Subordinated Sukuk Murabahah	1,006,486	704,393	704,380	–	–
Shareholders' Equity	4,959,704	4,385,466	4,032,568	3,729,590	3,326,835
<i>of which:</i>					
Share Capital	2,869,498	2,404,384	2,363,283	2,319,907	2,298,165
<b>RATIO ANALYSIS</b>					
Return on Assets	1.35%	1.37%	1.43%	1.59%	1.69%
Return on Equity	16.42%	17.12%	17.67%	19.92%	21.07%
Cost Income Ratio	57.26%	52.82%	52.67%	52.13%	54.54%
Capital Adequacy Ratio	16.44%	15.52%	15.32%	13.36%	14.06%
Gross Impaired Financing Ratio	0.93%	0.98%	1.09%	1.14%	1.18%
Financing to Available Fund Ratio - excluding Investment Accounts of Customers	81.41%	77.31%	77.46%	73.42%	65.09%
Earnings per Share	23 sen	22 sen	22 sen	22 sen	22 sen
Net Tangible Assets Backing	173 sen	182 sen	171 sen	161 sen	145 sen

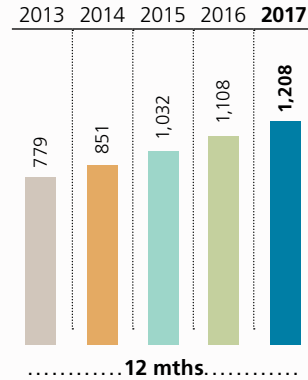
**TOTAL REVENUE**

RM Million



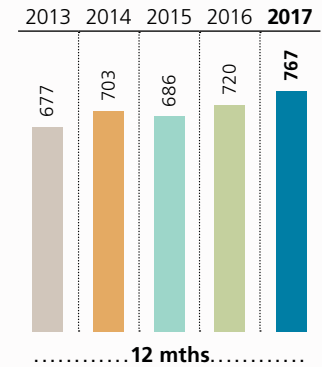
**INCOME ATTRIBUTABLE TO DEPOSITORS AND INVESTMENT ACCOUNT HOLDERS**

RM Million



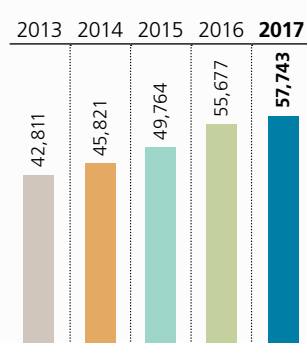
**PROFIT BEFORE ZAKAT AND TAX**

RM Million



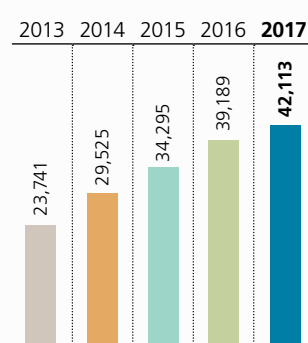
**TOTAL ASSETS**

RM Million



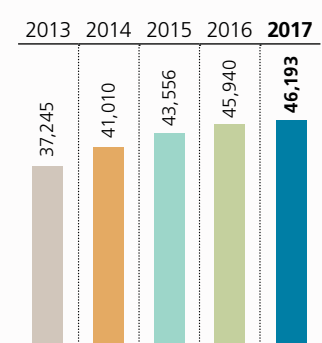
**TOTAL FINANCING**

RM Million



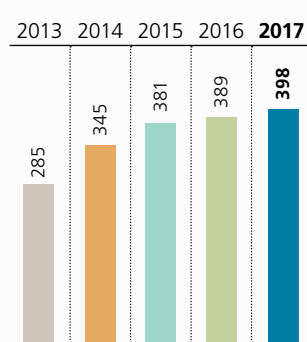
**DEPOSITS FROM CUSTOMERS**

RM Million



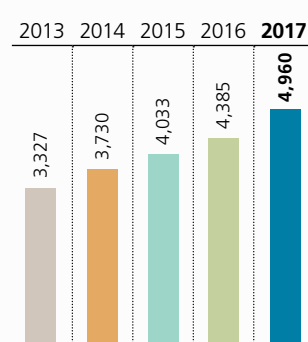
**GROSS IMPAIRED FINANCING**

RM Million



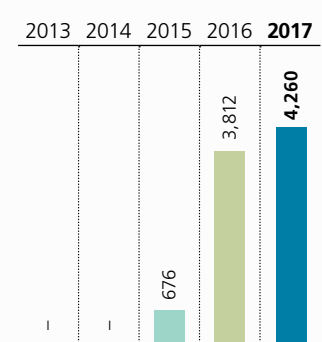
**SHAREHOLDERS' EQUITY**

RM Million

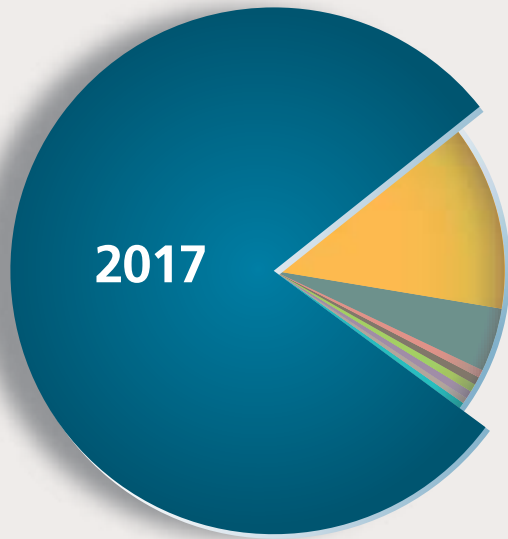


**INVESTMENT ACCOUNTS OF CUSTOMERS**

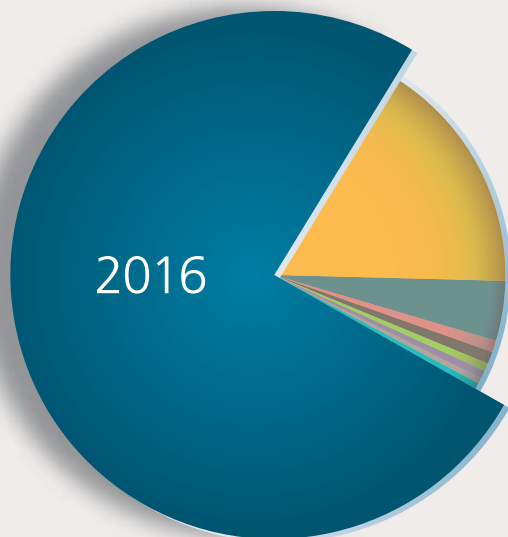
RM Million



## FINANCING BY CONTRACT (RM'000)



At-Tawarruq	■	RM34,280,067 (80.3%)
Bai' Bithaman Ajil	■	RM5,731,253 (13.4%)
Murabahah	■	RM1,960,925 (4.6%)
Bai' Al-Inah	■	RM97,934 (0.2%)
Bai' Al-Dayn	■	RM186,433 (0.4%)
Istisna'	■	RM145,288 (0.4%)
Ijarah Thumma Al-Bai'	■	RM108,869 (0.3%)
Ijarah Muntahiah Bit-Tamleek	■	RM87,945 (0.2%)
Ar-Rahnu	■	RM87,222 (0.2%)

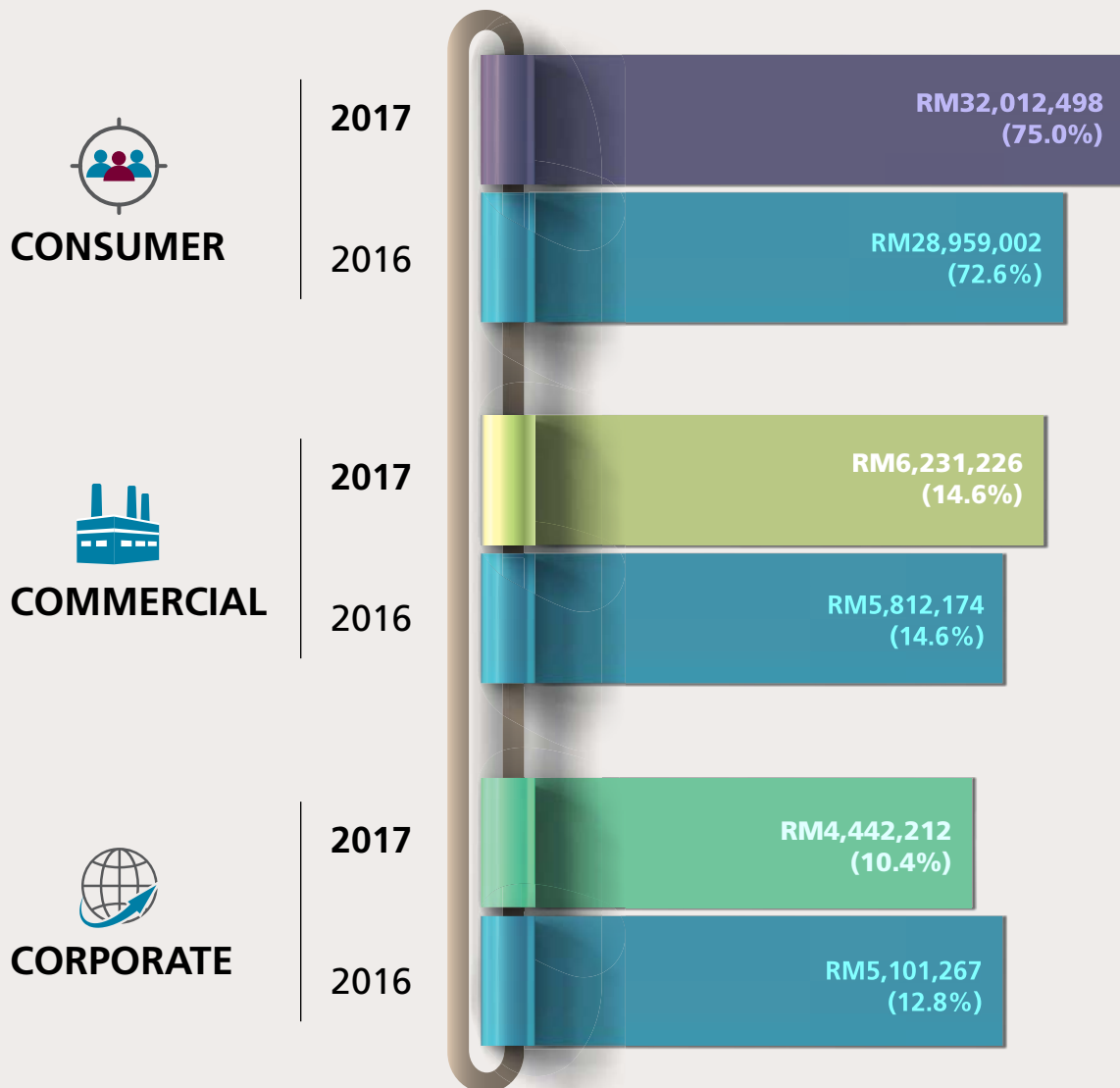


At-Tawarruq	■	RM30,607,236 (76.8%)
Bai' Bithaman Ajil	■	RM6,654,178 (16.7%)
Murabahah	■	RM1,684,609 (4.2%)
Bai' Al-Inah	■	RM289,272 (0.7%)
Bai' Al-Dayn	■	RM180,010 (0.5%)
Istisna'	■	RM157,122 (0.4%)
Ijarah Thumma Al-Bai'	■	RM124,091 (0.3%)
Ijarah Muntahiah Bit-Tamleek	■	RM90,610 (0.2%)
Ar-Rahnu	■	RM85,315 (0.2%)



## FINANCING BY SEGMENT OF BUSINESS UNITS (RM'000)

INTEGRATED  
ANNUAL  
REPORT  
2017



## CHAIRMAN'S OVERVIEW

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

IN THE NAME OF ALLAH, THE MOST GRACIOUS,  
THE MOST MERCIFUL

السلام عليكم ورحمة الله وبركاته

ASSALAMUALAIKUM WARAHMATULLAHI WABARAKATUH



**DATUK ZAMANI ABDUL GHANI**  
Chairman



PROFIT BEFORE ZAKAT  
AND TAX GROWTH

**+6.5%**



PROFIT BEFORE  
ZAKAT AND TAX

**RM767.1** million

## DEAR VALUED SHAREHOLDERS,

**REALISING VALUE** IS A THEME THAT HAS ALWAYS REVERBERATED THROUGH MANY ASPECTS OF BANK ISLAM'S BUSINESS. BUT IN 2017, IT TOOK ON PARTICULAR SIGNIFICANCE AS THE BANK ISLAM GROUP ("BANK ISLAM" OR "THE BANK") BECAME AN EARLY ADOPTER OF THE BANK NEGARA MALAYSIA-LED VALUE-BASED INTERMEDIATION ("VBI") INITIATIVE WHICH CALLS FOR A REFINED BUSINESS MODEL THAT FOCUSES ON THE IMPACT OF OUR BANKING BUSINESS TO VARIOUS STAKEHOLDERS. TODAY, VBI IS AT THE HEART OF OUR BUSINESS OPERATIONS TO DELIVER A SUSTAINABLE PERFORMANCE WITH A STRATEGIC FOCUS TO SUPPORT ECONOMIC, SOCIAL AND ENVIRONMENTAL DEVELOPMENT.

The Bank has initiated the development of adequate processes, methodologies and tools to identify and monitor the positive impact of our financing products. This requires a paradigm shift in our business practices particularly in our screening process that not only considers Shariah aspects but takes into account the consequences of our financing to today's society, and subsequently our future generation. This is to realise the elements of *Maqasid Al-Shariah* (Objectives of Shariah) which form part of *Dharuriyyat* (Essential).

Under the concept of VBI, the Bank continues to embrace the client-centred culture that preserves long-term relationships with our customers. During the year, Bank Islam enhanced its infrastructure and delivery system to improve customer experience. Moving forward, Bank Islam will also encourage greater transparency among our clients in disclosing their business impact on community wellbeing, sustainable environment and economic growth.

It is a timely and vital move as while the Malaysian Islamic banking industry is growing, annual growth rate has reduced from double-digit to single-digit expansion, which signals the need for Islamic banks in Malaysia to explore new opportunities for sustained growth. Through VBI's focus on enhanced stakeholder relationships, greater windows of opportunities for business growth can be harnessed.

**VALUE EARNED**

The year saw the changing of guard within our organisation amidst continued challenges for the banking industry at large. Alhamdulillah, I am pleased to report that the Bank remained strong, ending the year 2017 with commendable 6.5% increase in Profit Before Zakat and Tax ("PBZT") to RM767.1 million and dividend payout of RM282.5 million, which was approximately 50% of Profit After Zakat and Tax ("PAZT"). Our pre-tax Return on Equity ("ROE") of 16.4% and Return on Asset ("ROA") of 1.4% remain as one of the highest in the industry. This is the result of our continued execution of the 3D (Defensive Strategy, Deposit Drive and Digitalisation) strategy that has been put in place.



For a more detailed analysis of our Financials, please refer to pages 159 to 258.

**VALUE REALISED**

The Bank's focus on holistic value delivery continued to be recognised by the industry. At the "Islamic Business & Finance South East Asia Awards 2017", Bank Islam was recognised for "Best Sustainability". It was also named "Most Outstanding Islamic Retail Bank" at the Kuala Lumpur Islamic Finance Forum ("KLIFF") Islamic Finance Awards 2017.

Continuing to make waves in the cards business, the Bank received the "Largest Payment Volume – Islamic Debit Card Award" and the "Highest Payment Volume Growth – Debit Co-Brand Card Award" by Visa Malaysia Bank Awards. This was followed by the "Best Customer Experience (DirectDebit) in Malaysian e-Payments Excellence Awards 2017" by MyClear.

Premised on our innovative e-Donation service, Bank Islam won the "Highly Commended Award for Best New Product, Service or Innovation Launch" at the Retail Banker International Asia Trailblazer Awards 2017 and "The Asset Triple A Digital Awards" by The Asset Asian Awards for the Best Retail Emerging Digital Technologies. We also clinched the "Best Islamic FinTech Deal" and the "Best Islamic ESG Bank" at The Assets Asian Awards 2017, a testament to our success in entering new frontiers. On the Corporate Responsibility ("CR") front, the impact of our AMAL programmes gained us prestige as "Company of the Year Award (Banking Category – GLC)" at the CSR Malaysia Awards 2017.

Finally, we were proud to be voted "Top 3 Most Popular Graduate Employer in Banking and Financial Services Sector", ahead of many leading financial institutions and ranked "Top 20 in Malaysia's 100 Leading Graduate Employers 2017" both for the fourth consecutive year, making us amongst the country's top recruiters. This has been the result of the Bank's focus on enhancing staff welfare and benefits as well as talent enrichment initiatives. These include the creation of Staff Ihtimam Fund, which aims at helping our staff or dependants of deceased employees, who are faced with personal hardship. A host of other benefits such as 90-day paid maternity leave, seven days paternity leave and early release for expectant female employees have also been approved in 2017 in our quest to make the Bank a company our employees are proud to work for.

**PRESERVING VALUES**

As an Islamic bank, trust in our commitment for the greater good is the value-added advantage many seek in our business. It builds trust among our stakeholders that we practice Zero-Tolerance policy on corruption and unethical practices.

Our culture centres on observing strict Shariah-compliant practices in all we do, be it our business activities or operations. The Bank follows through the culture of integrity, transparency and good governance in our practice. During the year, initiatives to strengthen our corporate and conduct culture include enhancement of our whistle-blowing policy and establishment of a dedicated Ethics & Integrity department.





The Bank's efforts to promote awareness of the compliance culture are continuous so as to ensure customers' data protection and combat money laundering. The Bank consistently carries out education and awareness on compliance through its compulsory e-Learning courses for all employees on subject matters, such as, Anti-Money Laundering and Counter-Financing of Terrorism Awareness and Information Secrecy and Data Protection. All these initiatives embed the ownership and responsibility of risk and compliance across all businesses, support units and branches.



For more information on our Ethics, Integrity & Trust, please refer to pages 108 to 143.

### ADVANCING ON VALUE CREATION

We intend to continue our efforts in serving the real economy through greater participation in the SME (small and medium-sized enterprise) sector that could potentially create greater multiplier effects to the economy and job opportunities. One of the strategies is to provide financing to the supply chain while working closely with existing corporate clientele.

As part of the Bank's strategic agenda for social finance, the Bank has established Sadaqa House, an initiative to promote economic development in the underserved sectors through a crowdfunding platform. Through Sadaqa House, the public can contribute to realising social finance projects for sectors such as healthcare, education and other social ventures.



For more information on our Value Creation, please refer to pages 22 to 29.

### ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to record my utmost gratitude to Dato' Sri Zukri Samat who retired on 9 June 2017. Since his appointment in 2006 to help turn around the Bank's prospects then, Dato' Sri Zukri has been pivotal in the Bank's successful transformation and series of pioneering milestones thereafter. He has instituted a strong culture of integrity among the workforce through his exemplary leadership and conduct.

The Board warmly welcomes Encik Khairul Kamarudin who took over the reins of management on 14 June 2017. As the Bank's former Deputy Chief Executive Officer, he was part of the succession plan that has been put in place. Encik Khairul joined Bank Islam in 2005 and played a vital role in transforming the Bank's business. The Board has high confidence in his leadership to continue executing the strategy formulated to propel Bank Islam to greater heights.



We would like to welcome two of our new Board of Directors Dato' Sri Khazali Ahmad and Encik Azizan Ahmad who assumed their roles effective 2 January 2018. Also, to Dato' Dr Haji Anhar Haji Opir who was appointed as a member of our Shariah Supervisory Council ("SSC") in April 2017. We look forward to their contributions and the benefit of their wisdom. Our sincere appreciation to Ustaz Dr Muhammad Syafii Antonio, member of the SSC and Encik Muhammad Zahid Abdul Aziz, subject matter expert of SSC who have resigned from the Council in March 2017 for their invaluable contribution to the Bank.

I also take this opportunity to thank the Malaysian government and regulatory authorities, in particular BNM and the Securities Commission, for consistently thinking ahead and putting in place strong sustainable frameworks and infrastructure for the Islamic finance industry. It is through their efforts that Malaysia continues to enjoy a global lead in Islamic finance.

My gratitude extends to my fellow directors, the members of the Bank's Shariah Council and to our diligent and hardworking employees as well, for their contribution to the Bank's growth. Finally, on behalf of the Board, I sincerely thank our shareholders and diverse stakeholders for their strong support and loyalty.

**Datuk Zamani Abdul Ghani**  
Chairman

# Khairul: New leadership to focus on digitalisation

Bank Islam is currently seeking a fit candidate to head its new digital division, according to CEO

by ALIFAH ZAINUDDIN



Empower Malaysia business leader Dzulkipli Yusoff and Khairul Khairi at the strategic collaboration for digital implementation in Kuala Lumpur yesterday.

RECENTLY appointed Bank Islam Malaysia CEO Khairul Khairi said his leadership will see the country's oldest Islamic lender embrace its future in the digital sphere and progress towards value-based banking.

While he commended the contributions made by former CEO Dzulkipli Yusoff, who served from the position for five years before the position for 11 years, Khairul said he intends to make changes within the firm and build on the governance legacy left by his predecessor.

"I have every intent to follow through the culture that Dzulkipli has set up," he said.

The Malaysian Reserve  
03 Aug 2017

Khairul said he intends to make changes within the firm and build on the governance legacy left by his predecessor.

that is close to my heart — value-based banking. Value-based banking means we will not lend to businesses or gambling institutions.

"We really want to grow in value just like the environment, moral and governance systems. We are preparing towards that," Khairul told reporters in Kuala Lumpur yesterday.

In recent years, Bank Islam has introduced several initiatives including the T&F (Trust & Finance) Service and the bank's initiative to adapt financial technology (fintech) in line with directives issued by Bank Negara Malaysia.

Structurally, Khairul said the bank is currently seeking for a fit candidate to head its new digital division.

"We are scouting the market to find a suitable lead for this digital division. While we would like to grow in fintech and digital technology, we would like to maintain our traditional banking business.

"This new division is going to drive our digital banking," he said.

At present, Bank Islam's digital platform caters to only 150,000 users out of its 18 million customer base. Khairul expects the figure to grow over the next two years with the

introduction of at least one new digital product in 2018.

Khairul added that Bank Islam is aiming to narrow its Islamic asset gap with Maybank Islamic (MI), with the latter's assets amounting to RM25.5 billion as at the end of last year. However, he is mindful of the implications of financial asset growth.

"We recognise our playing in the market today. Yes, we agree to close the gap with Maybank but simultaneously, we also have to grow cautiously.

"There are more levers to look at — some look at assets, others look at asset quality.

"While we agree that size is important, we also have to keep in mind that growth can come back to haunt you. So, we want to grow thoughtfully and identify the right lead to have in growing our business," he said.

Khairul's appointment as Bank Islam's new CEO came into effect on June 14, and will span for a period of three years. The move is widely viewed by BNM Holdings Ltd, while Malaysia's prime food brand Lambang Tabung Haji has a 32.3% controlling stake in BIIIB.

www.P1

# BANK ISLAM'S MEDIA HIGHLIGHTS

It was a year of change in leadership but uninterrupted growth as we stayed on track of set strategies and continued to focus on making a real impact.



## Bank Islam assists asnaf entrepreneurs

Bank Islam Malaysia has assisted asnaf entrepreneurs in Sarawak through its Asnaf Entrepreneurship Programme (AEP). The programme provides financial support and training to help asnaf entrepreneurs start and grow their businesses.

The programme is a key initiative of Bank Islam's social responsibility efforts, aimed at supporting the economic growth and development of the asnaf community.

Through the AEP, Bank Islam provides financial assistance, including loans and grants, to asnaf entrepreneurs. The programme also offers training and mentorship to help entrepreneurs develop their skills and knowledge.

The AEP has been successful in assisting many asnaf entrepreneurs to start and grow their businesses, creating jobs and improving their standard of living.



New Sarawak Tribune  
05 Dec 2017



# Bank Islam sumbang buku kepada perpustakaan awam

BANK Islam Malaysia Berhad (Bank Islam) mengumumkan akan menyumbangkan RM457,000 bagi pembelian buku kepada perpustakaan awam, untuk disumbangkan kepada 10 perpustakaan awam.



Sinar Harian 10 Feb 2017

# New houses for 10 families in Negri

Bank also pays for repairs on 10 other houses as part of initiative to assist the poor.

The Star 23 Jan 2017

# BIMB leads Malaysia's Islamic banking sector

Borneo Post (KK) 06 Mar 2017



FAS, Bank Islam Jalir Kerjasama

Utusan Malaysia 01 Apr 2017

# Deposit Bank Islam cecah RM45.9 bilion

Bank Islam Malaysia Berhad (Bank Islam) mengumumkan bahawa deposit Bank Islam telah mencapai RM45.9 bilion pada 31 Disember 2016.

Kosmo 10 Mar 2017



# Zakat fund worth RM92,000 given out



The Star 06 Dec 2017

# Bank Islam buka lebih 63,000 akaun Al-Awfar

Bank Islam Malaysia Berhad mengumumkan telah membuka lebih 63,000 akaun Al-Awfar kepada masyarakat umum.

Utusan Malaysia 10 Oct 2017

# Bank Islam sasar peroleh RM70 juta IAP

Bank Islam Malaysia Berhad (Bank Islam) sasarkan untuk peroleh RM70 juta IAP (Islamic Asset Portfolio) pada tahun ini.

Utusan Malaysia 04 Apr 2017

# Khairul kini CEO baharu Bank Islam

Bank Islam Malaysia Berhad (Bank Islam) mengumumkan Khairul Anwar sebagai CEO baharu.



Utusan Malaysia 14 Jun 2017

# Bank Islam lancar Program Prihatin

Bank Islam Malaysia Berhad (Bank Islam) melancarkan Program Prihatin untuk membantu golongan berpendapatan rendah.

Kosmo 08 Nov 2017

# Bank Islam-Utusan anjur anugerah patuh syariah

Bank Islam Malaysia Berhad (Bank Islam) dan Utusan Malaysia menganjurkan anugerah patuh syariah.

Utusan Malaysia 05 May 2017

# Bank Islam belanja RM5.5j bantu bina, baiki rumah

Bank Islam Malaysia Berhad (Bank Islam) membelanjakan RM5.5 juta untuk membina dan membaiki rumah.

Berita Harian 18 Jan 2017



# Khairul berupaya teruskan kecemerlangan Bank Islam

Bank Islam Malaysia Berhad (Bank Islam) berharap Khairul Anwar dapat teruskan kecemerlangan bank.

Harian Metro 15 Jun 2017

# BIMB Invest targets RM100m BIMB-Arabesque Malaysia fund

BIMB Invest mengumumkan akan menargetkan RM100 juta untuk BIMB-Arabesque Malaysia fund.

Malay Mail 13 Mar 2017

# BIMB builds momentum with higher profit in IQ

BIMB Investment Management Bhd mengumumkan keuntungan yang lebih tinggi dalam IQ.

The Malaysian Reserve 17 May 2017

# Bank Islam menang anugerah

Bank Islam Malaysia Berhad (Bank Islam) memenangi anugerah dalam kategori perbankan Islam.

Utusan Malaysia 14 Jul 2017

# Utusan, Angkasa, Bank Islam rai anak yatim

Utusan Malaysia, Angkasa, dan Bank Islam merayakan Hari Anak Yatim.

# Bank Islam serah hadiah 'Al Awfar 3Xtra Drive'

Bank Islam Malaysia Berhad (Bank Islam) menyerahkan hadiah kepada penerima Al-Awfar 3Xtra Drive.

Berita Harian 10 Mar 2017

# Bank Islam serah zakat pemiagaan RM2 juta

Bank Islam Malaysia Berhad (Bank Islam) menyerahkan zakat pemiagaan RM2 juta kepada penerima.

# Kad Debit Bank Islam Visa MHC d'lancah

Bank Islam Malaysia Berhad (Bank Islam) melancarkan kad debit Bank Islam Visa MHC.

Kosmo 28 Apr 2017

# Kad keahlian untuk profesor

Bank Islam Malaysia Berhad (Bank Islam) melancarkan kad keahlian untuk profesor.

Harian Metro 20 Jan 2017

# Bank Islam perkuh perbankan digital

Bank Islam Malaysia Berhad (Bank Islam) memperkuh perbankan digital.

Berita Harian 03 Aug 2017

# Utusan, Angkasa, Bank Islam rai anak yatim

Utusan Malaysia, Angkasa, dan Bank Islam merayakan Hari Anak Yatim.

Kosmo 30 Aug 2017

# Bank Islam buka cawangan ke-147

Bank Islam Malaysia Berhad (Bank Islam) membuka cawangan ke-147.

Sinar Harian 18 Aug 2017



# OUR BUSINESS MODEL

## KEY INPUTS



### FINANCIAL CAPITAL

- **RM4.86 bil** Common Equity Tier-1 Capital
- **RM1.4 bil** Tier-2 Capital
- **RM5 bil** total equity
- **RM46.2 bil** total deposits
- **RM4.3 bil** in investment accounts (IA)



### INTELLECTUAL CAPITAL

- Pioneering & leading Islamic finance and banking institution
- Robust risk management and governance framework
- Strong brand franchise
- Product innovations – **Waqf House Financing, Investment Account (IA), ESG-compliant funds**
- Service innovations – **TAP, IAP (leading IAP provider), Sadaqa House**
- Strategic partnerships – **Petronas, PTPTN, LTH, STMB, Arabesque, Cognizant, Amanah Ikhtiar Malaysia, Universities** etc.



### INFRASTRUCTURAL CAPITAL

- **147** branches and online platforms
- **5** BDC outlets
- **9** Ar-Rahnu outlets
- **1,117** self-service terminals
- **RM132.3 mil** investment in IT infrastructure
- **RM3.6 mil** investment in mobile banking



### HUMAN CAPITAL

- Attractive **Employee Value Proposition**
- **4,568** employees
- **RM12.8 mil** invested in talent enrichment
- Structured succession planning
- Competitive employee benefits



### SOCIAL & RELATIONSHIP CAPITAL

- More than **4.3 mil** customers
- **RM5.6 mil** invested in community and corporate responsibility projects
- **RM12.9 mil** paid out in zakat
- **AMAL** programmes and initiatives – Flagship for CR activities
- **Sadaqa House** – Flagship for social finance
- Participation in **SL1M** programme
- **416** man-hours spent for CR



### NATURAL CAPITAL

- Environment Impact Screening for credit evaluation
- **Green Financing** portfolio
- Launched first **ESG- & Shariah-Compliant Fund**
- Energy-saving measure
- Paperless initiative

## OPERATING ENVIRONMENT

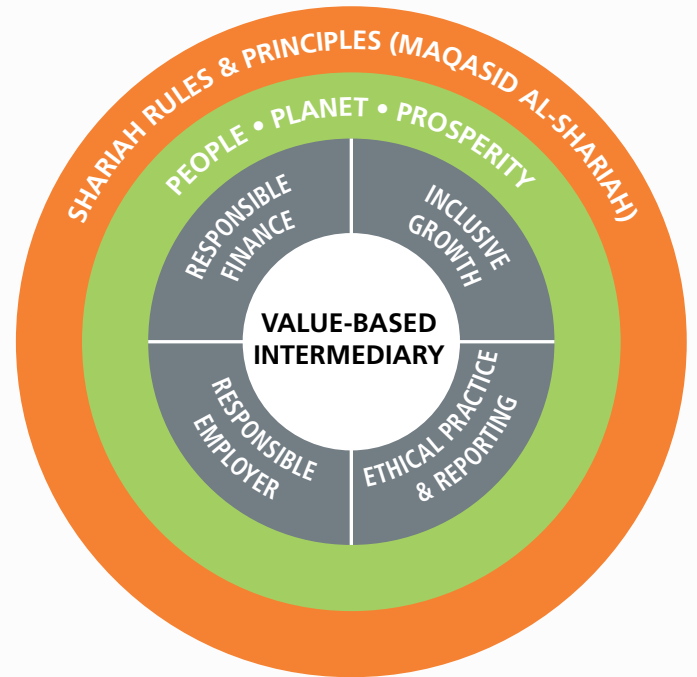
ECONOMIC CONDITIONS

REGULATORY CHANGES

## OUR BUSINESS

GOVERNANCE

RISK AND OPPORTUNITIES



PERFORMANCE

FUTURE OUTLOOK

COMPETITIVE  
LANDSCAPEDIGITAL  
TREND

## 3D BUSINESS STRATEGY

- DEPOSIT DRIVE
- DEFENSIVE STRATEGY
- DIGITALISATION

## PRODUCTS &amp; SERVICES

- Deposit & Investment Accounts
- Consumer Financing
- Business and SME Financing
- Asset-based Financing
- Project and Infrastructure Financing
- Trade Finance
- Wealth Management & BancaTakaful
- Treasury Services
- Cash Management Solutions
- Credit & Debit Cards
- Ar-Rahnu

## KEY OUTPUTS

## CUSTOMERS

- **RM1.1 bil** profits paid to depositors
- **RM0.1 bil** profits paid to investment account holders
- **RM4.3 bil** in new personal financing
- **RM3.2 bil** in new home financing
- **RM2.9 bil** in new business financing
- **RM335.8 mil** in new vehicle financing
- **589,415** TAP subscribers
- **889,645** registered online users with more than **RM6.9 bil** in transactions
- **281,958** PTPN student accounts
- **RM6.1 bil** in transactions for LTH Uniteller Service

## EMPLOYEES

- **RM509.6 mil** paid in remuneration to employees
- **97.07%** retention rate
- More than **164,000** employee training hours
- **301** employees promoted in 2017
- **216** employees obtained professional certificates in 2017
- Workforce diversity

## COMMUNITY

- Total of **RM523.6 mil** financing under Green Financing portfolio
- Total ESG-compliant fund size of **RM400 mil**, the largest Islamic global equity fund in Malaysia (November 2015 – February 2016)
- **RM184.6 mil** paid in corporate taxes (**RM48.3 mil** paid out in GST)
- **477** SL1M participants trained since 2014
- **190** SL1M trainees absorbed since 2014
- More than **23,000** individuals benefitted from CR and zakat activities and programmes
- **2,185** IPTA students benefitted from zakat distribution

## REGULATORS

- Driving **Value-based Intermediary** initiatives
- Commitment to growing **Investment Account** (including via **IAP**)
- Support industry-wide digital agenda
- Maintain composite risk rating
- **RM4.3 mil** paid to PIDM for deposits protection
- Ingrained compliance culture amongst staff

## SHAREHOLDERS

- **16.42%** return on equity
- **1.35%** return on asset
- **16.44%** total capital ratio
- **RM266.5 mil** of dividends paid to shareholders
- Won **10 awards** in 2017

## VENDORS &amp; SUPPLIERS

- Total premium of **RM247.8 mil** paid to BANCA partners
- More than **1,000** registered suppliers
- Approximately **RM500 mil** paid to vendors and business partners

## KEY OUTCOMES

(For more detail, please refer to our Management Discussion & Analysis)

## HOW WE CREATE VALUE

**BANK ISLAM WAS INITIALLY ESTABLISHED FOR THE MUSLIM POPULATION IN MALAYSIA, CATERING TO THEIR NEEDS FOR SHARIAH-COMPLIANT BANKING PRODUCTS AND SERVICES. WE HAVE SINCE EXPANDED OUR SCOPE THAT REFLECTS OUR COMMITMENT TO STRENGTHENING THE ISLAMIC FINANCIAL INDUSTRY, AND OUR BELIEF THAT WE CAN BE A POWERFUL FORCE OF GOOD FOR THE SOCIETY BY DELIVERING ON THE TRUST PLACED ON US AS A RESPONSIBLE FINANCIAL ENTITY.**





WHAT WE DO	HOW WE CREATE VALUE FOR OUR STAKEHOLDERS	STAKEHOLDERS IMPACTED
We provide savings, investment and other forms of client specific products.	We fulfil our customers' need for pure and complete Islamic financial solutions, while safeguarding their investments and wealth, in addition to providing growing returns.	Customers
We provide several access points and methods of banking to facilitate options and to improve customer experience.	We have the country's largest network of dedicated Islamic banking channels, and our continuous efforts to provide new facilities to provide a convenient and secure way for our customers to access our banking products and services.	Customers
We strive to introduce new channels of operation, adopting latest advances in technology.	Our drive for digitalisation will enable us to offer a whole new customer experience as well as increase our financial inclusivity efforts to better serve the underserved community.	Customers
We share market-leading knowledge on Islamic finance with the industry and public to ensure increased understanding.	We play a major role in driving further advancement of the industry, contributing to the country's development as a global Islamic financial centre.	Government and Regulators Customers Industry Peers
We provide technical assistance in the setting-up of Islamic financial institutions globally.	Financial and banking institutions around the world have been seeking our advices and consultations on Islamic financial structure and processes.	Industry Peers
We invest in our people with training and development programmes to attract, cultivate and retain.	Our development programmes and work culture initiatives create highly capable and motivated employees, and also imbue them with values that are aligned with the Bank's culture and enable them to contribute positively to the progress of the society, industry and nation.	Customers Employees






WHAT WE DO	HOW WE CREATE VALUE FOR OUR STAKEHOLDERS	STAKEHOLDERS IMPACTED
We implement initiatives to grow internal talent for upward mobility.	We provide opportunities for our employees to gain professional certifications and develop their careers.	Customers Employees
We manage and execute all our client interactions with the highest degree of professionalism, ethics and transparency.	We earn the trust of our stakeholders by looking after their best interest and ensure that their issues are addressed and resolved in the right manner.	Customers Government and Regulators Local Communities
We champion ESG principles in our customer screening.	We take great responsibility in ensuring we do not conduct any business dealings with corporations or entities that are involved in activities that are harmful to the society and environment.	Government and Regulators Local Communities
We embark in activities that benefit marginalised communities.	We strengthen the society by contributing towards socio-economic progress, building financial resilience and social cohesion, as well as contributing to environmental wellbeing.	Local Communities
We have an increasing green financing portfolio to ensure sufficient financial support to the renewable energy market.	We look after the wellbeing of our precious natural resources by providing support to companies or projects that generate benefits to the people through the implementation of environmental-friendly solutions and green technology.	Government and Regulators Local Communities
We adopt sustainable practices as far as possible both internally and externally.	We strengthen our resolve towards sustainability with our commitment to create long-term value for our stakeholders, contributing to the growth of our organisation, our people, the economies and the communities we operate in.	Government and Regulators Employees Customers Local Communities



## ENGAGING OUR STAKEHOLDERS

OUR STAKEHOLDERS ARE IMPORTANT AS THEY ARE FUNDAMENTAL TO OUR EXISTENCE AND PURPOSE AS A BANKING INSTITUTION TODAY. WE ENGAGE WITH OUR STAKEHOLDERS ON A REGULAR BASIS AND THROUGH VARIOUS CHANNELS, AND HAVE ALWAYS STRIVE TO ADDRESS THEIR CONCERNS. WE ENDEAVOUR TO GAIN AN UNDERSTANDING ON THEIR NEEDS AND SEEK TO BALANCE THEM WITH OUR OWN GOALS AND PURPOSE. BY GETTING OUR BALANCE RIGHT, WE ADDRESS OUR MATERIAL MATTERS AND CONTRIBUTE SIGNIFICANTLY TO THE BETTERMENT OF THE SOCIETY.

STAKEHOLDERS	HOW WE ENGAGE	SUBJECTS ADDRESSED
<p><b>EMPLOYEES</b></p> 	<ul style="list-style-type: none"> <li>• Internal communication channels including Bank Islam online portal and email</li> <li>• Internal activities including Bank Islam's sports carnival and knowledge-sharing sessions</li> <li>• Public engagement activities including CR-related Initiatives</li> <li>• Staff training and development programmes</li> <li>• Townhall sessions</li> </ul>	<ul style="list-style-type: none"> <li>• Career planning and advancement</li> <li>• Employees' personal development for fulfilling life and spiritual needs</li> <li>• Essential knowledge on the organisation including company's policies and guideline</li> </ul>
<p><b>CUSTOMERS</b></p> 	<ul style="list-style-type: none"> <li>• Customers service and feedback channels</li> <li>• Branch networks</li> <li>• Customers survey and focus groups</li> <li>• Roadshows and exhibitions</li> </ul>	<ul style="list-style-type: none"> <li>• Products and services viability</li> <li>• Service delivery effectiveness</li> <li>• Customer service quality</li> </ul>
<p><b>GOVERNMENT &amp; REGULATORS</b></p> 	<ul style="list-style-type: none"> <li>• Ongoing industry meetings and interactions</li> <li>• Government-led initiatives and programmes participation</li> <li>• Conferences and dialogues</li> </ul>	<ul style="list-style-type: none"> <li>• Products and services rollout</li> <li>• Financial regulations update</li> <li>• Supporting national agenda especially on the propagation and advancement of Islamic banking and finance industry</li> </ul>
<p><b>LOCAL COMMUNITIES</b></p> 	<ul style="list-style-type: none"> <li>• Engagements with NGOs and charity organisations</li> <li>• Engagements with the underserved communities</li> <li>• CR-related events and activities</li> </ul>	<ul style="list-style-type: none"> <li>• Financial education and knowledge</li> <li>• Leveraging organisation's capacity and facility in addressing economic and social issues</li> </ul>

STAKEHOLDERS	HOW WE ENGAGE	SUBJECTS ADDRESSED
<p><b>INDUSTRY PEERS</b></p> 	<ul style="list-style-type: none"> <li>• Ongoing industry discussions and interactions</li> <li>• Conferences and events</li> <li>• Strategic partnership</li> </ul>	<ul style="list-style-type: none"> <li>• Industry trends</li> <li>• Business collaborations</li> </ul>
<p><b>INVESTORS</b></p> 	<ul style="list-style-type: none"> <li>• Investor Relations channels</li> <li>• Annual General Meetings</li> <li>• Ongoing meetings and interactions</li> </ul>	<ul style="list-style-type: none"> <li>• Financial performance and corporate strategy</li> <li>• Governance and compliance</li> <li>• Corporate leadership</li> </ul>
<p><b>ANALYSTS &amp; FUND MANAGERS</b></p> 	<ul style="list-style-type: none"> <li>• Analysts briefings</li> <li>• Ongoing meetings</li> <li>• Seminars</li> </ul>	<ul style="list-style-type: none"> <li>• Organisation's key details including performance, strategy &amp; business direction</li> <li>• Key prospects &amp; perspectives of the Islamic financial industry</li> </ul>
<p><b>SUPPLIERS/VENDORS</b></p> 	<ul style="list-style-type: none"> <li>• Engagements with suppliers &amp; vendors</li> </ul>	<ul style="list-style-type: none"> <li>• Business integrity</li> </ul>
<p><b>MEDIA</b></p> 	<ul style="list-style-type: none"> <li>• Media releases</li> <li>• Media conferences</li> <li>• Interviews</li> <li>• Media-specific events</li> <li>• Formal and informal briefings</li> </ul>	<ul style="list-style-type: none"> <li>• Products and services</li> <li>• Corporate strategy and business direction</li> <li>• Understanding of Islamic banking and financial industry</li> <li>• Awareness on key corporate and industry issues</li> <li>• Awareness on key social issues close to the organisation's heart</li> </ul>

# OUR MATERIAL MATTERS

**OUR ADHERENCE TO THE SHARIAH RULES AND PRINCIPLES IS EMBEDDED WITHIN ALL ASPECTS OF OUR BUSINESS AND OPERATIONS. IT IS INDICATIVE OF OUR PURPOSE, AND OUR COMMITMENT TOWARDS MAQASID AL-SHARIAH, OR THE OBJECTIVES OF THE ISLAMIC LAW, WHICH IS TO PROVIDE BENEFIT TO THE SOCIETY AS A WHOLE THROUGH OUR RANGE OF PRODUCTS AND SERVICES.**

Our material matters are indicative of our stakeholder engagement activities, which identify the environmental, social and governance's issues, as well as our ability to create values that address those issues. By giving priority to those issues, we are also aligned with the United Nation's Sustainability Development Goals, which aim to improve the wellbeing of the global communities and our planet by addressing the major challenges faced by the world today. We strive to make a positive difference for our stakeholders, and grow together with them through our commitment to elevate the Bank's financial and social performance in a responsible manner.

## KEY MATTERS

## HIGHLIGHTS OF WHAT WE DO & WHAT WE OFFER

## IMPORTANT TO THESE STAKEHOLDERS

## SUSTAINABLE DEVELOPMENT GOALS

### Responsible Finance

We bring to the market products or services that effectively provide economic prosperity and social benefits to the community, and positive impact to the environment, in addition to contributing to our business growth.

- Commitment to better management of environmental impact through Green Financing initiative, which focuses on financing for renewable energy providers as well as other green technology application projects.
- Focus on financing projects that provide the infrastructure for sustainable waste and water management.
- Collaboration with Arabesque through BIMB Investment in offering a range of ESG and Shariah-compliant fund products.
- Continuous focus on supporting affordable home financing initiatives.

*(Please refer to our Management Discussion and Analysis section of this report for more details)*

- Customers
- Government and Regulators
- Local Communities (Please refer to our Management Discussion and Analysis section of this report for more details)







### Inclusive Growth

We continuously strive to create equal opportunities across all segments of the society, through our business drives or social initiatives, for community empowerment.

- Partnership with Cognizant to further develop digitalised banking solutions and their applications, bringing greater accessibility to the underserved population for banking and financial facilities.
- Initiate the establishment of SME banking as a commitment to growing real economy.

- Customers
- Local Communities
- Government and Regulators



KEY MATTERS	HIGHLIGHTS OF WHAT WE DO & WHAT WE OFFER	IMPORTANT TO THESE STAKEHOLDERS	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Inclusive Growth (con't)</b></p>	<ul style="list-style-type: none"> <li>• Continuous focus on TAP service as a platform to support financial inclusivity initiatives, and optimise beneficial partnerships with public service organisations.</li> <li>• Continuous focus on Investment Account Platform as a platform for driving new investing opportunities and solution, as well as promoting an all encompassing growth in key areas including economic, social and environmental.</li> </ul> <p><i>(Please refer to our Management Discussion and Analysis section of this report for more details)</i></p>		
<p><b>Responsible Employer</b></p> <p>We place importance on growing our employees to become valuable assets to the company and be the best they can be.</p>	<ul style="list-style-type: none"> <li>• Continuous focus on employees' capability and capacity building initiatives, including in-house training courses and certification programmes in collaboration with external organisations, including:                             <ul style="list-style-type: none"> <li>- Bank Islam - IBFIM certification</li> <li>- Bank Islam - USIM certification</li> <li>- Future Leaders programme</li> </ul> </li> </ul> <p><i>(Please refer to our Management Discussion and Analysis section of this report for more details)</i></p>	<ul style="list-style-type: none"> <li>• Employees</li> </ul>	 
<p><b>Ethical Practice and Reporting</b></p> <p>We practice good governance, and are continuously guided by our core values and principles to ensure that we always do the right thing by our stakeholders.</p>	<ul style="list-style-type: none"> <li>• Strongly guided by Shariah rules and principles across all operating units.</li> <li>• Common set of policies and governance framework as applicable to financial institutions.</li> <li>• Commitment to living out values for sustained progress of the community and company.</li> <li>• Establishment of Ethics &amp; Integrity department.</li> </ul> <p><i>(Please refer to our Management Discussion and Analysis section of this report for more details)</i></p>	<ul style="list-style-type: none"> <li>• Customers</li> <li>• Government and Regulators</li> <li>• Local Communities</li> </ul>	 



# BANK ISLAM'S KEY HIGHLIGHTS

The Bank has made real progress towards becoming a high performing business entity. In 2017, we were ranked among the top three best performers in the banking industry by Focus Malaysia, a weekly business publication, on the back of commendable financial results within a challenging market environment.



Assets Growth

**RM2.1** billion  
**+3.7%**



Current and Savings ("CASA")  
Ratio

**33.5%**

Industry 26.5%



Customer Deposits

**RM46.2** billion  
from 2016 +RM45.9 billion



Gross Impaired  
Financing Ratio of

**0.93%**

compared to 0.98% in 2016



Total Number of Branches

147



Self-Service Terminals

1,157



Ar-Rahnu Outlets

9



Bureau de Change

5



Total Number of Employees

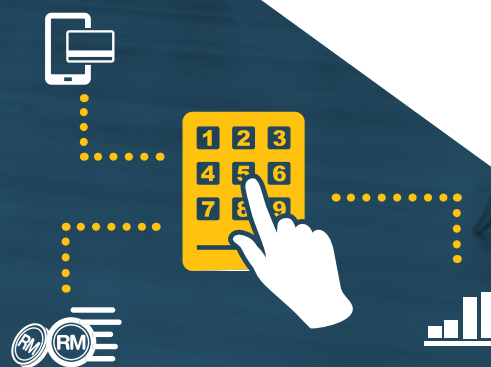
4,568



Profit Before Zakat & Tax

RM 767.1 million

+6.5%



Total Financing

RM 42.1 billion

+7.5%

## CEO'S REFLECTION ON 2017



RETURN ON ASSET  
**1.4%**



RETURN ON EQUITY  
**16.4%**

### DEAR STAKEHOLDERS,

In 2017, the Bank Islam group continued its progress towards becoming a high-performing business entity, grounded in ethics and integrity, and focused on Triple Bottom Line reporting of People, Planet and Prosperity. Alhamdulillah, we once again registered commendable financial results with 4.9% growth in revenue and 6.5% increase in Profit before Zakat and Tax ("PBZT") through our 3D strategy for the year. On our sustainability journey, we displayed stellar commitment to our core values of being an Islamic Banking Leader that is Dynamic, Professional, Trustworthy and Caring. We continue to be holistically recognised by the industry with a host of awards and are ranked among the top three best performers in the banking industry by the respected business publication, Focus Malaysia.

### Economic and Industry Overview

Global growth picked up pace in 2017 with advanced economies recording decent growth and continuing to grow sustainably in 2018. The latest International Monetary Fund ("IMF") forecast showed that the world's Gross Domestic Product ("GDP") is expected to record 3.7% growth in 2018 from an estimated 3.6% expansion in 2017.

In Malaysia, real GDP grew at a stronger rate of 5.9% in 2017, as compared with 4.2% in 2016, reflected mainly in stronger exports and healthy domestic demand for the year. The private sector was the main driver for Malaysia's economy, with both private consumption and private investment growing at high single-digit growth rates of more than 7%. On top of that, the local manufacturing sector, which accounts for more than 20% of Malaysia's total GDP, grew at an average growth rate of about 6% underpinned by strong demand for local electrical & electronic ("E&E") products given the rise in the global technology sector.

Inflation rate has increased significantly to 3.7% in 2017 from 2.1% in the preceding year. This caused a weakening in consumer sentiments. The Consumer Sentiment Index fell to 77.1 points in the third quarter of 2017, remaining below the 100-point threshold for more than two years.

Early in the year, indications pointed to a moderation in loan growth, however the banking sector saw encouraging average growth for total loans applied and approved during 2017 which stood at 5.6% and 10.6% respectively. Loan approved posted three consecutive quarters of positive growth rate after experiencing four continuous quarters of contraction in 2016 as banks increased lending due to the stronger than expected GDP for Malaysia.





**KHAIRUL KAMARUDIN**  
*Chief Executive Officer*

## CEO'S REFLECTION ON 2017 (cont'd)

BNM has raised the Overnight Policy Rate ("OPR") by 25 basis points to 3.25% on 25 January 2018. The decision was widely anticipated by economists and represents a vote of confidence on the state of Malaysia's economic growth. Consequently, the banking sector should benefit from such move via improving net income margin amidst healthy financing activities.

Stepping into 2018, consumer spending is likely to further improve underpinned by the cut in personal income tax and several measures proposed during Budget 2018 as these measures are likely to increase the average household disposable income. On top of that, the impending 14<sup>th</sup> General Election has resulted in a pick-up in government spending and led to higher local consumption as well as acceleration in construction and infrastructure projects.

Our in-house forecast indicates that economic growth should accelerate to 5.5% in 2018 premised on continued growth in consumer spending and international trade. Meanwhile, inflation rate is expected to remain high at about 3.0% as opposed to the long-term average of 2.8% in view of elevated levels of fuel prices and other goods and services. On the exchange rate, we foresee the MYR/USD would linger between RM3.85 and RM3.95 by the end of 2018 following the announcement of the US tax reform bill which could result in higher US economic growth.

Bank Islam is well positioned to benefit from the improving economic environment, in terms of asset quality and profitability. Additionally, the proliferation of smart technology within the current landscape also presents the opportunity for Bank Islam to gain the right economies of scale which would be value accretive in the long run.

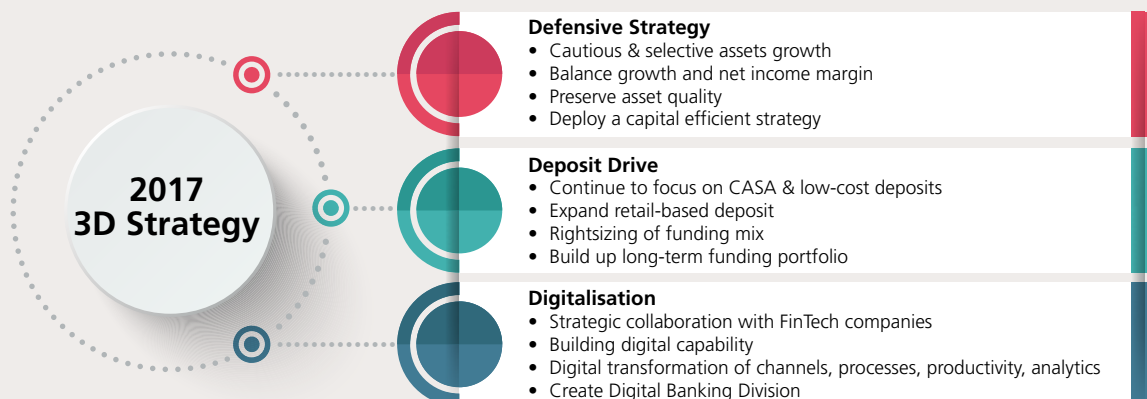
### A "3D" FOCUS ON GROWING PROSPERITY

Anticipating continued competition for deposits and moderation in financing growth in 2017, Bank Islam had taken on a holistic "3D" approach to grow its core businesses organically while maintaining a prudent position. Growth was focused on driving Deposits, staying Defensive with the right balance between asset growth and asset quality, and Digitalising operations.

Overall results were commendable with many Key Performance Indicators ("KPIs") achieved. Revenue surpassed the RM3 billion mark and despite the higher deposit and overhead costs, PBZT for the financial year ended 31 December 2017 increased by RM46.6 million or 6.5% from the previous year to hit RM767.1 million.

#### Deposit Drive

Bank Islam's focus on Current and Savings ("CASA") accounts and low-cost deposits supported growth of the Bank's customer deposits and investment accounts which grew to RM46.2 billion and RM4.3 billion as at 31 December 2017 in a highly competitive marketplace. This was a year-on-year increase of RM0.25 billion and RM0.45 billion respectively. CASA ratio stood at 33.5%. This met the set target of 5% CASA growth. Overall, the capital position of the Bank continued to be healthy as reflected by its Common Equity Tier-1 of 12.7% and Total Capital Ratio of 16.4%. These ensured its reaffirmation of AA3/Stable/P1 financial institution ratings by RAM Ratings in 2017.





Our focus on driving deposits was vital as regulatory capital requirement increased from 8.625% in 2016 to 9.25% in 2017 and is expected to go even higher in 2018. In addition, once Malaysia Financial Reporting Standards 9 (“MFRS 9”) comes into effect in 2018, we will have to make financing provisions for any new financing extended, including undrawn facilities, in anticipation of expected losses rather than the current practice of incurred losses.

### Defensive Strategy

The Bank stayed cautious and selective with its asset growth. Our financing thrust continued to be focused on secured and term financing with House Financing and Personal Financing making up over 68% of the Bank’s total financing portfolio. These delivered a 14.6% and 9.9% growth respectively and were the main contributors to the Bank’s revenue for the year. All financing were underscored by prudent underwriting standards, and the stringent focus on secured asset saw asset quality improving despite the expansion in financing portfolio.

Financing growth was 7.5% which surpassed industry performance of 4.3%. Total assets grew by 3.7% compared with industry growth of 4.3%, while Return on Equity (“ROE”) was 16.4% surpassing both our target of 15% and industry average of 14%. Financing to available fund ratio increased to 81.4% in the run up to Net Stable Funding Ratio (“NSFR”) readiness. We were pleased to see the financing mix between consumer to business meet our set target of 75:25. Return on Assets (“ROA”) sustained at 1.4%. Asset quality remained resilient with gross impaired financing ratio of 0.93% compared to 0.98% registered the year before. The strong asset quality is a result of the Bank’s continued vigilance in proactive account monitoring and prudent underwriting standards. The Bank also took a cautious stance by implementing measures in its approval processes as well as put in efforts towards effective recovery. Additionally, the Bank’s Net Income Margin was also highest in the industry at 2.60%.

Staying defensive also meant retaining our strongest assets - our talent. During the year, we continued to invest in talent development and career planning initiatives under the “Growing our Own Timber” programme. We also continued to build capability and capacity while further developing our brand as a leader in Islamic banking that continues to be ranked Top 3 Most Popular Graduate Employer in the Banking and Financial Services Sector and Top 20 Graduate Employer for 2017, putting us amongst the country’s top recruiters.



More details under Our 2017 Priorities Report on page 50 to 73.

### Digitalisation

Digitalisation continues to be a crucial part of our strategy as it catalyses our performance in all areas of operations. When correctly harnessed with solid business insights and foresight, it can substantially enhance customer experience, while improving productivity and lowering costs significantly.

Bank Islam has geared up its digitalisation initiatives in 2017 by establishing a Digital Banking Division to lead the Bank towards meaningful achievements.

On 2 August 2017, the Bank took another big leap towards digitalisation with its strategic collaboration with Cognizant, a leading global business and technology consulting firm based in US, to lay the foundation of digital banking platform across the Bank’s entire network. This will enable the Bank to apply digital technology to our products and services, bring greater accessibility to our customers, as well as simplify and improve customers’ banking experience.

**EMBARKING ON OUR NEXT LEVEL OF GROWTH**

With the anticipated improved global and domestic economic environments, there should be greater business opportunities that may require larger financing facilities within the near future. We will continue to tap on the domestic market requirement particularly focusing on value-based business activities that require funding.

Our country is in the midst of an economic makeover, with the upcoming implementation of The National Transformation 2050 ("TN50") roadmap. TN50 is a futuristic vision for our country, with particular focus on digital economy, and how it can create numerous opportunities for our local entrepreneurs. For Malaysia to move forward, we have to be prepared for the future marketplace of ideas and anticipate future growth potentials where the focus should be on moulding our thinking process to be more creative and innovative, especially in the areas of value creation.

**OPPORTUNITIES AND RISKS**

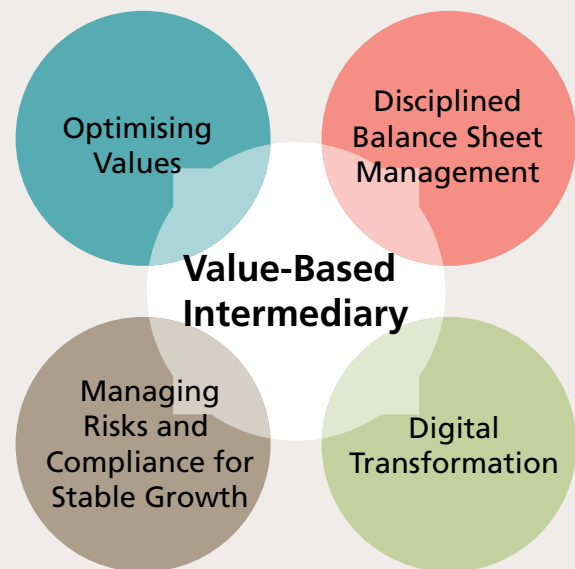
1. **Global growth acceleration** – based on IMF projection, the global economy is expected to accelerate further from 3.6% in 2017 to 3.7% in 2018.
2. **Higher interest rate environment** – globally, central banks are expected to increase their policy rate in view of improving economic growth and higher inflation rate.
3. **Improved risk appetite** – asset class such as equities are expected to perform well in 2018 in view of better earnings prospects.
4. **Implementation of key infrastructure projects** – rail related projects such as High-Speed Rail, East Coast Rail Line and Mass Rapid Transit will fuel construction sector activities.
5. **Proliferation of smart technology** – this will shape the conduct of a business especially on customers' experience and productivity.

Nevertheless, we are mindful and take heed of emerging risks. For instance, higher cost of funding in supporting the growing business opportunities is inevitable, largely due to the constant change in financial regulatory framework to further tighten the capital requirements of the banking industry. There is also potential increase in cyber security threats such as data theft/leakage and malware due to higher reliance on digitalisation, software and systems. To this end, in 2017 our Information Technology ("IT") team has ensured that out of the 43 IT projects embarked on, 20 have focused on upgrading applications to meet regulatory requirements and 10 have been dedicated to IT risk and security projects.

Our Board has approved the 2018 Optimising Values business plan which charts the steps that we need to take to further improve our performance and compete in these challenging times. I am confident that this will chart our future as a bank that can consistently generate the best value for our stakeholders.

**Advancing as a Value-based Intermediary**

At the heart of Bank Islam's strategy, we aim to build on our strength as a Value-based Intermediary ("VBI") anchored by Consumer Banking as our core business. By buying into the VBI's principles, we are already committed to fulfilling the government's objective to create greater wealth for society in the real economy through the four key dimensions of Optimising Values, Disciplined Balance Sheet Management, Managing Risks and Compliance for Stable Growth and Digital Transformation. These are already intrinsically linked in the Bank's journey over the past years and have easily been adapted as natural next-step progressions in our strategy for 2018.



Optimising Values comprises Optimising Risk and Return, Optimising Resource and Productivity as well as Optimising Franchise Value. Disciplined Balance Sheet Management is about striking the right balance between profit margin, asset quality, impact of MFRS 9, funding mix, capital and growth. Managing Risks and Compliance for Stable Growth is well embedded in our Risk Appetite Statement where the Bank has zero-tolerance with respect to regulatory non-compliance. As the reputation of the Bank is its most valuable asset, there is no tolerance to any act that may bring disrepute to the Bank by its staff, its outsourcing partners or vendors. The Bank shall only make business decisions based on strong ethical values and integrity to propagate a culture based on VBI.



We are aligned with the government's aim to create more successful local entrepreneurs, by fostering further growth of the small and medium enterprises ("SME") marketplace through products and initiatives designed around their needs. To further put emphasis on the development of this particular sector, we are undertaking the following exercises:

- Establishment of SME Banking Division; and
- Conversion of the existing Automobile Financing Centres into SME Centres.

The newly-established SME Banking Division complements other businesses within our organisation, and represents the future of Bank Islam. By focusing on the economic aspect that is actually concerned with producing goods and services, thereby generating real income, we are committing ourselves to looking after the larger society; individuals, enterprises and communities. By doing that, we are contributing towards economic resiliency, social wellbeing and environmental regeneration, which are aligned with our belief in the Triple Bottom Line of People, Planet and Prosperity.

The Bank also remains resolute and steadfast on our Digital Transformation journey. Embracing technological change is key to delivering sustainable growth with driving customer advocacy remaining as the strategic priority. To support the government's commitment to the development of digital economy, we focus on utilising technological innovation to deliver better products and superior banking experience to our customers. Bank Islam also intends to combine the energy, continuous innovation and imagination of FinTech start-ups with its solid balance sheet, trust, customer service and banking expertise.

We are also committed to promoting a digital culture among our employees, to prepare them for the expected changes brought about by digitalisation. Digitalisation allows us to fully embrace the concept of financial inclusion. It enables us to introduce new, innovative products and deliver digital services that serve the needs of the largely untapped (and expanding) underserved market segment. It will also allow us to focus on today's and tomorrow's audience; the Millennials. As the digital generation who are already comfortable in using digital solutions to manage their everyday lives, a digitalised bank is naturally our next step in capturing their attention, and getting them to subscribe to our products and services. By going digital, we can truly serve everyone at any time and any place.

The focus on SME and retail marketplace will require us to develop and mobilise our existing sales force, as we make concerted efforts to generate new businesses in an increasingly digital marketplace.



We have thus embarked on promoting a #BetterFasterFairer culture across the organisation for us to constantly push the bar to get even better at what we do, faster in anticipating and responding to market conditions and fairer in attending to our stakeholders' needs.

We look forward to positive change by unlocking the conduct and values essential to cultivating the #BetterFasterFairer culture amongst our staff, and I would like to wholeheartedly thank the team for their commitment and willingness to grow in new ways. I truly believe, at Bank Islam, everyone seeks to understand how they can make a real difference to the community they live in. The world around us keeps changing compelling us to change as well. However, one thing remains unchanged; the purpose of our organisation must rise above that of any individuals, for the greater good of the wider community.

I am immensely grateful for the commitment and dedication of the Bank's Board, management and staff in embracing the challenge of change. I am energised and inspired by them as I look forward to the year 2018 with greater optimism. I would also like to thank my predecessor Dato' Sri Zukri Samat, who retired on 9 June 2017. He has placed the Bank on a solid foundation for sustainable growth, and I pledge to continue the legacy he has built.

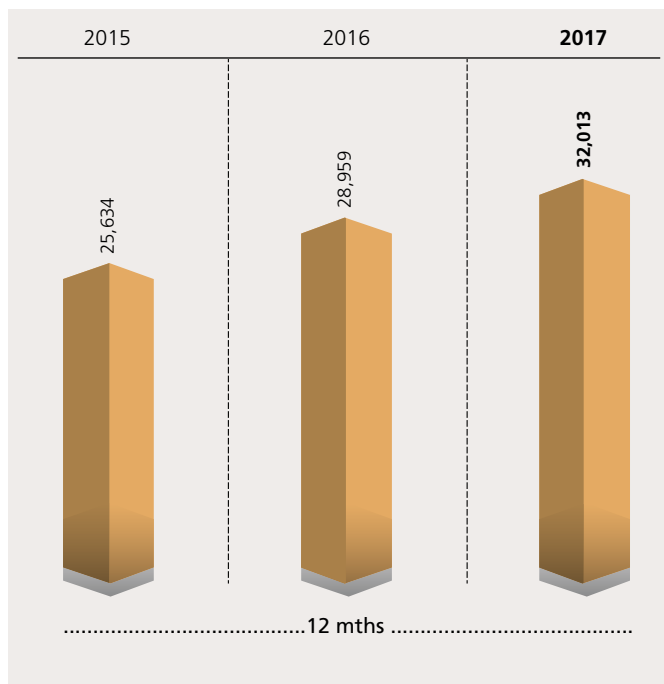
**Khairul Kamarudin**  
Chief Executive Officer

## REVIEW OF BUSINESS OPERATIONS

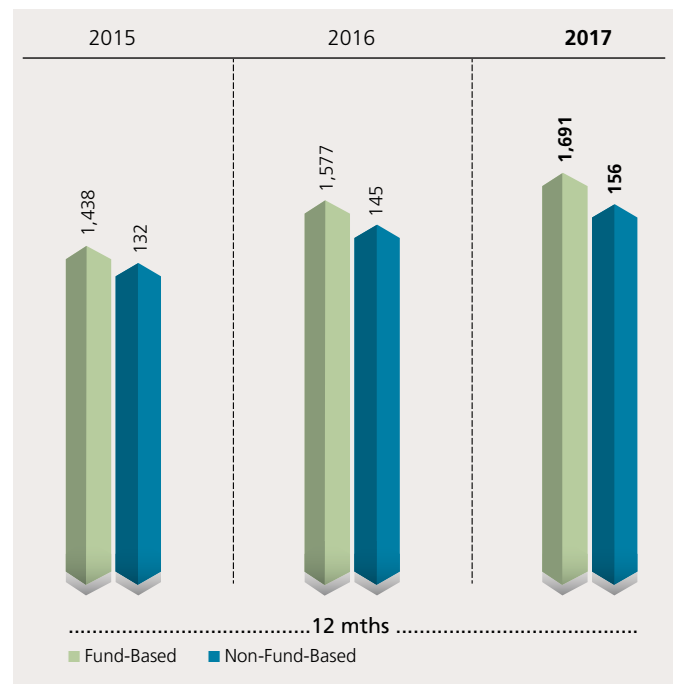
### CONSUMER BANKING

“A proven business model anchored by a strong risk management discipline, experienced credit team and high quality portfolio continued to support Bank Islam’s Consumer Banking Division (“Consumer Banking”) in achieving double-digit financing growth.”

ASSET GROWTH (RM million)



INCOME GROWTH (RM million)



New Financing	Total
Personal Financing	RM4.3 billion
House and Fixed Asset Financing	RM3.2 billion
Vehicle Financing	RM335.8 million

### BUSINESS DIRECTION FOR THE YEAR

Consumer Banking is the core driver of Bank Islam’s business, contributing over 75% of the Bank’s financing portfolio in 2017. The Bank’s innovative and sophisticated Islamic banking products and services are channelled to more than four million customers throughout a network of 147 branches, more than 1,100 self-service terminals (“SSTs”), about 400 Personal Financial Executives and an internet and mobile banking platform.

During the year, rapidly escalating challenges required Consumer Banking to constantly evaluate and improve its business operations in order to keep up with the industry. House and Fixed Asset Financing (“HFA”) was challenged by competitive pricing which lowered the profit margin. Rising property prices and lower disposable income also led to a downtrend in affordable buyers seeking financing. Changes in consumer spending pattern affected Personal Financing (“PF”). Regulators promoting lower charges for mobile transactions and fee waivers in promoting digital payment also impinged on the Division’s fee-based income from mobile banking. However, proactive campaigns to increase the Bank’s mobile banking subscriber base through collaboration with other products and service owners, managed to attract 40,000 new subscribers in 2017.

HFA was the top performer for Consumer Banking in 2017, recording growth of 14.6% attributed to package financing for government’s home ownership programmes and closer engagement with developers for Perumahan Penjawat Awam 1Malaysia (“PPA1M”)



and waqf land projects nationwide. In focusing on these projects, the Bank helped realise the value of Malaysia's affordable homes agenda in promoting home ownership to those of limited means.

PF growth was sustained at 9.9% after realigning towards more stable sectors with favourable volume. The Division enhanced 24-hour accessibility for PF through the establishment of the "Ezxcass" online hyperlink. This is a digital marketing initiative whereby potential customers could respond to online promotions by simply clicking the hyperlink to apply for financing or leave a note to be contacted without visiting the branch. All leads were followed through by sales personnel and monitored to ensure the potential customers were contacted and served.

Fee-based income increased on the card front on the back of an all year spending campaign and introduction of more co-brand cards, namely Visa Infinite Majlis Professor Negara Credit Card-*i*, Selangor FA Debit Card-*i*, Melaka United Soccer Association Debit Card-*i* and Malaysia Hockey Confederation Debit Card-*i*. These supported the government's initiatives towards a cashless society and the development in education and sports through collaborative features.

Service innovations for the year included the online PF application via Financing Origination System ("FOS") Mobile, fast lane financing approval through employment verification via the government's e-HRMIS portal; and more paperless processes through digitalisation.

## OUTLOOK

A more positive outlook is expected for Consumer Banking in 2018 as the Bank's investment in digitalisation is set to unleash a new wave of innovation in terms of customer experience. Expectations have been set for faster turnaround and greater productivity in increasing service excellence. There will be heightened focus on mobile apps, the use of social media channels, instant card to card transfer and exploration

## 2017 KEY ACHIEVEMENTS

- Sustained double-digit financing growth at 10.5%
- Received Largest Payment Volume – Islamic Debit Card Award by Visa Malaysia Bank Awards
- Received Highest Payment Volume Growth – Debit Co-Brand Card Award by Visa Malaysia Bank Awards
- Highly Commended Award for Best New Product, Service or Innovation Launch at the Retail Banker International Asia Trailblazer Awards 2017 by Retail Banker International

into e-wallets as an alternative debit option for customers. The Division will focus on optimising proven strategies by implementing them in new segments, such as offering employer packages to HFA and building on our existing co-branding relationships with sports associations to find new markets for PF.

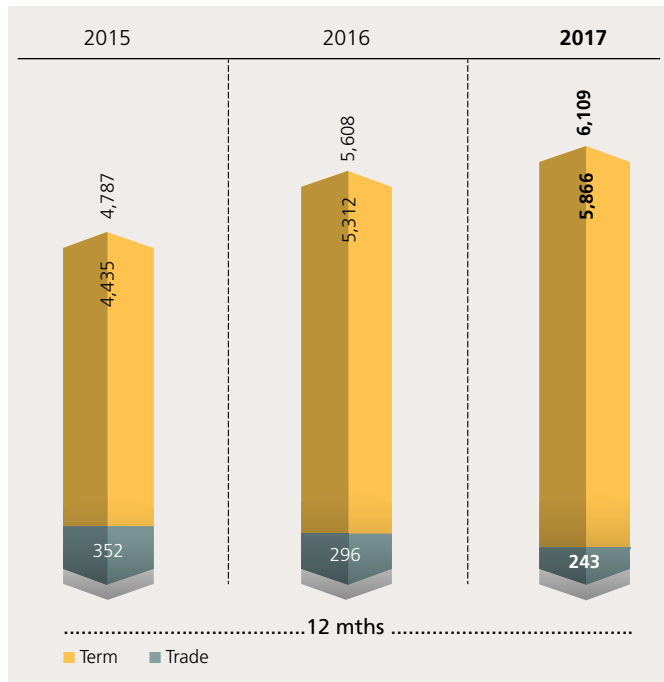
Collaboration with online Gold Investment platform for Gold Account via Apps is also in the pipeline as part of the Division's franchise development and digitalisation initiative. Growth in this segment will continue to leverage on tried and proven strategies which include secured financing and forming strategic alliances with several core target groups.



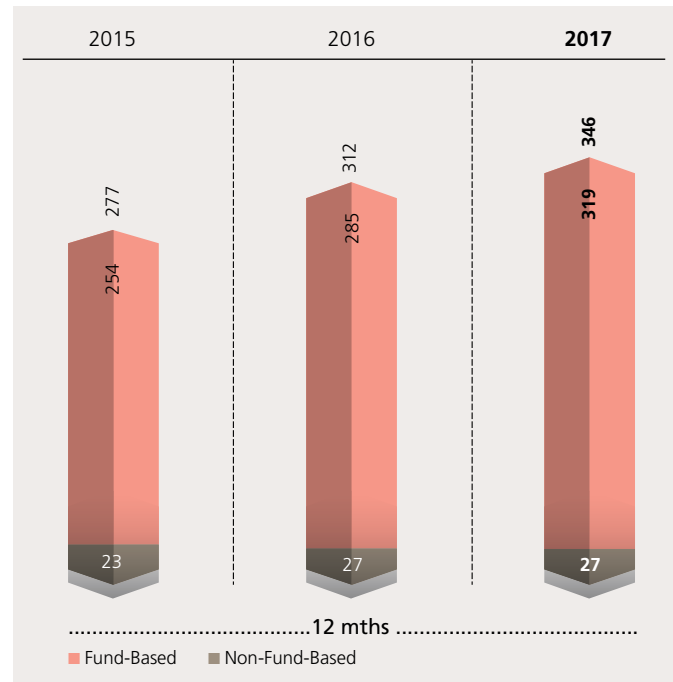
## COMMERCIAL BANKING

“Amidst a challenging economic environment, Bank Islam’s Commercial Banking Division (“Commercial Banking”) stayed defensive by tightening the existing due diligence process in line with its Risk Appetite Statement and enhanced improvements in service delivery and governance.”

### ASSET GROWTH (RM million)



### INCOME GROWTH (RM million)



### BUSINESS DIRECTION FOR THE YEAR 2017

Commercial Banking steadfastly pursued the Bank’s 3D strategy in 2017.

As part of its defensive initiative, the Division practised a cautious asset growth approach by focusing on favoured industry sectors as well as existing customers with good track record as per the Bank’s Risk Appetite Statement. As a result, the Commercial Banking portfolio grew by RM501 million, mainly contributed by state governments and related companies.

Commercial Banking practiced a vigilant and prudent underwriting standard with stronger due diligence process as the market continued to be challenged by weak currency and lower commodity prices for palm oil, rubber and oil & gas. Certain states also suffered a high

property overhang, which affected the Division’s bridging financing portfolios. The Division was selective of new businesses, requiring a minimum base of five years of operations with good track record.

The Division had enhanced its monitoring infrastructure, focusing on aggressive collection and early care management of potential distressed customers while maintaining asset quality to keep impaired ratio below 3%. The stronger risk assessment and approval process resulted in a low delinquency ratio of 0.46% of the Division’s assets. Impaired ratio for accounts disbursed less than two years also stood at 0.24% of total portfolio.

Opportunities for the year rested on the government’s continued spending in infrastructure projects, public facilities and affordable homes projects such as Perumahan Rakyat 1Malaysia (“PR1MA”), PPA1M and Rumah Wilayah Persekutuan (“RUMAWIP”).

The Division's focus on state government and related companies sustained Commercial Banking's overall growth in 2017 as its assets grew by 8.9% with total outstanding financing of RM6.1 billion. This was contributed by a 10.4% increase in term financing. Total income increased by 11.0% to RM346 million in 2017 mainly contributed by an increase of 12.1% or RM34.3 million in fund-based income.

Commercial Banking promoted best practices and business conduct to improve service delivery to the Bank's customers. Focus was also placed on fortifying good governance by demonstrating discipline and compliance to rules and regulations imposed by the Bank and Bank Negara Malaysia ("BNM") as a prelude to the Bank's adoption of VBI principles.

## 2017 KEY ACHIEVEMENTS

- Asset growth of **8.9%**
- Income growth of **11.0%**
- Delinquency ratio reduced to **0.46%**

## OUTLOOK

Commercial Banking targets to grow asset financing by at least 8% and income by at least 12% in 2018.

A dedicated Risk & Compliance Unit will be established to monitor compliance risk within the Division's operations. At the same time, the Division is promoting awareness by collaborating with the Bank's Compliance Division to ensure smooth operations without compromising compliance and ethical values.

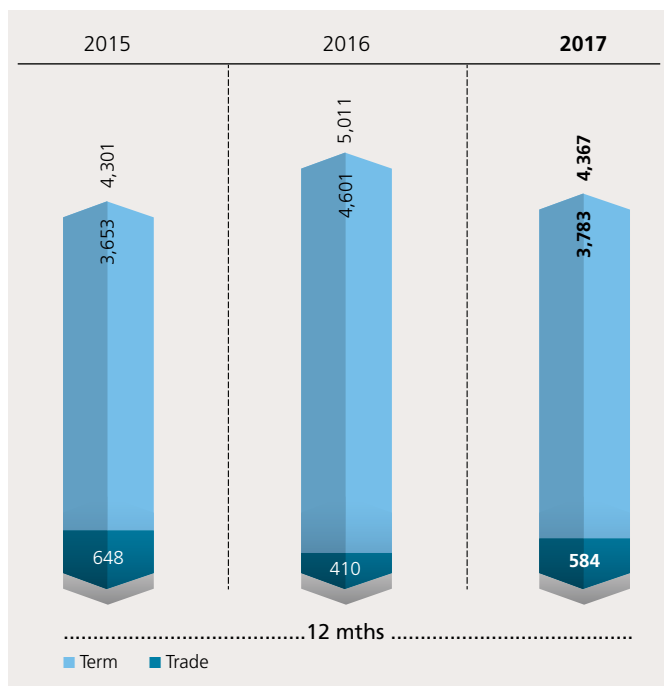
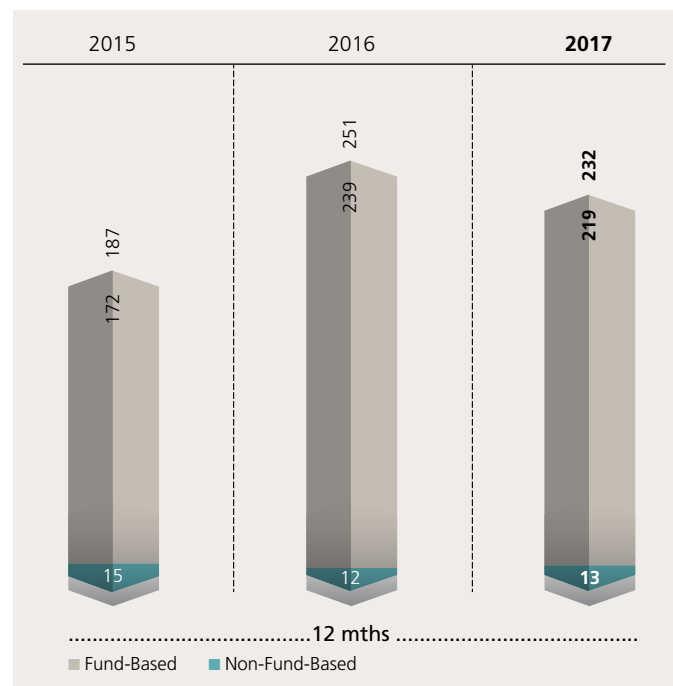
As the Bank's strategic focus is to grow cautiously in line with the VBI model, financing focus for 2018 will be directed to support the real economy which nurtures entrepreneurs by collaborating with government agencies such as SME Corporation, Prokhas, Credit Guarantee Corporation and Unit Peneraju Agenda Bumiputera ("TERAJU"). Moreover, the Division will focus on supporting the government's community-based and public infrastructure projects as well as projects on the national agenda such as the SME Masterplan, Green Technology Masterplan and the 11th Malaysia Plan.

Under its supply chain and vendor financing programme, the Division is driving the Bank's digitalisation journey by offering digital solutions that enable SMEs to enhance efficiency and efficacy.



## CORPORATE BANKING

“Bank Islam’s Corporate Banking Division (“Corporate Banking”) stayed defensive during the year to enjoy significant improvement in asset quality with no new account impaired in 2017, much improved collection and higher arrangement fees from additional financing facilities.”

**ASSET GROWTH (RM million)****REVENUE GROWTH (RM million)**

### BUSINESS DIRECTION FOR THE YEAR

In 2017, Corporate Banking started to focus more on asset financing with higher income spread largely from capital expenditure and project financing as compared to working capital financing. This was in line with the Bank’s aspiration to further broaden its revenue growth without straining too much on its capital requirement and preserve its healthy asset quality profile.

Challenging and uncertain global economic conditions in 2017 have heightened corporate customers’ risk profiles. The Division faced competition from larger banks that continued to dominate the industry with comprehensive product offerings not limited to Ringgit transactions only, ability to offer both conventional and Islamic financing, and regional presence.

As a result, total income reduced by 7.6% or RM19 million to RM232 million mainly contributed by lower fund-based income of RM219 million in tandem with the reduction in overall financing assets during the year. Total financing assets reduced by 13% or RM644 million from RM5.0 billion in December 2016 to RM4.4 billion in December 2017. The decline was mainly attributed to two large asset redemptions totalling RM770 million via *sukuk* and government soft financing at much lower pricing. In addition, there were also some significant pay downs from existing working capital lines of some corporate customers as their sales collection patterns improved during the year. Corporate Banking managed to minimise the attrition via new assets disbursement and higher facility utilisation from existing trade customers resulting in higher facility utilisation ratio.

Nevertheless, the Division's non-fund-based income increased by 8.3% to RM13 million on higher processing fees of new financing facilities. The defensive strategy helped protect strong asset quality, without compromising account profitability. Delinquency was minimised with the impaired financing ratio remaining nil as no new account was impaired in 2017.

## OUTLOOK

As global and domestic economic environments improve, Corporate Banking anticipates greater business opportunities that may require larger financing facilities within the near future. The Division intends to target New-to-Bank corporate customers that fall under VBIs such as green technology, healthcare, infrastructure, plantation, property and telecommunications; defend existing portfolios; accelerate fee-based income through syndicated deals, *sukuk* and processing fees; while improving cross-selling. This will be balanced with preservation of asset quality and a target of 10% reduction in operating costs as the Division puts in efforts to eliminate wastage.

## 2017 KEY ACHIEVEMENTS

- Non fund-based income increased by **8.3%**
- No new impaired account in 2017



## CAPITAL MARKET

“Bank Islam’s Capital Market Department (“CMD”) won two awards for its first and second Restricted Investment Account (“RIA”) offerings via Investment Account Platform (“IAP”). Its KOBIMBING RIA which was completed in December 2016 has won The Asset’s Triple A Islamic Finance Awards 2017’s Best FinTech Deal in Asia. Its second RIA offering completed in April 2017 for CMC Group has also won the Islamic Finance News’ Malaysia Deals of the Year 2017 Award. These awards symbolised the recognition of IAP as a new innovation in Islamic finance.”

RM'000	FY 2016 (Actual)	FY2017 (Actual)
Income	386	925

### IAP Transactions

Sponsoring Banks	FY 2017			FY 2016		
	Market Share (%)	Volume (MYR mil)	Deal Count	Market Share (%)	Volume (RM mil)	Deal Count
Bank Islam	12.5	12.0	1	37.5	6.0	1
Other Banks	87.5	83.9	3	62.5	10.0	1
	100.0	95.9	4	100.0	16.0	2

### BUSINESS DIRECTION FOR THE YEAR

In 2017, CMD worked closely with IAP Integrated Sdn Bhd and IAP sponsoring banks to promote IAP and educate industry players in Insurance & Takaful, Funds & Asset Management, Banks and SME companies to source for potential investors and business ventures for RIA via IAP.

Furthermore, the Department focused on creating value for the Bank’s stakeholders in the business transactions it arranged and participated. Under IAP transactions, it provided opportunities to individual and non-individuals to participate as investors to finance viable business ventures and earn higher returns as compared to term deposit returns. This also provided a new avenue for SME companies to raise funds to finance their business activities and help more SME companies to grow their business.

In terms of achievements, both FinTech deals completed by CMD during the year were well recognised by the industry. These were the CMC Group RIA and KOBIMBING RIA. Beyond this, the Department acted as Joint Lead Manager for Danainfra Nasional Berhad’s RM13 billion Islamic Commercial Papers and Islamic Medium Term Notes Issuance Programme for Pan Borneo Highway Project; for issuance of Lembaga Pembiayaan Perumahan Sektor Awam’s RM3.25 billion Government Guaranteed Islamic Medium Term Notes; issuance of Pengurusan Air SPV Bhd’s RM2.1 billion Government Guaranteed Islamic Medium Term Notes; and was Lead Manager for issuance of Bank Islam’s RM300 million *Subordinated Sukuk Murabahah*.





## OUTLOOK

CMD was restructured in December 2017. Pursuant to the Bank's internal reorganisation, the *sukuk* team was transferred to Corporate Banking to undertake *sukuk* transactions while the IAP team was transferred to the newly formed SME Banking Division to undertake IAP deals and SME financings. As a result, CMD was officially closed on 8 December 2017.

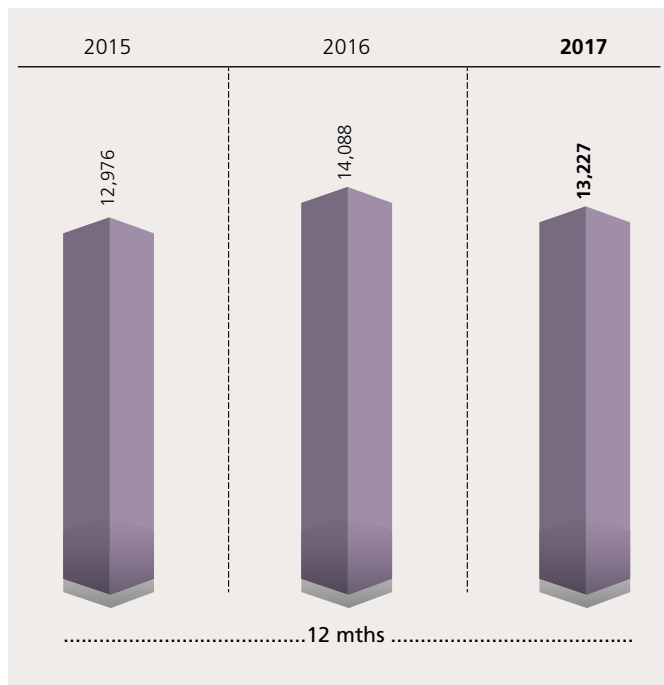
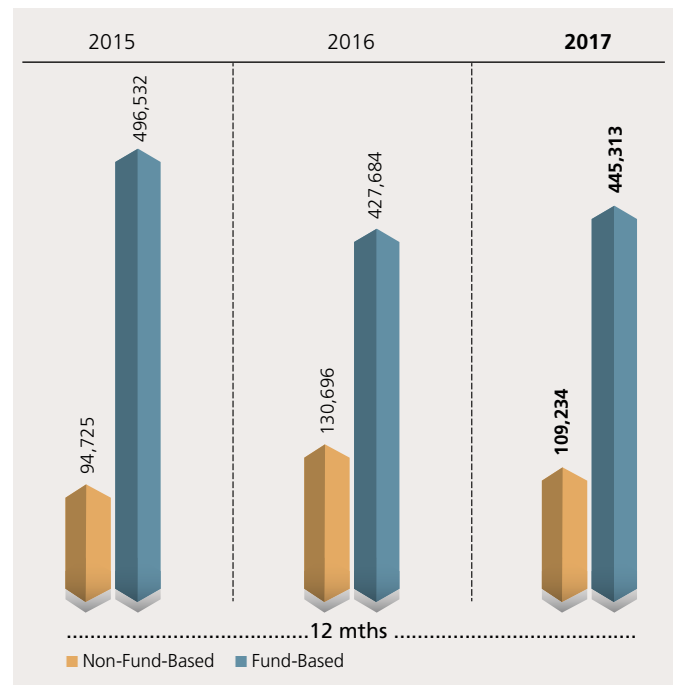
With more resources and support given to the *sukuk* team and IAP team at their respective new Divisions, the prospects to grow *sukuk* and IAP businesses remain positive.

## 2017 KEY ACHIEVEMENTS

- Completed CMC Group RIA as the first IAP transaction in the industry to finance a foreign project
- Awarded The Asset's Triple A Islamic Finance Awards 2017's Best FinTech Deal in Asia for KOBIMBING RIA
- Awarded Islamic Finance News' Malaysia Deals of the Year 2017 Award for CMC Group RIA
- Awarded the Best Islamic Financial Institution Award (Best Booth Category) at Bursa Malaysia's inaugural Shariah Investing Fair 2017

**TREASURY**

“Bank Islam’s Treasury Division (“Treasury”) contributed 35.1% or RM109.2 million of the Bank’s total non-fund-based income and 16.6% or RM445.3 million of the Bank’s fund-based income in 2017. This was a commendable performance given the prevailing market challenges brought about by more stringent regulatory compliances particularly on the Foreign Exchange Administration (“FEA”) Rules, the challenging fixed income environment, and escalating price war among financial institutions.”

**ASSET GROWTH (RM million)****INCOME GROWTH (RM million)**

	2015 (RM bil)	2016 (RM bil)	2017 (RM bil)
Deposits	24.38	27.27	28.00
Investment Accounts	0.21	0.90	1.19

**BUSINESS DIRECTION FOR THE YEAR**

Treasury’s balance sheet management, trading activities, and corporate sales experienced mixed performance throughout 2017 in response to the mostly lacklustre and bearish bond market amid a hawkish US Fed outlook. Despite seeing continued foreign fund outflow early in the year, local bonds were generally well supported by domestic demand. The relaxation of onshore foreign exchange (“Forex”) hedging provided support for the Ringgit as funds started to flow steadily back in the latter part of the year.



Treasury assets registered a decline of 6.1% to RM13.2 billion (2016: RM14.1 billion) on the Division's defensive and selective reinvestment approach. Treasury deposits recorded an increase of 2.7% to RM28 billion (2016: RM27.3 billion) while Investment Account ("IA") registered a growth of 32.3% to RM1.2 billion (2016: RM898 million) year-on-year.

Treasury continued with proactive management of the investment portfolio in order to optimise asset yields. The portfolio registered improved fund-based income to RM445.3 million for the year from RM427.7 million in 2016. Portfolio yield improved while duration increased slightly. In ensuring all the internal and regulatory guidelines and requirements were complied with, the portfolio composition remained concentrated on liquid assets with 67.3% in Government Securities and Government Guaranteed papers, 21.5% in AAA/P1 papers while 11.2% in AA papers made up the balance. More than 95% of portfolio qualified as High-Quality Liquid Assets ("HQLA") under Basel III Liquidity Coverage Ratio requirements.

In terms of funding, Term Deposit Tawarruq-i Special ("TDTS") remained Treasury's main deposit product with placements from government-linked companies, corporations, universities and asset management companies. To ensure optimal capital management, Treasury aggressively marketed IA products such as the *Wafiyah* Investment Account.

The Division's Forex trading activities continued to show commendable performance despite stringent FEA rules affecting our corporate customers.

## OUTLOOK

Heading into 2018, Treasury will be taking the lead in maintaining the Bank's overall balance sheet liquidity, particularly in ensuring continued adherence to the Net Stable Funding Ratio ("NSFR") requirement. Apart from diversifying the Bank's depositor's base and lengthening funding tenors, emphasis will also be placed on building up HQLAs to enhance asset liquidity. At the same time, the Division will continue to ensure competitive pricing for financing assets to enable a balanced growth trajectory for the Bank.

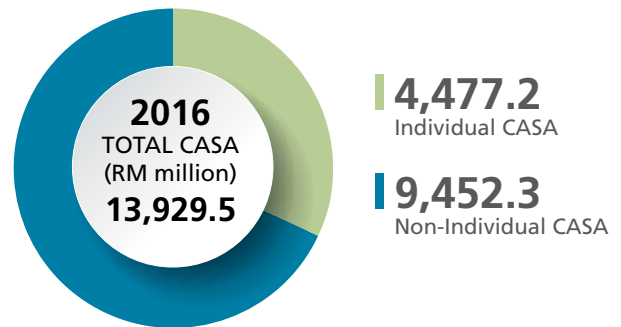
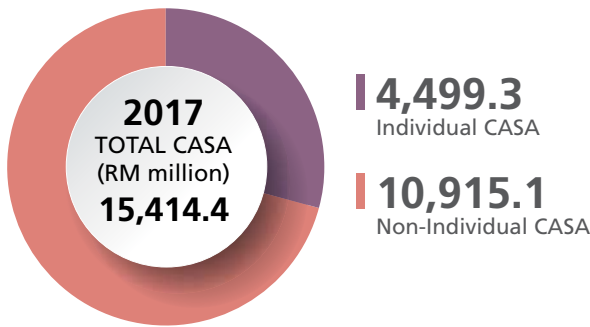
## 2017 KEY ACHIEVEMENTS

- Fund-based income grew by **4.1%**
- Investment accounts grew by **32.3%**
- Awarded Best Individual Sales, Malaysia, Highly Commended Asian Local Currency Bond Benchmark Review 2017 by The Asset for two Treasury Investor Sales dealers

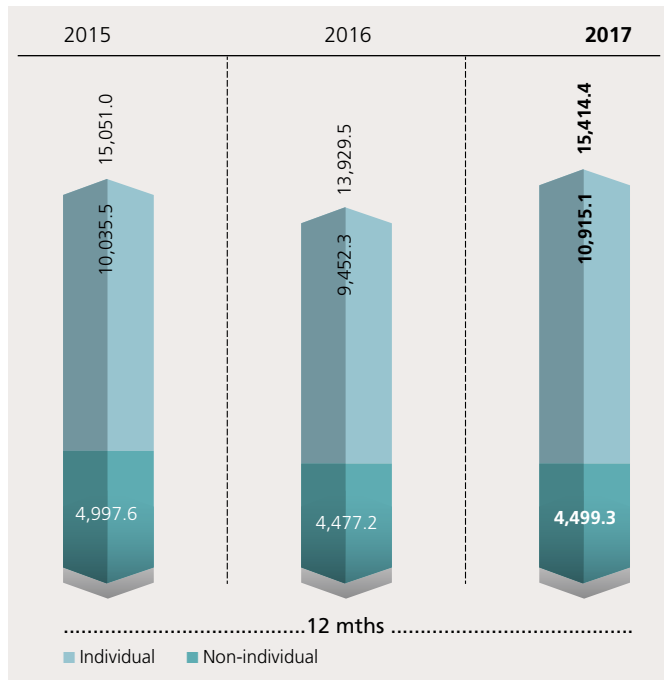


## DEPOSITS & CASH MANAGEMENT

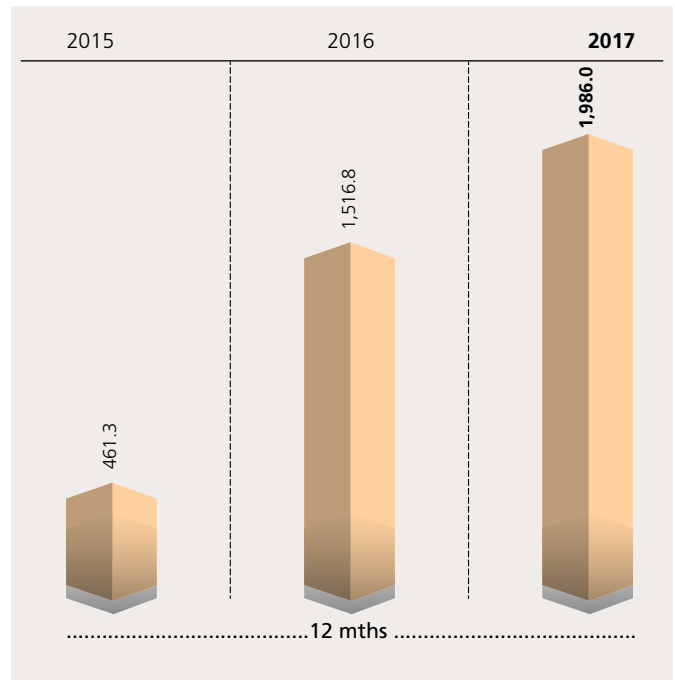
“Bank Islam’s Deposits & Cash Management Division (“D&CM”) drove the Bank’s focus on low-cost deposit and investment accounts, current and savings accounts (“CASA”) and Al-Awfar. The Division’s objective of the year was to improve the composition of individual deposits and intensify growth of salary accounts.”



CASA GROWTH (RM million)



AL-AWFAR GROWTH (RM million)



## 2017 KEY ACHIEVEMENTS

- Significant Al-Awfar growth of 30.9%
- Current Account growth of 15.1%
- Best Advertising Campaign by Islamic Business & Finance (3Xtra Drive Al-Awfar Audi Campaign)

### BUSINESS DIRECTION FOR THE YEAR

The drive for deposits was strengthened in 2017 as tightened regulations were imposed on deposit requirements. However, the rise in cost of living hampered by low net take-home pay meant a shrinking market for the banking industry. Competitive rates on term deposits were seen throughout the year making every new account hard earned.

Within this environment, D&CM managed to attain CASA and Al-Awfar growth of 10.7% and 30.9% respectively. This was achieved through an active year of campaigning and strategic promotions. From April to December, the Al-Awfar “3Xtra Drive 2017” campaign offered grand prizes of three units of Audi A4 2.0 sedans. This campaign successfully garnered 95,000 new Al-Awfar accounts and contributed to Al-Awfar growth of RM324 million. The campaign was recognised as the Best Advertising Campaign by Islamic Business & Finance during the year.

Other campaigns introduced by the Division included the “Al-Awfar Go *Umrah* Campaign” and a Term Deposit *Tawarruq* Promotion. The “Al-Awfar Go *Umrah* Campaign” kicked off in October 2017 and will run till December 2018. Under this campaign, five lucky winners

were and continue to be selected on a monthly basis for *Umrah* Packages. The Term Deposit *Tawarruq* Promotion was held from May to December to attract fresh funds from new or existing customers. During the period, RM1 billion was successfully secured.

New products and services were also pioneered during the year. Bank Islam became the first bank to implement e-Mandate MEPS Direct Debit for Perbadanan Tabung Pendidikan Tinggi Nasional (“PTPTN”) through D&CM’s efforts in anchoring projects with its top clients. In addition, D&CM introduced new initiatives such as e-*Masjid*, e-*Waqaf* and CA *Mudharabah*. e-*Masjid* is a simplified and easy to use cash management solution specially designed to assist *masjids* and *suraus* in managing their daily operations; e-*Waqaf* facilitates collection of cash *waqaf* from retail and corporate clients; while CA *Mudharabah* is a new account designed for valued corporate entities, that targets higher yield compared to CA *Wadiah*.

### OUTLOOK

In 2018, D&CM will continue to focus on growing CASA and low-cost investment accounts through digitalisation, VBI initiatives, cost containment measures and enhanced sales and marketing efforts.

Some of the targets set are to maintain a 35% CASA to Total Deposit ratio, and at least 20% Individual Depositors to Investment Account Holders ratio. Strategies towards this end are to initiate and drive long-term deposit placements, and grow SMEs and retail deposit investment accounts in line with BNM’s impending introduction of the NSFR requirements. The above targets are set to be achieved via the introduction of new product bundling, the launch of new SME products, managed partnerships with third parties and enhanced incentive programmes.

For existing clients, the Division aims to facilitate switching from short-term to long-term placements as part of its retention strategy; create better loyalty through a rewards programme; and innovate new strategies to harness a larger share of wallet.



# OUR 2017 PRIORITIES

## For Our

### SHAREHOLDER



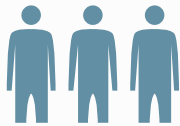
### INDUSTRY



### CUSTOMERS



### EMPLOYEES



### ENVIRONMENT



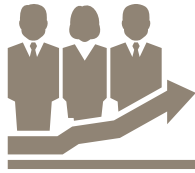
### COMMUNITIES



At Bank Islam, we are here to make a positive difference for our stakeholders. The purpose of our organisation is for the greater good of the wider community. To the best of our ability, we have begun to articulate our sustainability goals in order to determine how successfully we are serving our multiple stakeholders and delivering value under our guiding pillars of Responsible Finance, Inclusive Growth, Responsible Employer and Ethical Practice & Reporting.

Key performance indicators (“KPIs”) have been set to drive behaviours, measure performance and determine the remuneration of our people. The objectives and KPIs are updated yearly and approved by the Board before being cascaded throughout the organisation, ensuring that the goals of every unit are aligned to those of the Bank.

## SHAREHOLDER



## GOAL

Achieve sustainable growth

Our Shareholder metrics measure both financial outcomes achieved for the year as well as risk-related KPIs to ensure that growth is balanced against the level of risk taken, including compliance and control.

### Shareholder KPIs

#### 01. Grow profitability



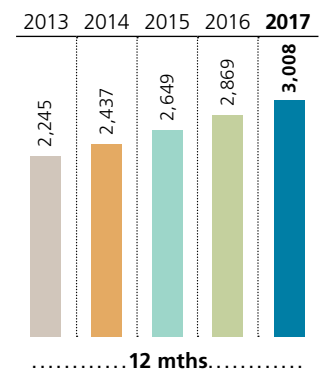
<b>Target</b>	Deliver consistent income growth.
<b>Outcome</b>	Revenue for the financial year ended 31 December 2017 grew 4.9% to RM3.0 billion while Profit After Zakat and Tax ("PAZT") increased by 6.6% from the previous year to hit RM566 million.

#### 02. Manage expenses

<b>Target</b>	Be cost efficient while investing for growth, with cost-to-income ratio improving over time.
<b>Outcome</b>	Cost-to-income ratio rose from 52.8% to 57.3%, as a result of higher deposit and overhead costs. Addressing the rising cost-to-income ratio, the Bank undertakes a two-pronged approach by managing overhead expenses through cost containment initiatives and increasing fee-based income.

#### TOTAL REVENUE

RM Million





**Shareholder KPIs****03. Manage portfolio risks**

<b>Target</b>	Grow exposures prudently, aligned to risk appetite, with financing growth targeted at 8% while maintaining asset quality.
<b>Outcome</b>	Financing growth was 7.5% which continued to surpass industry performance of 4.3%. Total assets grew by 3.7% compared with industry growth of 4.3%. Asset quality remained resilient with gross impaired financing ratio of 0.93% compared to 0.98% registered the year before. The strong asset quality is a result of the Bank's continued vigilance in proactive account monitoring and prudent underwriting standards.

**04. Improve asset composition**

<b>Target</b>	Achieve composition of 20:80 for Fixed vs Float rates and target over 12% growth in secured financing.
<b>Outcome</b>	The Bank recorded 12% fixed to 88% float and only 9.8% growth in secured financing due to lower growth of secured financing within the Corporate Banking portfolio .

**05. Improve returns and earnings per share**

<b>Target</b>	Sustain returns to shareholder with return on equity of 15%.
<b>Outcome</b>	RM266.5 million of dividends were paid to our shareholder in 2017. Return on equity was 16.4% surpassing both our target of 15% and industry average of 14%. As a result, earnings per share for the year was 23 sen, up from 22 sen the previous year.

**06. Enhance branding and repute in industry**

<b>Target</b>	Maintain existing achievements in Brand Audit & Accreditations.
<b>Outcome</b>	Re-affirmed at AA3/Stable/P1 by RAM Ratings and continued to receive industry accolades as a Top 3 Islamic banking franchise

**INDUSTRY**



**GOAL**

Further the sustainability and growth of the Islamic finance industry and support the national agenda

The Bank continued to actively participate in industry development programmes and government-led initiatives. The Shariah Division spearheaded knowledge sharing activities to benefit the industry at large.

**Industry KPIs**



**01. Advancing industry strength and sustainability**

<b>Target</b>	Play an active role in BNM's strategic agenda for the Islamic finance industry.
<b>Outcome</b>	Supported BNM in the development of the VBI scorecard and committed as an early adopter of VBI by creating value and positive impact on the real economy, community and environment on a sustainable basis. Participated in the development of Restricted and Unrestricted Investment Accounts via the IAP. Participated and led in industry Waqf initiatives.

**02. Knowledge-sharing initiatives**

<b>Target</b>	Take a lead as an industry leader in Islamic finance and grow awareness of its appeal and benefits.
<b>Outcome</b>	Organised one-day Perbankan Seminars in four states for over 1,900 participants; three-days Kembara Muamalah public education programme in three states for over 2,000 participants. Continued nine sessions of ILMU Knowledge series for about 712 future leaders of the nation on Islamic banking and finance.

**Industry KPIs****03. Participation in industry events**

<b>Target</b>	Continue participating and contributing in industry events, seminars and panel discussions to build relationships among peer organisations and create presence of its brand and philosophy in the marketplace.
<b>Outcome</b>	The Bank Islam group participated in the following events during the course of the year: <ul style="list-style-type: none"> <li>• Wealth Management in Practice by Securities Industry Development Corporation</li> <li>• Sustainable Development Goal Business Summit 2017 by Securities Industry Development Corporation</li> <li>• Digital Investment Management by Securities Industry Development Corporation</li> <li>• The Growing Importance of Sustainability to Investors at the Sustainable Brands Conference</li> <li>• Bursa Shariah Investing Fair 2017</li> <li>• Karnival Kewangan (Kedah and Sarawak) by Bank Negara Malaysia</li> <li>• Kuala Lumpur Islamic Finance Forum ("KLIFF") 2017 by Centre for Research &amp; Training</li> <li>• Sponsor for Islamic Financial Services Board ("IFSB") Summit in Abu Dhabi, UAE</li> <li>• Minggu Saham Amanah Malaysia ("MSAM") 2017 by Permodalan Nasional Berhad</li> </ul>

**04. Support the Graduates Employability Scheme**

<b>Target</b>	Support the Skim Latihan 1Malaysia ("SL1M") programme.
<b>Outcome</b>	Provided attachment for 477 SL1M trainees as at 2017, with 190 trainees absorbed.

**05. Support the Upward Mobility Scheme**

<b>Target</b>	Re-skill and up-skill of non-executive group of employees for better career opportunities in the Bank.
<b>Outcome</b>	About 160 employees participated in this programme and about 40% of the participants from Cohort 1 to 4 have been upgraded or promoted.

## CUSTOMERS



## GOAL

Enhance service excellence to improve customer experience towards growing customer loyalty and attracting new customers

Our Customer metrics measure both satisfaction and financial outcomes achieved for the year. In October 2017, the Bank launched its customer needs and expectations study to:

- Determine customers' expectations towards Bank Islam's products and services
- Evaluate products and services in terms of fulfilling customer satisfaction
- Understand Bank Islam customers' expectations at touchpoints

### Customer KPIs

#### 01. Increase reach and penetration



**Target**

Introduce new customer touch points, increase network channels and roll out digital platform.

**Outcome**

As of 31 December 2017, the Bank's channels have increased to 147 branches with two new branch openings during the year in Kodiang and IFiC Putrajaya with a total of 1,117 Self Service Terminals. Mobile Banking has been enhanced with 10 new features, and total subscribers increased to 589,415 during the year. Our Internet Banking saw growth of 153% with total subscribers increased to 889,645 during the year due to effective customer engagements to migrate them to electronic payments in line with BNM's Financial Sector Blueprint 2011 - 2020.

**Customer KPIs****02. Enhance customer satisfaction**

**Target** Broad-based increase in customer satisfaction across markets and segments. Reduction in customer complaints by 10% and improvement in complaint management to be less than 14 days with 80% of cases taking less than 10 days. Contact Centre call abandonment rate of below 10%.

**Outcome** Bank Islam was ranked first among Islamic banks and fourth in the overall Banking Industry based on the result of a Customer Satisfaction survey study conducted in November 2017; an industry-led initiative by ABM and AIBIM. Complaint Management Turnaround time was less than 14 days, in keeping with BNM's Client Charter while 90% was achieved less than 10 days as per Bank Islam's internal Service Excellence KPI. Complaints with regards to branch services reduced by 17%, from 141 in 2016 to 117. Contact Centre reported 8.5% abandonment rate in customer calls.

Key Service Excellence Initiatives executed in 2017:

- Recruitment of 45 new Branch Service Employees
- Adoption and propagation of AIBIM's Customer Service charter

**03. Improve service turnaround time**

**Target** 80% of branch customers waiting time shall be less than 10 minutes and served within five minutes; financing turnaround time of five days; Automated Teller Machines ("ATM") and Cash Deposit Machines ("CDM") uptime of above 95%.

**Outcome** 81.5% of branch customers waiting time were less than 10 minutes out of which 85.9% were served within five minutes. Consumer financing turnaround time met target of five days. ATM uptime was 97.2% while CDM's was 94.7%.

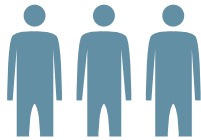
**04. Continuous product and service innovations**

**Target** Deliver superior banking experience through execution of planned key Information Technology ("IT") initiatives. Formalise a digital banking plan.

**Outcome** The Bank's digital journey was initiated in August 2017 with the signing of a Memorandum of Understanding with Cognizant and the appointment of the Head of Digital Banking on 2 October 2017. Key IT initiatives for the year were executed as planned. In addition, as part of its On-line Personal Financing Application under its Employer's Tie Up programme, the Bank has introduced the EZXCESS link which has simplified the documentation and hastened employment verification. In facilitating digitalised banking, the Bank's Technology Division actively participates as a member in BNM's Working Groups for Trade Finance ("DLT") as well as National Cards Group Malaysian QR Standardisation Task Force spearheaded by BNM together with other banks. The Bank's Working Group also completed the execution for the implementation plan of Kafalah product development.



## EMPLOYEES



## GOAL

To enhance talent development and employee engagement in creating a sustainable talent pool for the Bank's operations.

Our employees' performance is assessed against KPIs to determine remuneration, providing a clear line of sight between employee goals and organisational imperatives. We have achieved a well-established rhythm towards performance monitoring and our rewards are closely linked to scorecard outcomes.

### Employee KPIs

#### EMPLOYMENT STATUS

Total Bank Islam Employees by year end 2017

Permanent



4,340

Temporary



228



#### 01. Sustain high performing employee retention through the Bank's employee value proposition ("EVP")

<b>Target</b>	Maintain staff attrition below 5% and sustain Employer of Choice ranking. Provide our people with opportunities for internal mobility to enhance professional and personal growth.
<b>Outcome</b>	<p>For the year, the Bank achieved an Employee retention rate of 97.07% with staff attrition rate of 2.93% compared to industry attrition of 13%. The Bank also maintained its position as a Top 20 Malaysian Employer, ranking 3rd in Banking and Finance and 19th as a Top 50 Company in the Graduan Brand awards.</p> <p>Upward Mobility initiatives launched during the year were the BIMB-USIM Certification Programme; Future Leaders Programme and INSEAD Leadership Programme. Thirty one candidates were identified as part of succession planning and provided leadership, competency and capability development to close the strategic talent gap within the Bank. In total, 301 or 6.5% of the workforce enjoyed promotions during the year.</p>

**Employee KPIs****02. Enhancing productivity**

<b>Target</b>	Productivity targets of: a) Financing asset per employee at above RM9.0 million; b) Profit per employee at above RM150k, and c) Deposit per employee at above RM9.7 million.
<b>Outcome</b>	In 2017, the Bank's employee productivity recorded financing asset per employee of RM9.3 million; RM169.5k in profit per employee and RM10.1 million in Deposit per employee.

**03. Enhancing knowledge and skills**

<b>Target</b>	Hone specialised skills and build competencies with two days for technical enrichment programme for all employees and two days for compliance awareness programme for all branch managers, branch service managers and relationship managers.
<b>Outcome</b>	During the year, 75% of workforce underwent technical enrichment; 98% of branch staff underwent compliance awareness programme; and 216 staff were certified through participation in six certification initiatives (see list below).

**List of certification initiatives**

- Professional Credit Certification
- Certificate in Internal Auditing for Financial Institutions ("CIAFIN")
- Investor Protection Professional Certification ("IPPC")
- Certified Qualification in Islamic Finance ("CQIF")
- Intermediate Qualification in Islamic Finance ("IQIF")
- Associate Qualification in Islamic Finance ("AQIF")

**Total learning hours for 2017, number of modules run, number of sessions:**

- Total learning hours for 2017 : 165,660.40 hours
- Total learning hours for 2017 / staff : 36.42 hours
- Total modules run for 2017 : 414 modules
- Total sessions run for 2017 : 756 sessions

## Employee KPIs

**04. Develop in-house talent pool with knowledge sharing on Shariah**

<b>Target</b>	Knowledge sharing through Shariah awareness initiatives by the Bank's Shariah Division.
<b>Outcome</b>	<p>Over 20 programmes were introduced on 2017, targeting 1,046 participants. These are listed as below.</p> <p><b>List of Shariah training for the year:</b></p> <ul style="list-style-type: none"> <li>• Muamalat 101 For 119 New Staff</li> <li>• Philosophy And Fundamentals Of Shariah For Islamic Finance For 20 Staff</li> <li>• Shariah Risk Management (Intermediate) Training For Trade Operations For 50 Trade Operations Staff</li> <li>• Aqif Certification Programme For 80 Staff</li> <li>• 3 Sessions Of Shariah Town Hall For 195 Employees</li> <li>• Risk &amp; Compliance For Credit Admin Department For 122 Staff</li> <li>• Risk &amp; Compliance Awareness For Commercial Banking For 56 Staff</li> <li>• ORM Training For Risk Controllers 2017 For 85 Staff</li> </ul>

**05. Increase productivity via IT Digital Transformation**

<b>Target</b>	Reduce manual efforts through improved productivity and by driving straight- through processing
<b>Outcome</b>	<p>Technology Division is continuously improving and building the IT backbone to support digital initiatives. 43 IT projects were completed in 2017 under the following project categories: 20 Regulatory Requirement projects; 10 IT Risk and Security projects; nine business improvements projects and four operational requirement projects.</p> <p><b>IT Investment over 5-year period (2013-2017) = RM501.8 million,</b> with the following breakdown:</p> <p>IT Capital Expenditure ("CAPEX") : <b>RM136.9 million</b></p> <p>IT Operating Expenditure ("OPEX") : <b>RM364.9 million</b></p> <p><b>Investment for FY2017 : RM132.3 million</b></p>

OUR  
**2017 PRIORITIES**  
(cont'd)

ENVIRONMENT



GOAL

Prioritise support to economic and social activities that make a meaningful difference to environmental causes while managing the use of our resources better.

A prosperous economy and societal wellbeing is dependent on a healthy planet. We aim to be effective environmental stewards not only for the sake of our children, our grandchildren and our ecosystems, but also for our business to remain sustainable. For this purpose, we believe the best way to achieve this is through better management of resources, innovation and creativity.

Environmental KPIs



## Environmental KPIs

**01. Impacting the development of a greener future through strategic business support**

<b>Target</b>	Increase our support of Green Financing initiatives.
<b>Outcome</b>	<p>In 2017, percentage of total Green Financing against the Bank's Corporate Banking's total assets of RM4.4 billion was RM295.86 million or 2.27%. This was derived from Kerian Energy Sdn Bhd's 14MW mini hydro power plant project in Sungai Kerian, Perak; and Amcorp Perting Hydro Sdn Bhd's construction of a 4MW mini hydro power plant in Bentong, Pahang.</p> <p>During the year, BIMB Invest also launched the BIMB-Arabesque Malaysia Shariah-ESG Equity Fund which is a Shariah and Environmental, Social and Governance ("ESG") compliant fund that invests in Malaysian listed companies using artificial intelligence technology.</p> <p>Our Commercial Banking's infrastructural financing of the purchase of 100 units of compactors (waste disposal trucks) with equipment for KDEB Waste Management Sdn Bhd, also helps eliminate adverse impacts on the environment through reducing, reusing and recycling, and minimising resource extraction towards improved air and water quality and reduction of greenhouse gas emissions.</p> <p>Our Capital Market's CMC Group RIA financing was used to fund the Ho Chi Minh City Urban Railway System (Line 1) project in Ho Chi Minh City, Vietnam, the first project of its kind in Vietnam. This project will help the Ho Chi Minh City Council to provide a modern and clean transportation system, promote higher economic activities and reduce traffic congestion and air pollution problems for its people.</p>

**02. Reducing energy and wastage in our operations**

<b>Target</b>	Utilise more energy savings equipment; promote energy and water conservation, reduce the use of paper and print volume.
<b>Outcome</b>	Most of the Non-IT office equipment is equipped with energy saving mode. Centralised air-conditioning is set to optimum temperature to minimise energy usage. Redirecting of printing through multi functional printers ("MFP") instead of standalone printers to reduce print volume. To date, we have installed more than 200 units of MFPs nationwide thus reducing the cost, paper and energy. Usage of LED lights in signages of all our branches which minimises power consumption from 415 volts per fluorescent bulb to 240 volts per LED bulb.



## OUR 2017 PRIORITIES

(cont'd)

### COMMUNITIES



### GOAL

Equip and enable Malaysia's real economy through inclusive growth whilst growing together with communities.

As a value-based intermediary going forward, we serve to add greater value to society by supporting projects and government initiatives that add value to our community such as public infrastructure, education, community-based effort and healthcare. This will be synergised in line with the Bank's existing AMAL corporate responsibility programme.

### Community KPIs

2017 Investment in community and corporate responsibility projects

**RM5.63 million**

Zakat Paid in 2017

**RM12.9 million**



## Community KPIs

**01. Impacting the upliftment of society through strategic business support.**

<b>Target</b>	Synergise all business units towards more meaningful financing initiatives which will add positive value to society.
<b>Outcome</b>	<p>Financed the development cost of 30 units of Sekolah Agama Negeri Johor for the Johor State Government Education infrastructure to cater to the needs of religious teaching for children by providing sufficient and ample public education facilities.</p> <p>Focus was also placed on financing affordable homes in line with Government aspirations to promote home ownership under Government initiatives such as PR1MA, PPA1M, RUMAWIP, SRP and SJKP. There was also close engagement with administrators of Waqf Land Nationwide.</p> <p>Also as the Joint Lead Manager for Danainfra Nasional Berhad's RM13 billion Islamic Commercial Papers and Islamic Medium Term Notes Issuance Programme for Pan Borneo Highway Project, the Bank's Capital Market Division is helping to catalyse the development of a new economic corridor and the opening of new opportunities for the local communities. The Department was also the Joint Lead Manager for issuance of Lembaga Pembiayaan Perumahan Sektor Awam's RM3.25 billion Government Guaranteed Islamic Medium Term Notes whereby funds will be used to finance civil servants' Islamic house financing scheme. The financing scheme helps civil servants to get house financing facility at attractive terms and own a house.</p>



**15.15%**  
Affordable Homes

**84.85%**  
Total HFA

**Affordable Homes Scheme:**

- PR1MA - 361 accounts
- RUMAWIP - 141 accounts
- PPA1M - 567 accounts
- SRP - 591 accounts
- SJKP - 2 accounts

Total newly approved financing in 2017 for Waqf projects (Wakaf Mohamad Hashim (Legasi SJ), Seberang Perai, Pulau Pinang and Jalan Kebun, Shah Alam, Selangor (Wakaf Land)

**Number of accounts : 25**

**Amount : RM7,515,915.50**

## Community KPIs

**02. Strengthening stakeholder relationships through customised financing solutions.**

<b>Target</b>	Support and engage with the societies and associations who are also our customers such as Teachers, Nurses, Malaysia Institute of Accountants ("MIA"), Malaysia Medical Association ("MMA"), Board of Engineers Malaysia ("BEM"), SMEs, Universities Alumni, staff and students of Universities.
<b>Outcome</b>	<p>Bank Islam participated in ongoing initiatives as the main sponsor for "Anugerah Tokoh Guru". We have been actively involved in Teachers and Nurses Day celebrations nationwide for two consecutive years (in May 2016 &amp; 2017). As well as the main sponsor (Platinum) for the MIA International Accountants Conference 2017.</p> <p>In Wealth Management, in 2017 we offered Takaful coverage as part of benefits for Corporates, SMEs, and University partners that do not provide medical benefits.</p> <p>The Bank has also consistently helped customers affected by floods by waiving the charges imposed on applications for replacement of debit card or passbook; a moratorium of six months for financing products for customers affected by flood and waiver of compensation fee imposed on customer's account during the moratorium period.</p> <p>In our card collaboration programmes, we provide a platform for cardholders to contribute and support the development of education, sports and humanitarian assistance through a collaborative function via the co-brand card. This is supported by a portion of cards fee collected being contributed to our co-brand card partners (see list below).</p> <p><b>Total contribution from Cards Business in 2017: RM5,155,206</b></p> <p><b>Beneficiaries:</b></p> <ul style="list-style-type: none"> <li>• Football Association of Malaysia</li> <li>• Kelantan Football Association</li> <li>• Pahang Football Association</li> <li>• Kedah Football Association</li> <li>• Selangor Football Association</li> <li>• Melaka United Soccer Association</li> <li>• Malaysia Hockey Confederation</li> <li>• Universiti Malaysia Kelantan</li> <li>• Universiti Malaysia Pahang</li> <li>• Universiti Pendidikan Sultan Idris</li> <li>• Universiti Malaya</li> <li>• Universiti Utara Malaysia</li> <li>• Pusat Perubatan Universiti Malaya</li> <li>• Construction of SMA (P) Al-Madrasah Al-Alawiyah Ad-Diniyah Yayasan Islam Perlis</li> <li>• Tabung Pelarian Rohingya-Media Prima</li> <li>• Other selected orphanage homes and mosques</li> </ul>

## ENRICHING COMMUNITIES THROUGH CORPORATE RESPONSIBILITY

At Bank Islam, we know we owe our success to the people, businesses and communities who have supported and partnered with us in the last 34 years. That success brings with it a responsibility to make a significant and positive contribution in return.

We view corporate responsibility (“CR”) as a continuous journey, guided by our core values and principles. As a Bank that is dedicated to promoting ethical, Shariah-guided business practices, we are certain our CR commitments make every part of Bank Islam’s business stronger.

Our commitment to CR reflects our deep desire to help build stronger, more sustainable communities across the country. We know how important it is to act responsibly and inclusively while leading the way in social innovation. Today, this means evolving the way we approach community investment through a combination of philanthropy, CR and leveraging our core assets and expertise to create shared value.

Our efforts to support communities nationwide cover welfare organisations, educational institutions, mosques and *suraus*, non-governmental organisations, families, individuals and other worthy causes. These community-building efforts allow us to engage with communities and this has mutually benefitted the Bank, our beneficiaries as well as all other individuals and organisations involved.

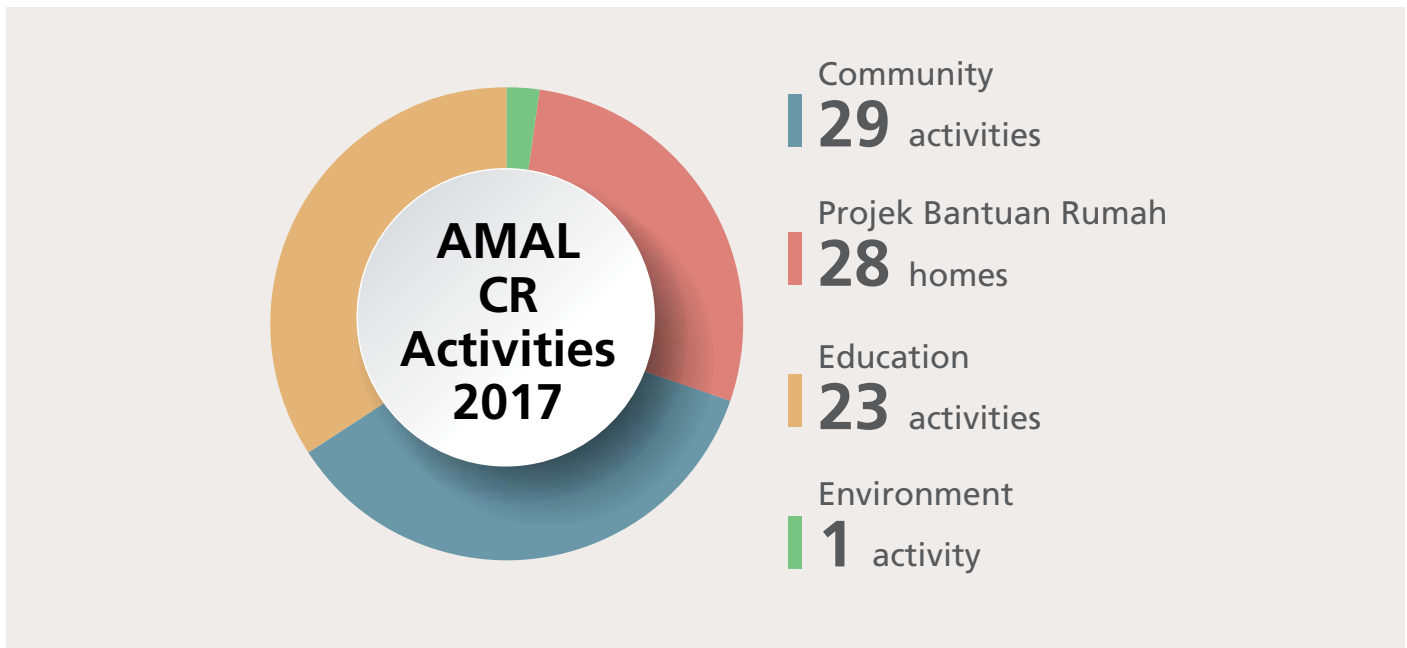
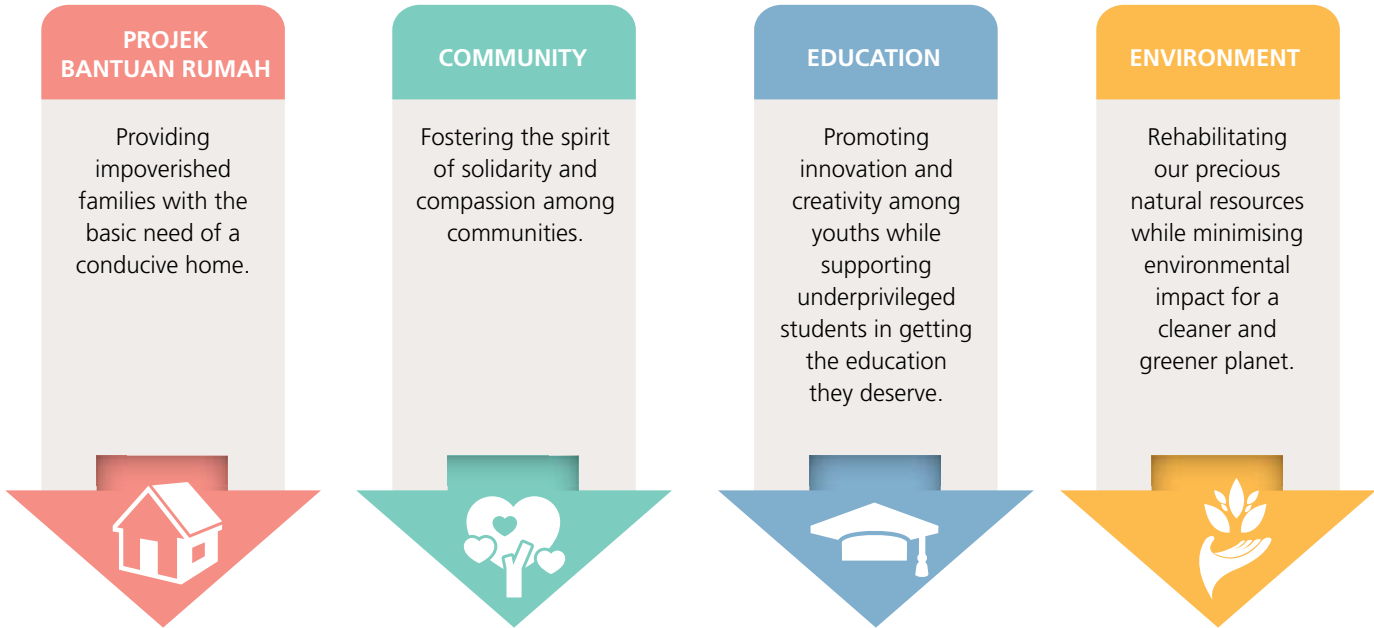
It is essential for Malaysians to contribute to their community and country. For this reason, we invest in education programmes designed to foster academic as well as non-academic excellence among underserved communities and help bridge the urban-rural divide. We place great importance in supporting our local youths by taking a holistic approach in equipping them with knowledge and skills they need to succeed in life.

As our business grows, we encounter new opportunities to make a positive social and environmental impact via our CR arm AMAL, which focuses on four key priorities:



OUR  
**2017 PRIORITIES**  
(cont'd)

**AMAL'S FOUR AREAS OF FOCUS:**






**PROJEK BANTUAN RUMAH (HOUSING AID PROJECT)**

Bank Islam strives to ensure poor and underserved Malaysians have at least a basic standard of living by providing them a conducive home and a sustainable living environment. Our Projek Bantuan Rumah proved to be even more pertinent today given the rising house prices especially in recent years.

Initiated in 2008, the flagship project involves channelling contributions to construct and rehabilitate houses for underprivileged families. Since its inception, more than RM7.2 million has been allocated to Projek Bantuan Rumah, allowing 265 marginalised families across the country to own and live in a comfortable home. In 2017, 28 families (26 in Melaka, one in Negeri Sembilan and one in Kelantan) were beneficiaries of this programme.



YEAR	STATE	BENEFICIARIES (FAMILIES)
2008	Kelantan	36
2009	Terengganu	37
2010	Kedah	31
2011	Pahang	23
	Negeri Sembilan	1
2012-2013	Sarawak	6
	Perak	18
2014	Kelantan	10
	Johor	22
	Pahang	1
2015	Kelantan	28
2016	Negeri Sembilan	23
	Pahang	1
2017	Melaka	26
	Negeri Sembilan	1
	Kelantan	1
<b>Total</b>		<b>265</b>

**265**   
houses in 9 states

built/repared at a total cost of  
**RM7.2mil**



## OUR 2017 PRIORITIES

(cont'd)



### PROJEK #BUATBAIK – GIVING HOPE TO THE HELPLESS

April 2017 marks the first instalment of Bank Islam's Projek #BuatBaik which is a platform for the Malaysian public to be a part of our CR efforts. The platform allows the public to nominate people from their respective communities who are in dire need of financial assistance, via AMAL and Bank Islam websites and Facebook pages.

Five beneficiaries from Kelantan, Penang, Negeri Sembilan and Kuala Lumpur were shortlisted from nationwide nominations. Among the assistance given were payments for medical treatments (chemotherapy, dialysis and ovary removal surgery), inclinable bed, grass cutting machine, home renovations and cash donations. Meanwhile, the 'Skuad BuatBaik' team tirelessly invested their energy in cleaning and repairing some of the beneficiaries' homes.

### HARI AMAL – CELEBRATING MALAYSIA DAY WITH NATIONWIDE CR ACTIVITIES

Another inaugural CR initiative, Hari AMAL Bank Islam put in motion 14 CR activities at 14 states on one auspicious day. Held in conjunction with Malaysia Day (16 September), Hari AMAL aimed to foster the spirit of solidarity and camaraderie among fellow Malaysians by lending a hand to communities and individuals in need. The inaugural programme also encourages more staff nationwide to become volunteers of CR activities in their respective states.

The occasion saw more than 400 volunteers comprising Bank Islam staff, non-governmental organisations ("NGOs") and student participants who got involved in gotong-royong activities such as cleaning, painting, tree-planting as well as refurbishing and reparation of homes and buildings. The Bank contributed RM56,000 to organise the nationwide programme. Meanwhile, a total of RM190,000 of zakat fund was distributed to beneficiaries by participating branch managers of every state. Among the zakat recipients were individuals (193), schools (28), mosque (1), surau (2), old folks' home (1), orphanages (4) and centres for special needs children (3).



### SUPPORTING UNIFORMED PERSONNEL DURING RAMADAN

As with every Ramadan month for the last three years, our nationwide AMAL *Ihtimam Ramadan* programme continued with efforts to support uniformed personnel who have to be on duty at the time of breaking fast. As a way to uphold our appreciation for their contribution to society, in 2017, we distributed packed food to nurses in Hospital Sultanah Nur Zahirah in Kuala Terengganu and Hospital Sultan Abdul Halim in Sungai Petani, Kedah.

Other than the nurses, we also paid special attention to *asnaf* and underprivileged students including orphans. The beneficiaries for the year's programme included more than 900 students, 20 *asnaf*, 20 *mualaf*, 36 schools, four colleges and universities and seven NGOs (five orphanages, a community centre and a *mualaf* organisation) which, in all, received close to RM450,000.

### Contributions During AMAL Ihtimam Ramadan

BENEFICIARIES		TOTAL	TOTAL INDIVIDUALS
INDIVIDUALS	Student	873	1,071
	Orphan	158	
	Asnaf	20	
	Mualaf	20	

BENEFICIARIES		TOTAL	TOTAL ORGANISATIONS
ORGANISATIONS	Non-governmental organisation	7	46
	School	36	
	University	4	



### SHARING HARI RAYA JOY WITH THE UNDERPRIVILEGED

As a way to share the festive joy with the underprivileged, we hosted an open house held at a traditional Malay homestay in Pengkalan Balak, Melaka with 150 underprivileged students and 45 *asnaf* as our honourable guests. Apart from treating them to a variety of delectable Raya delicacies, donations totalling RM41,000 were also distributed to our guests including seven schools and the Society of the Blind in Malaysia during the event.

Total Contribution  
**RM447,500**  
 =  
**RM311,200**  
 (Zakat)  
 +  
**RM136,300**  
 (CR fund)



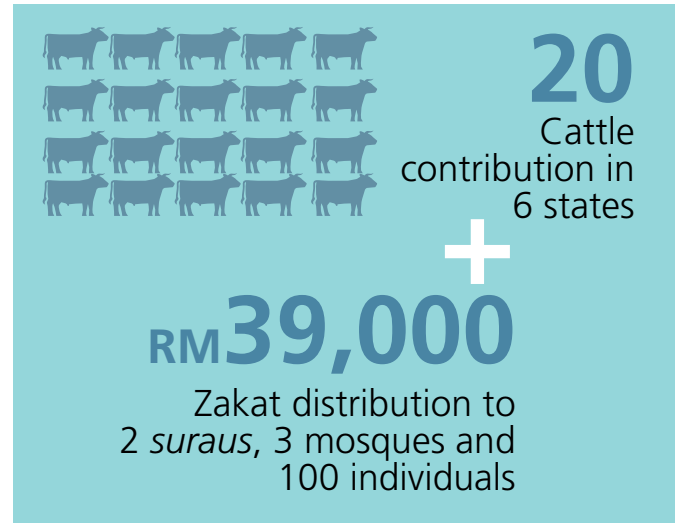
**KORBAN WITH DRUG REHABILITATION CENTRE AND PRISON COMMUNITIES**

Among the venues for our nationwide *AMAL Ihtimam Korban* 2017 were Klinik Cure & Care 1Malaysia Tampoi, Johor (drug rehabilitation centre) and Penjara Seremban (correctional institution), Negeri Sembilan. These locations were selected as a way to give support to those seeking a second chance in life and the staff of these respective organisations.

The yearly Aidiladha programme was also held in *suraus* and mosques in Tanjung Karang, Selangor; Tasek Gelugor, Penang; Kuala Rompin, Pahang and Bintulu, Sarawak. Participants and guests were also treated to various activities such as colouring, *azan* and *khutbah* contests, quiz, outdoor games and *tazkirah*. In total, 20 cattle and RM39,000 (zakat) were distributed to *suraus*, mosques and the underprivileged during the programme.

**AMAL MUSA'ADAH – EMPOWERING SMALL BUSINESS OWNERS**

AMAL Musa'adah is another new programme initiated in 2017 to support small business owners by providing facilities or financial assistance that would help them in their daily operations. Carried out in collaboration with Amanah Ikhtiar Malaysia ("AIM"), the programme's main aim is to help these businesses sustain independently in the long term. A total of RM93,000 was contributed to 36 small business owners in Terengganu. Among the contributions made towards the programme were basic necessities, business capital, kiosks, machineries and equipment.



### VISIT-TO-SCHOOL PROGRAMME & SCIENCE SHOW COMPETITION – MAKING EDUCATION FUN

Our third-year partnership with Petrosains Discovery Centre in the Visit-to-School Programme and Science Show Competition saw the participation of more than 9,100 students and 910 teachers from 517 schools. A total of RM716,000 was contributed towards this collaboration whereby RM239,000 was allocated for Visit-to-School programme which is a series of two-day mini carnival events that provided students with hands-on activities relating to Science, Technology, Engineering and Maths (“STEM”). The programme was carried out in six schools in Tanjung Karang, Selangor; Batu Pahat, Johor; Sungai Petani, Kedah; Kuching, Sarawak and Kota Kinabalu, Sabah.

Meanwhile, the remaining RM477,000 was channelled to the Science Show Competition where participants were required to present a scientific concept and showcase an experiment or demonstrate their illustrative concept (either individually or in teams of two) in a 15-minute performance on stage. The contest, which combined science with the performing arts, aimed to popularise science and promote exciting and effective learning methods for students. The team from SM Sains Rembau, Negeri Sembilan emerged as champion, winning RM10,000 in cash and an all-expenses paid trip (worth RM30,000) to National Museum of Emerging Science & Innovation in Tokyo, Japan.



### PINTAR PROGRAMME – SURVIVOR CAMP

Every child should be given equal opportunity to get the education that he or she deserves, especially those from underprivileged families and communities. Our affiliation with Promoting Intelligence, Nurturing Talent & Advocating Responsibility (“PINTAR”) Foundation in its School Adoption Programme has allowed us to contribute towards our quest to level the playing field between urban and rural children. Since 2008, the Bank has adopted 20 schools all across the country, assisting PINTAR to educate and impart useful skills to more than 15,000 primary school students nationwide.

To date, we have contributed close to RM1.5 million towards this programme whereby most of the fund was channelled to our three-day Survivor Camp at Rejimen Askar Melayu DiRaja (“RAMD”) Battalion 25 Camp in Bentong, Pahang. In 2017, Survivor Camp saw the participation of 80 students from our adopted schools Maahad Al Ehya Asshariff in Semanggol, Perak and Sekolah Menengah Ugama (Arab) Al-Fitrah in Tanah Merah, Kelantan. Conducted by RAMD officers, the programme was created to build self-confidence among the participants. The activities also prepared them in facing future challenges by instilling a sense of responsibility, leadership skills, discipline, competitive spirit and teamwork.





## OUR 2017 PRIORITIES

(cont'd)

### INNOVATION, INVENTION & DESIGN EXPOSITION ("IIDEX") – PROMOTING TECHNOLOGY & CREATIVITY

As a Bank that advocates a culture of innovation, we are proud to be the main sponsor of Innovation, Invention and Design Exposition ("IIDEX") for the last twelve years. The focus of Universiti Teknologi MARA's ("UiTM") annual international exhibition and competition of IIDEX2017 is aligned with the third thrust of the National Higher Education Strategic Plan which is to enhance research and innovation.

Themed 'Innovate to Inspire', the one-week event held in UiTM, Shah Alam attracted 700 participants from schools, colleges and universities. The annual event is also part of our effort to encourage collaboration between the academia and industries as well as commercialising innovation and invention.



### BACK2SKOOL – SUPPORTING UNDERPRIVILEGED YOUTHS

Bank Islam understands the financial constraints faced by parents, especially the less fortunate, in providing schooling needs for their children. To address this predicament, we have contributed schooling necessities (full sets of uniform, tracksuits, bags, stationeries and cash) to needy students as part of our Back2Skool programme held in conjunction with the new school academic year 2018. Besides easing the burden of underprivileged parents, the programme also acts as a motivation factor for children to attend school.

The programme saw the involvement of more than 30 Bank Islam volunteers, with over RM270,000 (from zakat and CR fund) allocated for 650 students from 60 primary schools located in Pekan, Pahang; Langkawi, Kedah and Sempoerna, Sabah.



### ANUGERAH SURAU IMARAH SEKOLAH-SEKOLAH – UPLIFTING SURAUS & MUSOLLAS

We are continuing our support for Anugerah Surau Imarah Sekolah-Sekolah ("ASISS"), an annual competition which seeks to award the best primary and secondary school *surau* and *musolla* in the country. Organised by the Education Ministry in conjunction with *Maulidur Rasul*, the Bank has contributed close to RM400,000 to date since its inception in 2013.

Set to encourage every school to invigorate its prayer spaces, the competition has inspired its participants to improve the management of their school *suraus* and *musollas* by elevating them into educational centres that also carry out *da'wah* activities.



## PROJEK ECO-BALAI RAWATAN – CHAMPIONING RENEWABLE ENERGY INNOVATIONS

In our quest to promote alternative energy, we have teamed up with Universiti Teknologi Malaysia (“UTM”) to provide residents of Kampung Orang Asli Pucur in Kahang, Johor, a solar energy system developed by the university’s Faculty of Electrical Engineering. Located 70km from Kluang, the community had to rely solely on diesel generators as a source of electricity and had to spend about RM2,000 a month to purchase fuel. This practice was costly and contributed to air and noise pollution while providing merely 11 hours (7p.m. to 6a.m.) of electrical usage.

With the expertise from the research team, their solar energy system was built and installed at the village’s *balai rawatan* (medical treatment centre) so that the community could enjoy continuous supply of renewable electricity for free. The project also entailed the centre’s renovation works. Renamed as Eco-Balai Rawatan, a freezer was also donated to the centre allowing the secluded community a facility to store their food for a much longer time.

The community participated in various activities during the official handover ceremony such as *Kem Solat* (facilitated by two *imams* from Surau Wakaf Ahmad Dawjee Dadabhoy), gotong-royong, children’s games, demonstration of solar energy system (by UTM’s Engineering Faculty) and zakat contributions. Apart from UTM, the clean energy project also involved the combined efforts of Department of Orang Asli Development (“JAKOA”), Tenaga Nasional Berhad (“TNB”) and Institut Inovasi Strategik Johor (“IISJ”).



## CONSTANTLY EXPLORING INNOVATIONS IN CR

Every year, we make progress in strengthening the implementation of our social and environmental responsibility policy. The addition of two nationwide (Projek #BuatBaik and Hari AMAL) and one state-wide (AMAL Musa’adah) CR programmes in 2017 are examples of new initiatives that attest to our drive to consistently improve.

For us, CR is a never-ending journey to explore innovative ways to help communities thrive and contribute towards a sustainable future. This doctrine stems from our belief that innovation and creativity are basis of successful corporations.

To achieve our goals, we challenge ourselves daily to look beyond Bank Islam’s own interests for greater opportunities to do what’s right – and create a positive and lasting impact on the lives of our customers, shareholder, communities and our precious environment. This is manifested in our pledge to promote VBI which subscribes to the Triple Bottom Line principle as a measure of performance.

We are continuously seeking to adopt new approaches. With VBI in the works within our Shariah-based framework, we are geared to advance towards a more sustainable economic development model. Our conscious effort to push for innovation, inclusive growth and constructive collaboration will not only lead us to become a more robust organisation but also provide a higher quality of life for communities involved, and most importantly – a better Malaysia.



# BANK ISLAM'S BOARD OF DIRECTORS







1. **Datuk Zamani Abdul Ghani**  
Chairman/Independent Non-Executive Director
2. **Dato' Sri Zukri Samat**  
Managing Director  
*(Retired w.e.f 9 June 2017)*
3. **Datuk Zaiton Mohd Hassan**  
Non-Independent Non-Executive Director  
*(Re-designated as Non-Independent Non-Executive Director w.e.f 2 February 2018)*
4. **Nik Mohd Hasyudeen Yusoff**  
Independent Non-Executive Director
5. **Noraini Che Dan**  
Independent Non-Executive Director

6. **Zahari @ Mohd Zin Idris**  
Non-Independent Non-Executive Director
7. **Professor Emeritus Tan Sri Dato' Dr. Abdul Shukor Husin**  
Non-Independent Non-Executive Director
8. **Mohamed Ridza Mohamed Abdulla**  
Independent Non-Executive Director
9. **Dato' Sri Khazali Ahmad**  
Independent Non-Executive Director  
*(Appointed w.e.f. 2 January 2018)*
10. **Azizan Ahmad**  
Independent Non-Executive Director  
*(Appointed w.e.f. 2 January 2018)*

CORPORATE  
INFORMATION

## BOARD OF DIRECTORS

## CHAIRMAN

**DATUK ZAMANI ABDUL GHANI**

## MANAGING DIRECTOR

**DATO' SRI ZUKRI SAMAT**  
(Retired w.e.f 9 June 2017)

## MEMBERS

**PROFESSOR EMERITUS TAN SRI DATO'  
DR ABDUL SHUKOR HUSIN****DATUK ZAITON MOHD HASSAN**  
(Re-designated as Non-Independent  
Non-Executive Director w.e.f 2 February 2018)**ZAHARI @ MOHD ZIN IDRIS****MOHAMED RIDZA MOHAMED ABDULLA****NIK MOHD HASYUDEEN YUSOFF****NORAINI CHE DAN****DATO' SRI KHAZALI AHMAD**  
(Appointed w.e.f. 2 January 2018)**AZIZAN AHMAD**  
(Appointed w.e.f. 2 January 2018)AUDIT AND EXAMINATION  
COMMITTEE

## CHAIRMAN

**Noraini Che Dan**  
(Appointed as the Chairman w.e.f. 1 February 2018)**Datuk Zaiton Mohd Hassan**  
(Ceased as the Chairman and re-designated as a member  
w.e.f. 1 February 2018)

## MEMBERS

**Datuk Zamani Abdul Ghani****Zahari @ Mohd Zin Idris****Mohamed Ridza Mohamed Abdulla****Nik Mohd Hasyudeen Yusoff****Dato' Sri Khazali Ahmad**  
(Appointed as a member w.e.f. 1 February 2018)

## BOARD RISK COMMITTEE

## CHAIRMAN

**Nik Mohd Hasyudeen Yusoff**  
(Appointed as the Chairman w.e.f. 1 February 2018)**Datuk Zaiton Mohd Hassan**  
(Ceased as the Chairman and re-designated as a member  
w.e.f. 1 February 2018)

## MEMBERS

**Datuk Zamani Abdul Ghani****Professor Emeritus Tan Sri Dato' Dr Abdul  
Shukor Husin****Zahari @ Mohd Zin Idris****Noraini Che Dan****Azizan Ahmad**  
(Appointed as a member w.e.f. 1 February 2018)





## NOMINATION AND REMUNERATION COMMITTEE

### CHAIRMAN

**Noraini Che Dan**

### MEMBERS

**Datuk Zamani Abdul Ghani**

**Professor Emeritus Tan Sri Dato' Dr Abdul Shukor Husin**

**Datuk Zaiton Mohd Hassan**

**Zahari @ Mohd Zin Idris**

**Nik Mohd Hasyudeen Yusoff**

(Appointed as a member w.e.f. 1 February 2018)

## BOARD FINANCING REVIEW COMMITTEE

### CHAIRMAN

**Zahari @ Mohd Zin Idris**

### MEMBERS

**Datuk Zamani Abdul Ghani**

**Datuk Zaiton Mohd Hassan**

**Dato' Sri Zukri Samat**

(Retired w.e.f. 9 June 2017)

**Nik Mohd Hasyudeen Yusoff**

**Azizan Ahmad**

(Appointed as a member w.e.f. 1 February 2018)

## SHARIAH SUPERVISORY COUNCIL

### CHAIRMAN

**Professor Dato' Dr Ahmad Hidayat Buang**

### MEMBERS

**Dr Ahmad Shahbari @ Sobri Salamon**

**Assistant Professor Dr Uzaimah Ibrahim**

**Dr Yasmin Hanani Mohd Sopian**

**Sahibus Samahah Dato' Dr Haji Anhar Haji Opir**

## CHIEF EXECUTIVE OFFICER

**Khairul Kamarudin**

(Appointment w.e.f. 14 June 2017)

## COMPANY SECRETARIES

**Maria Mat Said** (LS0009400)

**Norhidayati Mohamat Salim** (MIA 27364)

## REGISTERED ADDRESS

Bank Islam Malaysia Berhad (98127-X)  
32<sup>nd</sup> Floor, Menara Bank Islam  
No. 22, Jalan Perak, 50450 Kuala Lumpur  
Tel : (6) 03 2088 8000  
Fax : (6) 03 2088 8033  
Web : [www.bankislam.com.my](http://www.bankislam.com.my)

## AUDITORS

KPMG Desa Megat PLT (LLP0010082-LCA & AF 0759)  
Level 10, KPMG Tower  
8, First Avenue, Bandar Utama  
47800 Petaling Jaya  
Selangor Darul Ehsan

# SHAREHOLDING STRUCTURE



100%

BANK ISLAM

100%

FARIHAN  
Corporation  
Sdn Bhd

Farihan Corporation Sdn Bhd

100%

AL-WAKALAH  
NOMINEES (TEMPATAN) SDN BHD

Al-Wakalah Nominees (Tempatan) Sdn Bhd

100%

BIMB INVESTMENT

BIMB Investment Management Berhad

100%

BANK ISLAM TRUST COMPANY (LABUAN) LTD

Bank Islam Trust Company (Labuan) Ltd

100%

BIMB Offshore Company  
Management Services Sdn Bhd

## SHAREHOLDER'S INFORMATION

INTEGRATED  
ANNUAL  
REPORT  
2017

### BIMB HOLDINGS BERHAD



Established on 20 March 1997, BIMB Holdings Berhad ("BHB") was listed on the Main Market of Bursa Malaysia on 16 September 1997. BHB is the first Islamic Financial Holding company approved by Bank Negara Malaysia under the Islamic Financial Services Act 2013.

The core subsidiaries of the BHB Group are pioneers in various Islamic financial services including banking, takaful, stockbroking, and other related services, namely Bank Islam Malaysia Berhad, Syarikat Takaful Malaysia Berhad and BIMB Securities Sdn Bhd.

**Bank Islam  
Malaysia Berhad**



**Syarikat Takaful  
Malaysia Berhad**



**BIMB Securities  
Sdn Bhd**



**ISLAMIC  
FINANCIAL  
SERVICES**

The company has gained in strength and stature over the years via its stable of strategic investments in various pioneering Islamic institutions.



Being the leading Shariah-compliant financial services provider with an issued and paid-up capital of

**RM3.8** billion



BHB is well-positioned to contribute to the nation's aspiration in establishing Malaysia as a vibrant International Islamic Financial Centre.

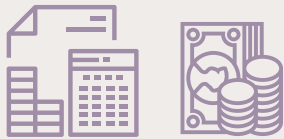
## SUBSIDIARIES' INFORMATION



# BIMB

## INVESTMENT MANAGEMENT BERHAD

("BIMB INVEST")



Issued and paid-up capital of

RM

# 15

## million

A wholly-owned subsidiary of Bank Islam.



based in Kuala Lumpur.



**23** Years of experience in the fund management industry.

Incorporated on



**SEPTEMBER  
1993** Commenced operations on 20 June 1994.

## BIMB Invest

manages



Global, regional and domestic investments

launched



1<sup>st</sup> Artificial Intelligence fund



1<sup>st</sup> Islamic Global, Asia-Pacific and Malaysia Equity funds that uses Big Data technology and ESG principles in Malaysia

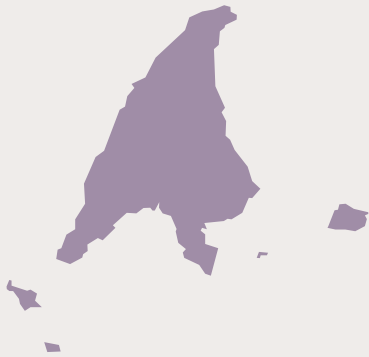
Named **MALAYSIA'S  
BEST ASSET &  
FUND MANAGER  
IN 2017**





# BANK ISLAM

## TRUST COMPANY (LABUAN) LTD ("BTL")



Incorporated on



This wholly-owned subsidiary of Bank Islam Malaysia Berhad began its full operations in 2003.



## SHARIAH-COMPLIANT PRODUCTS AND SERVICES

BTL is one of the trust companies in Labuan which offers Shariah-compliant products and services such as incorporation of offshore company including facilitating the international business licences as well as promoting the wealth management products such as Labuan Islamic Foundation and Labuan Islamic Trust.

## SERVICES

WEALTH  
MANAGEMENT



COMPANY  
SECRETARIAL &  
ADMINISTRATION



Application of

**WORK PERMIT** or  
**DEPENDENT PASSES**





## PROFILE OF BOARD OF DIRECTORS



### DATUK ZAMANI ABDUL GHANI

Chairman/Independent Non-Executive Director

70 years old - Malaysian

<b>Date of Appointment:</b>	1 March 2011		
<b>Academic and Professional Qualifications:</b>	<ul style="list-style-type: none"> <li>• Master of Management, Asian Institute of Management, Manila, the Philippines</li> <li>• Bachelor of Economics (Analytical), University of Malaya, Kuala Lumpur</li> <li>• Fellow, Malaysia Institute of Bankers</li> </ul>		<ul style="list-style-type: none"> <li>• Director, Insurance Regulation &amp; Supervision, Bank Negara Malaysia</li> <li>• Member, Operations Review Panel, Malaysian Anti Corruption Commission ("MACC")</li> <li>• Chairman, Credit Guarantee Corporation</li> <li>• Chairman, Danamodal Nasional Berhad</li> <li>• Commissioner, Securities Commission of Malaysia</li> <li>• Member, Board of Directors, Lembaga Tabung Haji</li> </ul>
<b>Areas of Expertise:</b>	Banking and Finance		
<b>Work Experience &amp; Positions:</b>	<p><b>Present:</b></p> <ul style="list-style-type: none"> <li>• Chairman, Bank Islam Malaysia Berhad</li> <li>• Chairman, Raeed Holdings Sdn Bhd</li> <li>• Chairman, IAP Integrated Sdn Bhd</li> <li>• Deputy President, Kelab Alumni Kakitangan Bank Negara Malaysia</li> </ul> <p><b>Previous:</b></p> <ul style="list-style-type: none"> <li>• Special Advisor, Attorney General's Chambers of Malaysia</li> <li>• Deputy Governor/Special Advisor, Bank Negara Malaysia</li> <li>• Executive Director, International Monetary Fund</li> <li>• Asia Chair Egmont Group of international official Financial Intelligence Units ("FIUs")</li> <li>• Director, Bank Regulation, Bank Negara Malaysia</li> <li>• Director General, Labuan Offshore Financial Services Authority ("LOFSA")</li> <li>• Assistant Governor, Bank Negara Malaysia</li> <li>• Member, Governing Council and Executive Committee, International Centre for Education in Islamic Financial ("INCEIF")</li> <li>• Head, Bank Negara Malaysia's Representative Office in London and New York</li> </ul>	<p><b>Directorship in Other Public Companies:</b></p> <p>None</p> <p><b>Membership of Board Committees in Bank Islam:</b></p> <ul style="list-style-type: none"> <li>• Member, Audit and Examination Committee</li> <li>• Member, Board Risk Committee</li> <li>• Member, Nomination and Remuneration Committee</li> <li>• Member, Board Financing Review Committee</li> </ul> <p><b>Meeting attendance:</b></p> <p>10 of 10 Board Meetings held in the Financial Year Ended 31 December 2017</p> <p><b>Declaration of Interest:</b></p> <p>He has no conviction for offences within the past five years. He has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam.</p>	

**DATO' SRI ZUKRI SAMAT**

Managing Director  
60 years old - Malaysian



<b>Date of Retirement:</b>	9 June 2017	<b>Directorship in Other Public Companies:</b>	Asian Institute of Finance Berhad
<b>Academic and Professional Qualifications:</b>	<ul style="list-style-type: none"> <li>Honorary Doctorate (PhD) in Finance and Islamic Banking, Kolej Universiti INSANIAH</li> <li>MBA (Finance), University of Hull, United Kingdom</li> </ul>	<b>Membership of Board Committees in Bank Islam:</b>	Member, Board Financing Review Committee
<b>Areas of Expertise:</b>	Finance & Islamic Banking	<b>Meeting attendance:</b>	5 of 6 Board Meetings held in Financial Year 2017 until retirement on 9 June 2017
<b>Work Experience &amp; Positions:</b>	<p><b>Previous:</b></p> <ul style="list-style-type: none"> <li>Group Chief Executive Officer, BIMB Holdings Berhad</li> <li>Managing Director, Bank Islam Malaysia Berhad</li> <li>Executive Director, Khazanah Nasional Berhad</li> <li>Managing Director, Pengurusan Danaharta Nasional Berhad</li> <li>General Manager, Credit Agricole Indosuez</li> <li>Deputy General Manager, Commerce International Merchant Bank Berhad</li> <li>Senior Account Officer, Pacific Bank Berhad</li> <li>Senior Account Officer, Public Bank Berhad (Corporate Banking)</li> <li>Credit Officer, Bank Bumiputra Malaysia Berhad</li> </ul>	<b>Declaration of Interest:</b>	He has no conviction for offences within the past five years. He has no family relationship with any directors and major shareholders of Bank Islam and has no conflict of interest in Bank Islam.

## PROFILE OF BOARD OF DIRECTORS

(cont'd)



### DATUK ZAITON MOHD HASSAN

#### Non-Independent Non-Executive Director

*(Re-designated as Non-Independent  
Non-Executive Director w.e.f 2 February 2018)*  
62 years old - Malaysian

<b>Date of Appointment:</b>	2 February 2006	<b>Directorship in Other Public Companies:</b>	<ul style="list-style-type: none"> <li>• Sime Darby Plantation Berhad</li> <li>• Dolphin International Berhad</li> <li>• FIDE Forum</li> <li>• Malaysia Institute of Corporate Governance</li> </ul>
<b>Academic and Professional Qualifications:</b>	<ul style="list-style-type: none"> <li>• Fellow, Association of Chartered Certified Accountants ("ACCA"), United Kingdom</li> <li>• Member of the Malaysian Institute of Accountants ("MIA")</li> <li>• Member of the Malaysian Institute of Certified Public Accountants ("MICPA")</li> </ul>	<b>Membership of Board Committees in Bank Islam:</b>	<ul style="list-style-type: none"> <li>• Member, Audit and Examination Committee (was the Chairman until 1 February 2018)</li> <li>• Member, Board Risk Committee (was the Chairman until 1 February 2018)</li> <li>• Member, Nomination and Remuneration Committee</li> <li>• Member, Board Financing Review Committee</li> </ul>
<b>Areas of Expertise:</b>	Banking, Accounting and Finance	<b>Meeting attendance:</b>	10 of 10 Board Meetings held in the Financial Year Ended 31 December 2017
<b>Work Experience &amp; Positions:</b>	<p><b>Present:</b></p> <ul style="list-style-type: none"> <li>• Chief Executive Officer, Malaysia Professional Accountancy Centre ("MyPAC")</li> <li>• Chairman, Private Pension Administrator Malaysia</li> </ul> <p><b>Previous:</b></p> <ul style="list-style-type: none"> <li>• Managing Director, Capital Intelligence Advisors Sdn Bhd</li> <li>• President/Executive Director, Malaysian Rating Corporation Berhad ("MARC")</li> <li>• Served 12 years with Maybank in various senior positions in Treasury Operations, International Banking, Assets &amp; Liability Management, Branch Operations including that of General Manager, Group Strategic Planning</li> <li>• Audit Trainee, PricewaterhouseCoopers</li> </ul>	<b>Declaration of Interest:</b>	She has no conviction for offences within the past five years. She has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam.

**NIK MOHD HASYUDEEN YUSOFF**

Independent Non-Executive Director

53 years old - Malaysian



<b>Date of Appointment:</b>	1 October 2016	<b>Directorship in Other Public Companies:</b>	<ul style="list-style-type: none"> <li>• Cagamas Holdings Berhad</li> <li>• Malaysia Professional Accountancy Center ("MyPAC")</li> <li>• Federation of Investment Managers Malaysia ("FIMM")</li> <li>• BIMB Investment Management Berhad</li> </ul>
<b>Academic and Professional Qualifications:</b>	<ul style="list-style-type: none"> <li>• Bachelor of Business, Curtin University of Technology, Australia</li> <li>• Advanced Business Management Program, IMD International, Switzerland</li> <li>• Fellow, CPA Australia</li> <li>• Member, Malaysian Institute of Accountants ("MIA")</li> </ul>	<b>Membership of Board Committees in Bank Islam:</b>	<ul style="list-style-type: none"> <li>• Chairman, Board Risk Committee</li> <li>• Member, Audit and Examination Committee</li> <li>• Member, Board Financing Review Committee</li> <li>• Member, Nomination and Remuneration Committee</li> </ul>
<b>Areas of Expertise:</b>	Accounting	<b>Meeting attendance:</b>	10 of 10 Board Meetings held in the Financial Year Ended 31 December 2017
<b>Work Experience &amp; Positions:</b>	<p><b>Present:</b></p> <ul style="list-style-type: none"> <li>• Director, Inovastra Capital Sdn Bhd</li> </ul> <p><b>Previous:</b></p> <ul style="list-style-type: none"> <li>• Executive Director, Market and Corporate Supervision, Securities Commission Malaysia</li> <li>• Executive Chairman, Audit Oversight Board, Securities Commission Malaysia</li> <li>• Chief Executive Officer, Inovastra Sdn Bhd</li> <li>• Chairman, Khairuddin, Hasyudeen &amp; Razi, Chartered Accountants</li> </ul>	<b>Declaration of Interest:</b>	He has no conviction for offences within the past five years. He has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam.

## PROFILE OF BOARD OF DIRECTORS

(cont'd)



### NORAINI CHE DAN

Independent Non-Executive Director

62 years old - Malaysian

<b>Date of Appointment:</b>	1 October 2016	<b>Directorship in Other Public Companies:</b>	<ul style="list-style-type: none"> <li>• BIMB Holdings Berhad</li> <li>• SP Setia Berhad</li> <li>• Tenaga Nasional Berhad</li> </ul>
<b>Academic and Professional Qualifications:</b>	<ul style="list-style-type: none"> <li>• Member of the Malaysian Institute of Certified Public Accountants ("MICPA")</li> <li>• Member of the Malaysian Institute of Accountants ("MIA")</li> <li>• Bachelor of Econs (Hons), University of Manchester, United Kingdom</li> </ul>	<b>Membership of Board Committees in Bank Islam:</b>	<ul style="list-style-type: none"> <li>• Chairman, Nomination and Remuneration Committee</li> <li>• Chairman, Audit and Examination Committee</li> <li>• Member, Board Risk Committee</li> </ul>
<b>Areas of Expertise:</b>	Accounting and Finance	<b>Meeting attendance:</b>	10 of 10 Board Meetings held in the Financial Year Ended 31 December 2017
<b>Work Experience &amp; Positions:</b>	<p><b>Present:</b> None</p> <p><b>Previous:</b></p> <ul style="list-style-type: none"> <li>• Vice President, Finance, MISC Berhad</li> <li>• Served 15 years with Perbadanan Nasional Berhad ("PERNAS") in various senior positions including that of Group General Manager, Finance</li> <li>• Senior Audit in Hanafiah, Raslan &amp; Mohamed</li> </ul>	<b>Declaration of Interest:</b>	She has no conviction for offences within the past five years. She has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam.



**ZAHARI @ MOHD ZIN IDRIS**

Non-Independent Non-Executive Director  
75 years old - Malaysian



<b>Date of Appointment:</b>	20 September 2002	<b>Directorship in Other Public Companies:</b>	None
<b>Academic and Professional Qualifications:</b>	Senior Cambridge Certificate	<b>Membership of Board Committees in Bank Islam:</b>	<ul style="list-style-type: none"> <li>• Chairman, Board Financing Review Committee</li> <li>• Member, Audit and Examination Committee</li> <li>• Member, Board Risk Committee</li> <li>• Member, Nomination and Remuneration Committee</li> </ul>
<b>Areas of Expertise:</b>	Banking and Finance	<b>Meeting attendance:</b>	10 of 10 Board Meetings held in the Financial Year Ended 31 December 2017
<b>Work Experience &amp; Positions:</b>	<p><b>Present:</b></p> <ul style="list-style-type: none"> <li>• Chairman, Bank Islam Trust Company (Labuan) Ltd</li> <li>• Chairman, BIMB Offshore Company Management Services Sdn Bhd</li> <li>• Chairman, BIMB Securities (Holdings) Sdn Bhd</li> <li>• Chairman, BIMB Securities Sdn Bhd</li> </ul> <p><b>Previous:</b></p> <ul style="list-style-type: none"> <li>• Executive Director/Chief Executive Officer, Inter-City MPC (M) Sdn Bhd</li> <li>• General Manager, Commercial Banking, Malayan Banking Berhad</li> <li>• Assistant General Manager, Malayan Banking Berhad</li> <li>• Deputy Zone Head, Head Office, Malayan Banking Berhad</li> <li>• Area Manager, Malayan Banking Berhad</li> <li>• Branch Manager, Malayan Banking Berhad</li> <li>• Assistant Branch Manager, Malayan Banking Berhad</li> <li>• Trainee Officer, Malayan Banking Berhad</li> </ul>	<b>Declaration of Interest:</b>	He has no conviction for offences within the past five years. He has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam.

## PROFILE OF BOARD OF DIRECTORS

(cont'd)



### PROFESSOR EMERITUS TAN SRI DATO' DR ABDUL SHUKOR HUSIN

Non-Independent Non-Executive Director

76 years old - Malaysian

<b>Date of Appointment:</b>	2 May 2014	
<b>Academic and Professional Qualifications:</b>	<ul style="list-style-type: none"> <li>• Doctor of Aqidah and Philosophy of Islam, University of Al-Azhar, Egypt</li> <li>• Master of Aqidah and Philosophy of Islam, University of Al-Azhar, Egypt</li> <li>• Bachelor of Arts (Honours) Usuluddin, University of Al-Azhar, Egypt</li> <li>• Diploma in Education, University of Ain Shams, Egypt</li> </ul>	<ul style="list-style-type: none"> <li>• Vice Chancellor and Senior Professor, USIM</li> <li>• Director and Fellow, World Fatwa Management and Research Institute ("INFAD")</li> <li>• Director, Shariah Governance Index, Jabatan Kemajuan Islam Malaysia ("JAKIM")</li> <li>• Dean, Faculty of Islamic Studies, Universiti Kebangsaan Malaysia ("UKM")</li> <li>• Head of Usuluddin and Philosophy Department, UKM</li> <li>• Visiting Professor, various universities</li> <li>• Member, Board of Wakaf Syar'ie, State of Pahang</li> <li>• Chairman, Shariah Advisory Council for Silver Bird Group Berhad</li> <li>• Member, Board of International Shariah Research for Islamic Finance ("ISRA"), Bank Negara Malaysia</li> </ul>
<b>Areas of Expertise:</b>	Aqidah and Philosophy of Islam	
<b>Work Experience &amp; Positions:</b>	<p><b>Present:</b></p> <ul style="list-style-type: none"> <li>• Distinguished Fellow, Faculty of Leadership and Management, Universiti Sains Islam Malaysia ("USIM")</li> <li>• Chairman, Zakat Distribution Committee, State of Pahang</li> <li>• Chairman, Shariah Advisory Committee of Lembaga Tabung Haji</li> <li>• Member, Board of Directors of Lembaga Tabung Haji</li> <li>• Member, Board of Directors of TH Properties Sdn Bhd</li> <li>• Member, Council of Islamic Religion and Malay Customs, State of Pahang ("MUIP")</li> <li>• Member of Special Cabinet, Shariah Governance Index Malaysia</li> <li>• Member, Syarak Legal Advisory Committee, Mufti Department, State of Pahang</li> </ul> <p><b>Previous:</b></p> <ul style="list-style-type: none"> <li>• Chairman, Board of Directors, USIM</li> <li>• Chairman, Fatwa Committee of the National Council for Islamic Affairs Malaysia</li> <li>• Member, National Council for Islamic Affairs ("MKI"), Prime Minister Department</li> </ul>	<p><b>Directorship in Other Public Companies:</b> None</p> <p><b>Membership of Board Committees in Bank Islam:</b></p> <ul style="list-style-type: none"> <li>• Member, Board Risk Committee</li> <li>• Member, Nomination and Remuneration Committee</li> </ul> <p><b>Meeting attendance:</b> 10 of 10 Board Meetings held in the Financial Year Ended 31 December 2017</p> <p><b>Declaration of Interest:</b> He has no conviction for offences within the past five years. He has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam except by virtue of being a nominee director of BIMB Holdings Berhad.</p>

## MOHAMED RIDZA MOHAMED ABDULLA

Independent Non-Executive Director  
49 years old - Malaysian



<b>Date of Appointment:</b>	1 December 2010	<b>Directorship in Other Public Companies:</b>	Theta Edge Berhad
<b>Academic and Professional Qualifications:</b>	<ul style="list-style-type: none"> <li>• LLB (First Class Honours), International Islamic University Malaysia</li> <li>• Institute of Chartered Secretaries and Administrators (London) ("ICSA")</li> <li>• Fellow, Institute of Chartered Secretaries and Administrators ("FCIS")</li> <li>• Fellow, Malaysian Society of Adjudicators</li> <li>• Associate Member, Chartered Institute of Arbitrators ("ACI Arb")</li> </ul>	<b>Membership of Board Committees in Bank Islam:</b>	Member, Audit and Examination Committee
<b>Areas of Expertise:</b>	Legal	<b>Meeting attendance:</b>	10 of 10 Board Meetings held in the Financial Year Ended 31 December 2017
<b>Work Experience &amp; Positions:</b>	<p><b>Present:</b></p> <ul style="list-style-type: none"> <li>• Managing Partner, Mohamed Ridza &amp; Co</li> </ul> <p><b>Previous:</b></p> <ul style="list-style-type: none"> <li>• Partner, Zaid Ibrahim &amp; Co</li> <li>• General Legal Counsel, Technip Asia Pacific</li> <li>• Group Legal Advisor, Arab Malaysian Corporation Berhad</li> <li>• Advocate and Solicitor, Corporate Department, Messrs. Rashid &amp; Lee</li> <li>• Trainer, Securities Industry Development Corporation ("SIDC") and Financial Sector Talent Enrichment Programme ("FSTEP")</li> <li>• Member, Arbitration Panel, KL Arbitration Centre for Islamic Banking &amp; Finance</li> </ul>	<b>Declaration of Interest:</b>	He has no conviction for offences within the past five years. He has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam.

## PROFILE OF BOARD OF DIRECTORS

(cont'd)



### DATO' SRI KHAZALI AHMAD

Independent Non-Executive Director

63 years old - Malaysian

<b>Date of Appointment:</b>	2 January 2018	
<b>Academic and Professional Qualifications:</b>	<ul style="list-style-type: none"> <li>• Master Degree (Econs) (Oklahoma), University of Central of Oklahoma, USA</li> <li>• Bachelor of Economy (Hons) (Agricultural Economy), Universiti Kebangsaan Malaysia</li> <li>• Diploma in Public Administration, National Institute of Public Administration ("INTAN")</li> </ul>	<ul style="list-style-type: none"> <li>• Principal Assistant Secretary, Ministry of Health</li> <li>• Education Attache, Malaysia Student Department, High Commission of Malaysia, London</li> <li>• Assistant Director, Public Service Department</li> </ul>
<b>Areas of Expertise:</b>	Economy, Finance and Tax Management	
<b>Work Experience &amp; Positions:</b>	<p><b>Present:</b> None</p> <p><b>Previous:</b></p> <ul style="list-style-type: none"> <li>• Director General of Customs, Royal Malaysia Customs</li> <li>• Sabah Federal Secretary, Prime Minister's Department</li> <li>• Deputy General of Customs (Management), Royal Malaysia Customs</li> <li>• Special Functions Officer to Chief Secretary to the Government of Malaysia, Prime Minister's Department</li> <li>• Section Chief, Tax Analysis Division, Ministry of Finance</li> <li>• Principal Assistant Director, Tax Analysis Division, Ministry of Finance</li> <li>• Malaysia Trade Commissioner to Beijing, Ministry of International Trade and Industry</li> <li>• Principal Assistant Director, International Trade Division, Ministry of International Trade and Industry</li> <li>• Assistant Director, International Trade Division, Ministry of International Trade and Industry</li> </ul>	<p><b>Directorship in Other Public Companies:</b> Malaysia Venture Capital Management Berhad</p> <p><b>Membership of Board Committees in Bank Islam:</b> Member, Audit and Examination Committee</p> <p><b>Meeting attendance:</b> None (Newly appointed w.e.f 2 January 2018)</p> <p><b>Declaration of Interest:</b> He has no conviction for offences within the past five years. He has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam.</p>

**AZIZAN AHMAD****Independent Non-Executive Director***63 years old - Malaysian*

<b>Date of Appointment:</b>	2 January 2018	<b>Directorship in Other Public Companies:</b>	None
<b>Academic and Professional Qualifications:</b>	Diploma in Agriculture, Universiti Putra Malaysia	<b>Membership of Board Committees in Bank Islam:</b>	<ul style="list-style-type: none"> <li>• Member, Board Risk Committee</li> <li>• Member, Board Financing Review Committee</li> </ul>
<b>Areas of Expertise:</b>	Banking and Credit Management	<b>Meeting attendance:</b>	None (Newly appointed w.e.f 2 January 2018)
<b>Work Experience &amp; Positions:</b>	<p><b>Present:</b> None</p> <p><b>Previous:</b></p> <ul style="list-style-type: none"> <li>• Principal Consultant for School of Credit, Agrobank</li> <li>• Executive Vice President, President/CEO Office, Agrobank</li> <li>• Chief Credit Officer, Agrobank</li> <li>• Chief Commercial Officer, Agrobank</li> <li>• Executive Vice President, Credit Management Division, Bank Muamalat (M) Berhad</li> <li>• General Manager, Human Resource Division, Malayan Banking Berhad</li> <li>• General Manager, Credit Control Division, Malayan Banking Berhad</li> <li>• Regional Manager, Malayan Banking Berhad</li> <li>• Credit Manager/Senior Credit Manager, Malayan Banking Berhad</li> <li>• Credit Officer/Senior Credit Officer, Malayan Banking Berhad</li> </ul>	<b>Declaration of Interest:</b>	He has no conviction for offences within the past five years. He has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam.



## PROFILE OF **SHARIAH SUPERVISORY COUNCIL**

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**01** Professor Dato' Dr Ahmad  
Hidayat Buang  
Chairman



**02** Ustaz Dr Ahmad Shahbari  
@ Sobri Salamon  
Member



**03** Assistant Professor  
Dr Uzaimah Ibrahim  
Member

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**04** Associate Professor Dr Yasmin  
Hanani Mohd Safian  
Member



**05** Sahibus Samahah Dato'  
Dr Haji Anhar Haji Opir  
Member



**06** Ustaz Saiful Anuar Hambali  
Secretary



## PROFILE OF SHARIAH SUPERVISORY COUNCIL (cont'd)

### 01 PROFESSOR DATO' DR AHMAD HIDAYAT BUANG

#### Chairman

Professor and Head, Department of Shariah and Law,  
Academy of Islamic Studies, University of Malaya

Doctor of Philosophy, School of Oriental and African Studies,  
University of London

Master of Law, School of Oriental and African Studies,  
University of London

Bachelor of Shariah, University of Malaya

Professor Dato' Dr Ahmad Hidayat Buang was appointed as Chairman of the Shariah Supervisory Council of Bank Islam on 1 April 2015. He has been with the Council since 2011.

He is currently a Professor and Head of the Department of Shariah and Law, Academy of Islamic Studies, University of Malaya and also a Senate Member of the University. He served as the Academy's Director from October 2006 to January 2011. He also served as Deputy Director (Research and Development) of the academy in 2006 as well as Head of Department of Shariah and Law from 1997 to 1999 and from July 2016 to June 2018.

Professor Dato' Dr Ahmad Hidayat is currently holding a post as Chairman of Group Shariah Committee for MNRB Holdings Berhad and Member of Shariah Committee for Amanah Raya Berhad ("ARB"). Prior to that, he served as a Shariah Advisor for several financial institutions, which includes CIMB Bank Berhad, OCBC Bank, Commerce Tijari Bank, Amanah Raya Unit Trust Management Sdn Bhd, ASM MARA Unit Trust Management Berhad, I-Free Capital Pte Ltd (Singapore), Bumiputra Commerce Trustee Sdn Bhd and Perbadanan Usahawan Nasional Berhad. He was also formerly a member of the Shariah Working Committee of Islamic Banking and Takaful for Bank Negara Malaysia and a member of the Islamic Education Coordination Advisory Council for the Council of Rulers Malaysia.

Professor Dato' Dr Ahmad Hidayat has no family relationship with any director and/or major shareholder of Bank Islam. He has no conflict of interest with Bank Islam and neither has he been charged with any offences.

### 02 USTAZ DR AHMAD SHAHBARI @ SOBRI SALAMON

#### Member

Doctor of Philosophy (Modern Middle Eastern History),  
New York University (USA)

Master of Economic, Fairleigh Dickinson University (USA)

Bachelor of Shariah Islamiyyah, Al-Azhar University, Egypt

Ustaz Dr Ahmad Shahbari @ Sobri Salamon was first appointed as a member of the Shariah Supervisory Council in 1984 and previously the Chairman of the Shariah Supervisory Council of Bank Islam until 31 March 2015.

He is also the Chairman of the Shariah Committee of BIMB Investment Management Sdn. Bhd. and a member of Shariah Advisory Body of Syarikat Takaful Malaysia Berhad. Ustaz Dr Ahmad Shahbari started his career in 1978 as a lecturer at Universiti Kebangsaan Malaysia ("UKM") for its Shariah Department, Faculty of Islamic Studies and was appointed as an Associate Professor in the Shariah Department in 1984. He had two stints as a lecturer at International Islamic University of Malaysia; the first was on secondment at the university's Kulliyah of Economics from 1983 to 1984, and for the second stint, he lectured for Ahmad Ibrahim Kulliyah of Law from 1986 to 1996. Later, he was appointed as the Executive Director of Pusat Rawatan Islam (Islamic Religious Council of Selangor or MAIS) from 1996 to 1999 and afterward was appointed as the Executive Chairman of the company until 2015.

Ustaz Dr Ahmad Shahbari previously served as Shariah Advisor to Abrar Group, Arab Malaysia Merchant Bank, Arab Malaysian Finance, PT Takaful Indonesia, Asean ReTakaful International Ltd, Labuan Offshore Financial Services Authority and a member of Board of Directors Yayasan Pembangunan Ekonomi Islam Malaysia ("YAPIEM") (1985 to 1995). He had served as a member of Majlis Agama Islam Selangor ("MAIS") for 21 years since 1985 and as a member of the Islamic Consultative Council in the Prime Minister's Office. Ustaz Dr Ahmad Shahbari is an approved Individual Shariah Advisor by the Securities Commissions of Malaysia.

Ustaz Dr Ahmad Shahbari was awarded 'Tokoh Ulama' Bestari Negeri Selangor' in 2000 and received the 'Tokoh Ma'al Hijrah Negeri Selangor' in 2001. He has produced writings in educational history, economy, Islamic banking and Islamic law, for television and publication purposes. His body of work includes 14 books and translations of eight volumes of books on Islamic Jurisprudence by Professor Dr Sheikh Wahbah Mustafa al-Zuhayli.

Ustaz Dr Ahmad Shahbari has no family relationship with any director and/or major shareholder of Bank Islam. He has no conflict of interest with Bank Islam and neither has he been charged with any offences.

### 03 ASSISTANT PROFESSOR DR UZAIMAH IBRAHIM

#### Member

Assistant Professor, Ahmad Ibrahim Kuliyyah of Laws,  
International Islamic University of Malaysia

Doctor of Philosophy, University of Wales, United Kingdom

Master in Comparative Law, International Islamic University  
of Malaysia

LLB (Shariah), International Islamic University of Malaysia

LLB, International Islamic University of Malaysia

Assistant Professor Dr Uzaimah Ibrahim was first appointed as a member of the Shariah Supervisory Council in 2009.

She is currently an Assistant Professor in Department of Islamic Law, Ahmad Ibrahim Kuliyyah of Laws, International Islamic University of Malaysia ("IIUM"). Dr Uzaimah is also a member of Shariah Committee of Hong Leong MSIG Takaful Berhad, a post she has held since 2006. Prior to joining Bank Islam, she was a Shariah Committee member for Hong Leong Islamic Bank Berhad. In 2005, Dr Uzaimah became the Deputy Director of the Islamic Banking and Finance Institute, IIUM, an international centre for education and research in Islamic finance.

Dr Uzaimah was accredited as a Syar'ie lawyer in 1995 and has conducted various researches on Islamic commercial law, Islamic jurisprudence, Islamic banking law, derivatives and securitisation as well as takaful and corporate social responsibility. She has also given numerous presentations in seminars and workshops, and contributed a chapter to Halsbury's Laws of Malaysia published by Malaysian Law Journal.

Dr Uzaimah has no family relationship with any director and/or major shareholder of Bank Islam. She has no conflict of interest with Bank Islam and neither has she been charged with any offences.

### 04 ASSOCIATE PROFESSOR DR YASMIN HANANI MOHD SAFIAN

#### Member

Associate Professor, Faculty of Syariah and Law, Universiti  
Sains Islam Malaysia

Doctor of Philosophy in Islamic Studies, University of Exeter,  
United Kingdom

Master in Islamic Studies, University of Birmingham,  
United Kingdom

Bachelor of Shariah Islamiyyah, Al-Azhar University, Egypt

Associate Professor Dr Yasmin Hanani was appointed as a member of Shariah Supervisory Council in April 2015.

She is currently an Associate Professor at Faculty of Syariah and Law, Universiti Sains Islam Malaysia ("USIM"). She also serves as a member of Selangor Islamic Religious Council ("MAIS"), Islamic Consultative Committee of Majlis Agama Islam Wilayah Persekutuan ("MAIWP") and Malaysian Halal Certification Advisory Committee. Associate Professor Dr Yasmin Hanani is a Certified Halal Trainer as well as Islamic Banking and Finance Trainer.

Prior to joining Bank Islam, Associate Professor Dr Yasmin Hanani was a Shariah Committee member for Affin Islamic Bank Berhad since 2011 until 2015. She also served as the Dean of Faculty of Shariah Law, Deputy Dean of Postgraduate Centre USIM and was a senate member of USIM.

Associate Professor Dr Yasmin Hanani has conducted various research and written numerous articles on Islamic commercial law, Islamic jurisprudence, Islamic banking and takaful. She is actively involved in conference presentation, training locally and internationally in the related area for both Muslim and non-Muslim participants.

Associate Professor Dr Yasmin Hanani has no family relationship with any director and/or major shareholder of Bank Islam. She has no conflict of interest with Bank Islam and neither has she been charged with any offences.

## PROFILE OF SHARIAH SUPERVISORY COUNCIL (cont'd)

### 05 SAHIBUS SAMAHAH DATO' DR HAJI ANHAR HAJI OPIR

#### Member

Deputy Mufti, State of Selangor Darul Ehsan

Doctor of Philosophy (Fiqh and Usul Fiqh), The World Islamic Sciences And Education University ("WISE"), Jordan

Master of Islamic Philosophy, Cairo University, Egypt

Bachelor of Shariah Islamiyyah, Al-Azhar University, Egypt

Sahibus Samahah Dato' Dr Haji Anhar Haji Opir was appointed as a member of Shariah Supervisory Council in April 2017.

He is currently the Deputy Mufti for the State of Selangor. He is also a Shariah Committee member for Perbadanan Usahawan Nasional Berhad ("PUNB"), and SIRIM Berhad. Besides that, he is also member of Selangor Fatwa Committee, Selangor Falak Committee, and Curricular Assesment committee for Jabatan Agama Islam Selangor ("JAIS"). He is also member of Hisbah (audit) Committee for Skim Infaq Lil Waqaf Angkatan Koperasi Kebangsaan Malaysia Berhad ("ANGKASA") and member of Advisory Committee for Pembangunan Asnaf Lembaga Zakat Selangor ("MAIS").

Prior to joining Bank Islam, Sahibus Samahah Dato' Dr Haji Anhar was a part time lecturer at Pusat Pemikiran dan Kefahaman Islam ("CTU") in UiTM Pahang and UiTM Melaka respectively. He also has served as Senior Lecturer at Islamic Education Department, Universiti Pendidikan Sultan Idris ("UPSI") since August 2007.

Sahibus Samahah Dato' Dr Haji Anhar has no family relationship with any director and/or major shareholder of Bank Islam. He has no conflict of interest with Bank Islam and neither has he been charged with any offences.

### 06 USTAZ SAIFUL ANUAR HAMBALI

#### Secretary

Deputy Chief Shariah Officer, Bank Islam Malaysia Berhad

Master of Business Administration (MBA) in Islamic Banking & Finance from International Islamic University Malaysia ("IIUM")

Bachelor of Shariah from University of Malaya (UM)

Certificate (Distinction) in Internal Auditing for Financial Institutions ("CIAFIN")

Certified Qualification in Islamic Finance ("CQIF")

Ustaz Saiful Anuar Hambali has been in the banking industry for over 20 years and currently is the Deputy Chief Shariah Officer of Bank Islam Malaysia Berhad. He is the Secretary of Shariah Supervisory Council of Bank Islam and sits in several internal committees of the Bank including Financing Committee A & B, Underwriting & Investment Committee, Asset Liability Committee, Product Management Committee, Management Risk Control Committee, Operational Risk Control Committee, Compliance & Governance Working Group and Zakat & Charity Committee.

Prior to joining Bank Islam, he was the Head of Shariah Supervisory Department, Affin Islamic Bank Berhad. He was also working with other several Islamic financial institutions such as RHB Islamic Bank Berhad, OCBC Bank (M) Berhad, Bank Muamalat Malaysia Berhad and Bank Bumiputera Malaysia Berhad in different business areas including Shariah advisory & compliance, product & business development, consumer banking and project management office.



# PROFILE OF CEO

INTEGRATED  
ANNUAL  
REPORT  
2017

## KHAIRUL KAMARUDIN

Chief Executive Officer

45 years old - Malaysian



<b>Date of Appointment:</b>	14 June 2017	<b>Directorship in Other Public Companies:</b>	None
<b>Academic and Professional Qualifications:</b>	<ul style="list-style-type: none"> <li>• Association of Chartered Islamic Finance Professionals Malaysia</li> <li>• LLB (Hons), Anglia University, United Kingdom</li> </ul>	<b>Membership of Board Committees in Bank Islam:</b>	None
<b>Areas of Expertise:</b>	Islamic Banking	<b>Meeting attendance:</b>	4 of 4 Board Meetings held in the Financial Year 2017 after his appointment on 14 June 2017
<b>Work Experience &amp; Positions:</b>	<p><b>Present:</b></p> <ul style="list-style-type: none"> <li>• Chief Executive Officer, BIMB Holdings Berhad</li> </ul> <p><b>Previous:</b></p> <ul style="list-style-type: none"> <li>• Deputy Chief Executive Officer, Bank Islam Malaysia Berhad</li> <li>• Director, Business Development, Bank Islam Malaysia Berhad</li> <li>• Head of Department, Special Recovery, Bank Islam Malaysia Berhad</li> <li>• Manager, Procurement and Legal Affairs, Transwater API Sdn Bhd</li> <li>• Manager, Malaysia National Asset Management Company, Pengurusan Danaharta Nasional Berhad</li> <li>• Audit Senior in Assurance and Business Advisory Services, Banking and Financial Services Group, PricewaterhouseCoopers</li> </ul>	<b>Declaration of Interest:</b>	He has no conviction for offences within the past five years. He has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam.

# MANAGEMENT COMMITTEE

## INDEPENDENT UNITS

**USTAZ MOHD NAZRI CHIK**  
Chief Shariah Officer

**ALINA SYLVIA APPOO**  
Chief Risk Officer

**ZALFITRI ABD MUTALIP**  
Acting Head, Internal Audit

**KHAIRUL MUZAMEL  
PERERA**  
Chief Credit Officer

**NIK AZMIR NIK ANIS**  
Chief Compliance Officer



## CEO'S OFFICE

**KHAIRUL KAMARUDIN**  
Chief Executive Officer



## BUSINESS UNITS



**MUJIBBURAHMAN  
ABD RASHID**  
Head, Consumer Banking

**ZAHARIN MOHD ALI**  
Head, Corporate Banking

**ABDUL RASHID  
ABDUL HAMID**  
Head, Commercial Banking

**HAMID MOHD NOOR**  
Head, SME Banking

**ADI ASRI BAHAROM**  
Head, Treasury

**ZURY RAHIMEE  
ZAINAL ABIDEN**  
Head, Deposits &  
Cash Management

## CORPORATE & OPERATIONS SUPPORT UNITS

**MOHAMED IRAN MORIFF**  
**MOHD SHARIFF**  
Chief Operating Officer

**MARIA MAT SAID**  
Head, Legal & Secretarial

**MOHD MUAZZAM MOHAMED**  
Chief Financial Officer

**MIZAN MASRAM**  
Head, Recovery & Rehabilitation

**HIZAMUDDIN JAMALLUDDIN**  
Chief Strategy Officer

**RAZMAN ISMAIL**  
Head, Human Resource

**ZAINAL AZLAN ZAINUDIN**  
Chief Technology Officer



## PROFILE OF MANAGEMENT COMMITTEE

### BUSINESS UNITS

#### MUJIBBURAHMAN ABD RASHID

##### Head, Consumer Banking

Encik Mujibburrahman Abd Rashid has 24 years of experience in retail banking. He joined Bank Islam in 2007 and was promoted to his current position as the Head of the Bank's Consumer Banking division in April 2013. He was instrumental in introducing various Sales Initiatives and Strategies to the Bank's workforce and has played a major role in improving its overall service and turnaround time. Encik Mujibburrahman holds a Bachelor's Degree in Accountancy from Universiti Utara Malaysia.

#### ZAHARIN MOHD ALI

##### Head, Corporate Banking

Encik Zaharin Mohd Ali has 22 years of experience in the banking industry. Since starting his career in 1995 as an executive trainee, he has served various departments in his capacity, both in sales and services with a foreign bank. Encik Zaharin joined Bank Islam in 2010 as the Head of Business in Commercial Banking, where he was entrusted to drive the performance-based sales culture within the division. Since promoted as Head of Corporate Banking in January 2015, he is responsible in overseeing Bank Islam's Corporate Banking portfolio. Encik Zaharin holds a Bachelor of Accountancy from University of Central England, UK.

#### ABDUL RASHID ABDUL HAMID

##### Head, Commercial Banking

Encik Abdul Rashid Abdul Hamid has been in the banking industry for 21 years. He joined Bank Islam in 2005 after holding various posts in corporate banking and credit risk at a number of local and foreign banks. Encik Abdul Rashid was instrumental in the establishment of the Bank's Credit Analyst team. He was appointed to his current post in 2009 with the role of overseeing Bank Islam's Commercial Banking portfolio. Encik Abdul Rashid holds a Bachelor of Science in Business Administration from California State University in Sacramento, USA.

#### HAMID MOHD NOOR

##### Head, SME Banking

Encik Hamid Mohd Noor has 36 years experience in credit related field in the banking industry and asset management company. He joined Bank Islam as Assistant General Manager, Commercial Banking Division in 2013 from Prokhas Sdn Bhd ("MoF Inc") and was responsible in managing the Working Capital Guarantee Scheme and Industry Restructuring Financing Guarantee Scheme under Syarikat Jaminan Perniagaan Perniagaan Berhad ("SJPP"). Encik Hamid holds a Diploma in Accountancy from Universiti Teknologi MARA.

#### ADI ASRI BAHAROM

##### Head, Treasury

Encik Adi Asri Baharom has more than 30 years of experience in commercial/investment banking and corporate advisory encompassing Treasury and Debt Capital Markets, Risk Management, Investments, Corporate Finance, Project Finance and Strategic Planning.

Prior to joining Bank Islam in January 2018, Encik Adi was Executive Vice President, Treasury and Capital Markets at Bank Muamalat Malaysia Berhad. His past work experience include various senior management positions at Malaysian Rating Corporation Berhad ("MARC"), PT Bank Bumiputera Indonesia Tbk, PT Danareksa ("Persero"), and Perwira Affin Bank Berhad. He started his career at Amanah Merchant Bank Berhad in 1987. Encik Adi holds a Master of Business Administration (Finance) from San Francisco State University, USA.

#### ZURY RAHIMEE ZAINAL ABIDEN

##### Head, Deposits & Cash Management

Encik Zury Rahimee Zainal Abiden joined Bank Islam in 2004 and has served in various positions at Branch and Regional Office levels, primarily in retail sales. He was appointed as Assistant General Manager, Sales Management under Consumer Banking in 2013. Encik Zury Rahimee currently holds the portfolio of Head, Deposit and Cash Management since 2016 where he oversees the Bank's liquidity position as well as promotes deposits and investments. Encik Zury holds a Bachelor's Degree with Honours in Marketing from Universiti Teknologi MARA.

### CORPORATE & OPERATIONS SUPPORT UNITS

#### MOHAMED IRAN MORIFF MOHD SHARIFF

##### Chief Operating Officer

Encik Mohamed Iran Moriff began his career at Messrs Price Waterhouse, specialising in the audit of Banks and Financial Institutions before furthering his studies and subsequently working in the United Kingdom for 10 years. Encik Iran joined Bank Islam in October 2009 as an Assistant General Manager in the Consumer Banking Division. Encik Iran then joined Bank Islam's Internal Audit Division in June 2012 as Deputy Chief Internal Auditor and was appointed as Bank Islam's Chief Internal Auditor in May 2014. He was then appointed as Chief Operating Officer on 1 June 2017. A Certified Public Accountant ("CPA") and a fellowship member of the Association of Chartered Certified Accountants ("ACCA"), Encik Iran completed the Certificate in Internal Auditing for Financial Institutions ("CIAFIN") examinations with distinction. Encik Iran holds a Masters in Business Administration from Strathclyde Business School, Glasgow and Bachelors in Accountancy from University of East Anglia, Norwich, UK.

## HIZAMUDDIN JAMALLUDDIN

### Chief Strategy Officer

Encik Hizamuddin Jamalluddin has spent most of his professional career in corporate management, particularly in strategic planning, cross border merger and acquisition activities, corporate finance and advisory, corporate and debt restructuring, privatisation, investor relations and strategic communications. He joined Bank Islam in 2007, and is responsible for the formulation of transformation initiatives, corporate master plans, risk appetite statements, annual business strategies and performance management framework of the Bank. He also oversees the overall risk management and compliance functions of the Bank. Encik Hizamuddin holds a Bachelor of Science in Finance from Northern Illinois University, USA. He is currently a member of the Islamic Finance Committee of Malaysian Institute of Accountants ("MIA") and a senior associate of the Chartered Institute of Islamic Finance Professionals. He was the recipient of the "Upcoming Personality for Islamic Finance (Leadership)" by the Global Islamic Finance Award 2016.

## MARIA MAT SAID

### Head, Legal & Secretarial

Puan Maria Mat Said has about 26 years of experience in the banking industry, performing legal and company secretary functions. She has been with Bank Islam since 2005 and was appointed to her current position in 2009. Her areas of responsibility include provision of legal and corporate secretarial services for the Bank. As the Company Secretary, Puan Maria ensures proper governance within the Bank. Puan Maria is also the Group Company Secretary where she acts as the Company Secretary for BIMB Holdings Berhad. Puan Maria holds a Bachelor of Law from University of Malaya.

## RAZMAN ISMAIL

### Head, Human Resource

Encik Razman Ismail carries with him more than 20 years of experience in Human Resource ("HR") both as consultant and practicing HR professional. He joined Bank Islam as the Head of Human Resource on 1 July 2014. His initial focus has been on strengthening employer branding, establishing succession management process and developing the Bank's talent development blueprint. Prior to joining Bank Islam, he had held various senior HR positions at renowned banking institutions. Encik Razman started his career at a consulting firm before moving on to a major multinational technology company. As a consultant, his client engagements cut across various HR functions from organisation development, rewards, performance management, talent assessment as well as merger and integration. Encik Razman holds a Bachelor's Degree in Management with a major in Human Resource and a minor in Communication from Universiti Sains Malaysia.

## MOHD MUAZZAM MOHAMED

### Chief Financial Officer

Encik Muazzam Mohamed carries with him 22 years of experience in the field of finance, audit and consulting. He joined Bank Islam as the Chief Financial Officer on 11 May 2015. Prior to that, he was a Partner with a Big 4 audit firm where he spent 19 years, carrying out projects in various countries and serving numerous clients in the financial services and oil & gas across public and private sectors. Encik Muazzam holds a Bachelor's Degree in Accounting from International Islamic University Malaysia and is a member of the Malaysian Institute of Certified Public ("MICPA") Accountants, a Chartered Accountant with the Malaysian Institute of Accountants, a Chartered Public Finance Accountant and a Certified Information Security Auditor.

## ZAINAL AZLAN ZAINUDIN

### Chief Technology Officer

Encik Zainal Azlan Zainudin has over 20 years of experience in banking industry. He rejoined Bank Islam as Chief Technology Officer in August 2016. Prior to this, he has served with other leading financial institutions in Malaysia including Maybank, CIMB Bank, Phileo Allied Bank, Hong Leong Bank and also Bank Islam where he holds various leadership positions in IT Strategy and Operations. Encik Zainal holds a Bachelor's Degree in Computer Science (Hons.) from Universiti Kebangsaan Malaysia.

## MIZAN MASRAM

### Head, Recovery & Rehabilitation

Encik Mizan Masram has 20 years of experience in related fields and has held various positions with several foreign banks. He currently heads the Recovery & Rehabilitation division where he is responsible for the Bank's crucial credit recovery and collection operations. Encik Mizan holds a Diploma in Business Studies majoring in Business from the Association of Business Executives, UK.



## PROFILE OF MANAGEMENT COMMITTEE

(cont'd)

### INDEPENDENT UNITS

#### USTAZ MOHD NAZRI CHIK

##### Chief Shariah Officer

Ustaz Mohd Nazri Chik, a Certified Shariah Adviser and Auditor ("CSAA-AAOIFI"), has over 14 years of experience in Shariah management of an Islamic bank. He joined Bank Islam in June 2004 before leaving in 2009 to take up another position at an investment arm of Dubai government. He rejoined Bank Islam in January 2011 and is responsible to strengthen the Bank's Shariah governance practices and facilitate offering of Shariah-compliant products and services. An Accreditation Panel of Finance Accreditation Agency, an Executive Committee member of Association of Shariah Advisors Malaysia, a Distinguished Trainer of Islamic Banking and Finance Institute Malaysia and a member of Waqf and Rahn Committees of Terengganu State Islamic Religious Council and academic adviser to several public and private universities, Ustaz Mohd Nazri is also the Deputy Chairman of the Shariah Supervisory Council of Amana Bank Limited (Sri Lanka). He also completed the Certificate in Internal Auditing for Financial Institutions ("CIAFIN") examinations with distinction. Ustaz Mohd Nazri holds a Master's degree and a Bachelor's Degree in Shariah (Islamic Jurisprudence) from University of Malaya where he continued on as an academician.

#### KHAIRUL MUZAMEL PERERA

##### Chief Credit Officer

Encik Khairul Muzamel Perera has over 30 years of banking related experience including stints at a debt rating agency and a national asset management institution. He is currently the Chief Credit Officer overseeing the Credit Management Division which covers Credit Analysis, Credit Analytics, Valuation and the Central Financing Processing function in Bank Islam. Encik Khairul joined the Risk Management Division of the Bank in April 2009, heading the Credit Risk Management unit. He also served as the alternate Director to the Chief Risk Officer on the Board of Amana Bank Ltd (Sri Lanka) and is currently the Chairman of the Investment Committee at BIMB Investment Management Berhad. A Chartered Company Secretary by profession, Encik Khairul is an Associate Member of the Institute of Chartered Secretaries & Administrators, London.

#### ALINA SYLVIA APPOO

##### Chief Risk Officer

Ms Alina Sylvia Appoo has over 15 years of banking experience focusing predominantly on Market Risk in Malaysia and the Asian region. She joined Bank Islam in 2012 as Head of Market & Operational Risk, and was appointed as Chief Risk Officer in August 2017. She oversees the risk management function of Bank covering Credit Risk Portfolio Reporting, Market & Liquidity risk, Operational risk, Capital Adequacy and Stress Testing. Prior to joining the Bank, Ms Alina held key leadership and management positions in related fields at various local banks. She has been instrumental in change management initiatives within Market Risk including driving required changes arising from Basel II & III together with systems enhancements for Treasury and Risk. Ms Alina has a Bachelor's Degree in Mathematics (Hons.) from Universiti Sains Malaysia.

#### NIK AZMIR NIK ANIS

##### Chief Compliance Officer

Encik Nik Azmir Nik Anis has over 22 years of banking experience having served various local and foreign financial institutions focusing predominantly in the areas of Compliance, Operational Risk Management, Anti-Money Laundering and Operations. He joined Bank Islam in 2013 and his primary roles and responsibilities include managing the Bank's overall compliance and regulatory risk. He also acts as key liaison officer to the regulators and is the Bank's Money Laundering Reporting Officer ("MLRO"). Encik Nik Azmir holds a Bachelor of Arts in Economics from University of Pittsburgh, USA and a Master in Business Administration from Nottingham Trent University, UK. He has also been accorded as a Certified Professional in Anti-Money Laundering/Counter Financing of Terrorism by the International Compliance Association UK.

#### ZALFITRI ABD MUTALIP

##### Acting Head, Internal Audit

Encik Zalfitri Abd Mutalip has over 22 years of audit experience in the banking industry. He began his career in 1994 where he gained extensive audit experience in the field of management, operations and credit involving the branches, regional offices, automobile financing centres and head office departments/divisions including investigation audit. He joined Bank Islam in October 2007 as the Head of Branch Audit and was later appointed as the Head of Head Office Audit in January 2011. In 2014, he was promoted to an Assistant General Manager. He was appointed to his current position in June 2017. He completed the Certificate in Internal Auditing for Financial Institutions ("CIAFIN") examination with distinction. Encik Zalfitri holds a Bachelor of Science in Business Administration (Finance) from Denver University, USA.

## PROFILE OF REGIONAL MANAGERS

INTEGRATED  
ANNUAL  
REPORT  
2017



### AHMAD FAUZI MOHD AKHIR

Head of Regional Office

Encik Ahmad Fauzi Mohd Akhir has more than 26 years of experience in branch operation and financing department, and has been with Bank Islam since 1991. He now heads the Regional Office of the Northern Region overseeing the 27 Bank branches in Perak, Kedah, Pulau Pinang and Perlis. Encik Ahmad Fauzi is a holder of Bachelor of Science in Accounting from Fairleigh Dickinson University, USA.

NORTHERN  
REGION

27 Branches



### BOSTAMAM HASSAN

Head of Regional Office

Encik Bostamam Hassan has 31 years of experience in banking. He joined Bank Islam in July 1986 where he currently holds the position of Head of Central Region Office, and is responsible for the business development, marketing and management of 50 branches in Kuala Lumpur and Selangor. Encik Bostamam is a holder of a Master's degree in Business Administration from University of New Haven, Connecticut, USA.

CENTRAL  
REGION

50 Branches



### MOHD NOOR JAB

Head of Regional Office

Encik Mohd Noor Jab carries with him 23 years of banking experience. He joined Bank Islam in October 1994 where he now leads the Southern Region team comprising 28 branches in Johor, Melaka and Negeri Sembilan. Encik Mohd Noor holds a Bachelor of Business Administration from Universiti Utara Malaysia.

SOUTHERN  
REGION

28 Branches

**PROFILE OF  
REGIONAL MANAGERS**  
(cont'd)**EASTERN  
REGION**  
**29** Branches**WAN ROSITA WAN MOHAMED**

Head of Regional Office

Puan Wan Rosita Wan Mohamed has over 32 years of experience in the banking industry, and has been with Bank Islam since January 2005. She now heads the Regional Office of the Eastern Region, comprising 29 branches in the states of Terengganu, Kelantan and Pahang. Puan Wan Rosita holds a Bachelor of Science Degree in Finance from Indiana State University, USA.

**EAST  
MALAYSIA  
REGION**  
**13** Branches**ABDUL MALEK ABDULLAH**

Head of Regional Office

Encik Abdul Malek Abdullah has more than 30 years of experience in the banking industry. He joined Bank Islam in 2006 and he now holds the role of Head of Regional Office in East Malaysia Region where he oversees 13 branches in the state of Sabah and Sarawak. Encik Abdul Malek is a holder of Diploma in Banking Studies from Universiti Teknologi MARA.



## PROFILE OF HEAD OF SUBSIDIARIES

INTEGRATED  
ANNUAL  
REPORT  
2017

### NAJMUDDIN MOHD LUTFI

**BIMB Investment Management Berhad**



Encik Najmuddin Mohd Lutfi is currently the Chief Executive Officer and Non-Independent Director of BIMB Investment Management Berhad ("BIMB Investment"). BIMB Investment was incorporated in 1993 and is a wholly-owned subsidiary of Bank Islam Malaysia Berhad.

He was formerly an Executive Director at Goldman Sachs (Malaysia) Sdn Bhd in the Investment Management Division, an Assistant Director at CIMB-Principal Asset Management Berhad and a Deputy Director at Bank Negara Malaysia.

Encik Najmuddin graduated with an MBA and Bachelor of Science of Business Administration from the University of Missouri – St. Louis, USA, registered with the Federation of Investment Managers Malaysia ("FIMM") and holds the Securities Commission's Capital Markets Services Representative's License.

CHIEF  
EXECUTIVE  
OFFICER

### MASDAYANA MD SETAMAM

**Bank Islam Trust Company (Labuan) Ltd**



Puan Masdayana Md Setamam started her career with BTL back in 2005 as the Assistant Manager which undertakes the task of all financial & fiscal management aspects of BTL's operations. She was appointed as the Chief Executive Officer and Principal Officer of BTL on 13 October 2017. She is also a qualified Trust Officer, a license certified by the Labuan Financial Services Authority.

She has over 11 years of experience in Offshore Trust industries and held various positions including Compliance Manager, Business Continuity Management Division Coordinator as well as Business Risk Officer. She was also appointed by the Board of Director of BTL to be the Manager and authorised officer of BIMB Offshore Company Management Services which was the subsidiary company of BTL.

Puan Masdayana possesses a bachelor degree in International Business from University Malaysia Sabah.

CHIEF  
EXECUTIVE  
OFFICER/  
PRINCIPAL  
OFFICER

# BANK ISLAM'S COMMITMENT TO INTEGRITY

Bank Islam continues its efforts to maintain a good standing as an Islamic bank that interlaces ethics, integrity and trust in every facet of its businesses and operations. The Bank's paramount focus is to maintain public's confidence and trust to sustain credibility and minimise risk of unethical or disingenuous conduct by the Bank's employees and customers.







## **CORPORATE INTEGRITY PLEDGE OF BANK ISLAM MALAYSIA BERHAD EMPLOYEES**

We, the staff of Bank Islam Malaysia Berhad, pledge:

- To always maintain a work culture of integrity, in line with the principles of Shariah, on which our banking operations are based;
- To constantly strengthen the control mechanisms and integrity of business operations through the practice of an ethical, clean and transparent work culture;
- To avoid corruption or malpractice under any provisions of the law, including but not limited to the Malaysian Anti-Corruption Commission Act 2009 or the Penal Code;
- To avoid any business practice or activity that encourages any employee or agent to commit any form of corruption;
- To work together with our customers, business partners, regulatory agencies, and law enforcement agencies to create a business environment that is free from corruption;
- To uphold the Anti-Corruption Principles for Corporations in Malaysia in the conduct of business and in interactions with customers; and
- To act decisively and to report any party who commits an act which could undermine the integrity and tarnish the image of the Bank.



## ETHICS, INTEGRITY & TRUST

IN ADVANCING THROUGH THE CHALLENGING AND COMPETITIVE BUSINESS ENVIRONMENT, THE BANK LEVERAGES ON A FOUNDATION BUILT ON THE GREATNESS OF ISLAMIC CONDUCT THAT VALUES PRINCIPLES OF INTEGRITY, HONESTY AND RESPONSIBILITY. WE MEET CUSTOMERS' NEEDS AND REALISE THEIR EXPECTATIONS THROUGH THESE PRINCIPLES WHICH CREATE TRUST AND CONFIDENCE. THE EMPLOYEES OF BANK ISLAM ARE BOUND TO THE CODE OF ETHICS FOR THE FINANCIAL SERVICES INDUSTRY AND THE BANK'S INTERNAL CODE OF CONDUCT ("THE CODES").

The Codes, policies and procedures issued to all employees represent the essential assurance in building a culture of trust and integrity. Amongst such policies and procedures are the Recruitment & Selection Policy, Whistle-Blowing Policy, Social Media Policy, Guideline on Personal Data Protection and the Anti-Money Laundering/Counter Financing of Terrorism ("AML/CFT") Policy. Bank Islam has also established an Integrity Hotline for reporting of staff behaviours in contrition to the Bank's Code of Ethics and Conduct. Investigations on issues pertaining to ethics and integrity are performed by Investigation & Enforcement Unit under the Ethics & Integrity Department. The reports are presented to the Audit & Examination Committee of the Bank's Board.

### RECRUITMENT & SELECTION POLICY

As part of Bank Islam's efforts to uphold a workforce and culture of trust and integrity, the Bank under its Recruitment & Selection Policy stresses the importance for potential candidates to undergo a thorough screening and shortlisting process based on certain criteria. The selected candidates are subject to a due diligence process as required under the AML/CFT requirements which amongst others requires candidates' name to be screened, a reference check with candidates' employers or other referees deemed appropriate, as well as a check on candidates' financial history, credits history and directorship held. Apart from this, candidates who are selected for employment are required to make declarations which include:

- Declaration and undertaking not to disclose any confidential information and materials;
- Declaration that they have read and understood the content of the Code of Ethics, Code of Conduct and its implication if there is any breach; and
- Declaration that they understand their roles and responsibilities in handling and safeguarding the Bank's IT and information asset.

### WHISTLE-BLOWING POLICY

The Whistle-Blowing Policy is established to provide an avenue for immediate reporting and/or disclosing of any wrongdoings, malpractices or irregularities, committed by employees and/or external parties against the Bank's interest, which include the following:

- Breach of policies and procedures;
- Fraud, embezzlement, corruption or dishonesty;
- Actions which could cause physical danger to another person or give rise to a risk of damage to properties/assets;
- Forgery or alteration of any documents belonging to the Bank, customers, another financial institution, or agents of the Bank;
- Profiteering as a result of insider knowledge;
- Misuse of position;
- Breach of Code of Ethics for the Financial Services Industry and Code of Conduct;
- Any other similar or related irregularities; and
- Any other wrongdoings as may be determined by the Board to be included in the scope of this policy, from time to time.

Datuk Zamani Abdul Ghani, Chairman of Bank Islam, has been appointed as the designated non-executive director to be responsible for the effective implementation of the Policy.



## ANTI-MONEY LAUNDERING POLICY

Bank Islam will conduct its business in conformity with high ethical standards and will adhere to all Shariah laws and regulations pertaining to Islamic financial institutions. While it is accepted that the Bank may not always be able to determine whether a transaction originates from, or is part of, any unlawful activities, the Bank will conduct its business in compliance with the following general principles:

- Comply with applicable Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLATFPUAA) and on-going AML/CFT Policy Documents established by Bank Negara Malaysia;
- Develop Bank Islam's AML/CFT Policy, Operational Procedures and Annual AML/CFT Programme managed by the AML/CFT Department to ensure each staff is aware of his obligation towards combating Money Laundering/Terrorist Financing;
- Appoint a Business Compliance Officer ("BCO") or a Designated Compliance Officers ("DCO") who is responsible to implement AML/CFT initiatives and measures in each working unit;
- Establish customer due diligence for all customers including implementation of Know-Your-Customer Policy and enhanced due diligence for customers and transactions presenting higher risk;

- Establish and maintain appropriate procedures to monitor customer accounts and activities to detect suspicious transactions that may be indicative of money laundering activities;
- Maintain a system that monitors all transactions and able to raise alert should there be elements of suspicion as pre-determined by AML/CFT Department;
- Roll out the AML/CFT Awareness e-learning course which was made compulsory for the staff to complete every year;
- Retain identification and transactional documentation as defined in the relevant laws and legislation;
- Report to the relevant authorities in a timely and comprehensive manner on all identified suspicious transactions where there are reasonable grounds to suspect that a money laundering offence has been or is being committed; and
- Co-operate fully with the relevant law enforcement agencies and regulatory authorities on AML/CFT issues.

## CORRUPTION-FREE PLEDGE

Bank Islam became the industry leader as the first Islamic bank to sign the Malaysian Anti-Corruption Commission's Corporate Integrity Pledge on 20 March 2012. The Senior Management of Bank Islam together with all staff in Menara Bank Islam renewed their commitment towards combatting corruption by taking oath in the Corruption-Free Pledge on 11 December 2017. The pledge signals the Bank's commitment to uphold the Anti-Corruption Principles for Corporations in Malaysia in the conduct of its business and in its interactions with its business partners and the Government. This is Bank Islam's aspiration in working towards creating a business environment that is free from corruption and unethical practices. The pledge aligns the Bank's purpose in propagating integrity, transparency and good governance in all aspects of its operations. A toll-free Integrity Hotline (1800-22-0091) and a dedicated email address ([whistle@bankislam.com.my](mailto:whistle@bankislam.com.my)) have been established to facilitate any reports made by external as well as internal parties on unethical conduct involving any Bank Islam's personnel.



The pledge taken can be viewed on Page 107 of this Integrated Annual Report.

In addition to the pledge, Bank Islam's activities towards achieving the pledge will be subject to audit by the Malaysian Anti-Corruption Commission's Inspection and Consultancy Division as it has been in 2015 and in 2016.

## STATEMENT ON CORPORATE GOVERNANCE

THE BOARD OF DIRECTORS OF BANK ISLAM (“THE BOARD”) ACKNOWLEDGES AND TAKES COGNIZANCE ON THE IMPORTANCE OF GIVING THE HIGHEST PRIORITY ON CORPORATE GOVERNANCE IN VIEW OF THE INCREASINGLY CHALLENGING OPERATING BUSINESS ENVIRONMENT. THE BOARD CONTINUOUSLY STRIVES TO PROMOTE AND INSTIL A STRONG CULTURE OF CORPORATE GOVERNANCE THROUGHOUT THE ORGANISATION. THE BOARD ENSURES THE EXISTENCE OF A SOUND INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM AS WELL AS ETHICAL BEHAVIOUR, BASED ON SHARIAH RULES AND PRINCIPLES.

The Board’s unwavering commitment in corporate governance was recognised and acknowledged. During the period under review, the Bank received the following awards:-

### 2017 MALAYSIAN NATIONAL ANNUAL CORPORATE REPORT AWARDS (NACRA)

- Certificate of Merit recipient in Annual Report

### SOUTH EAST ASIA AWARD 2017

- Best Sustainability at the Islamic Business & Finance

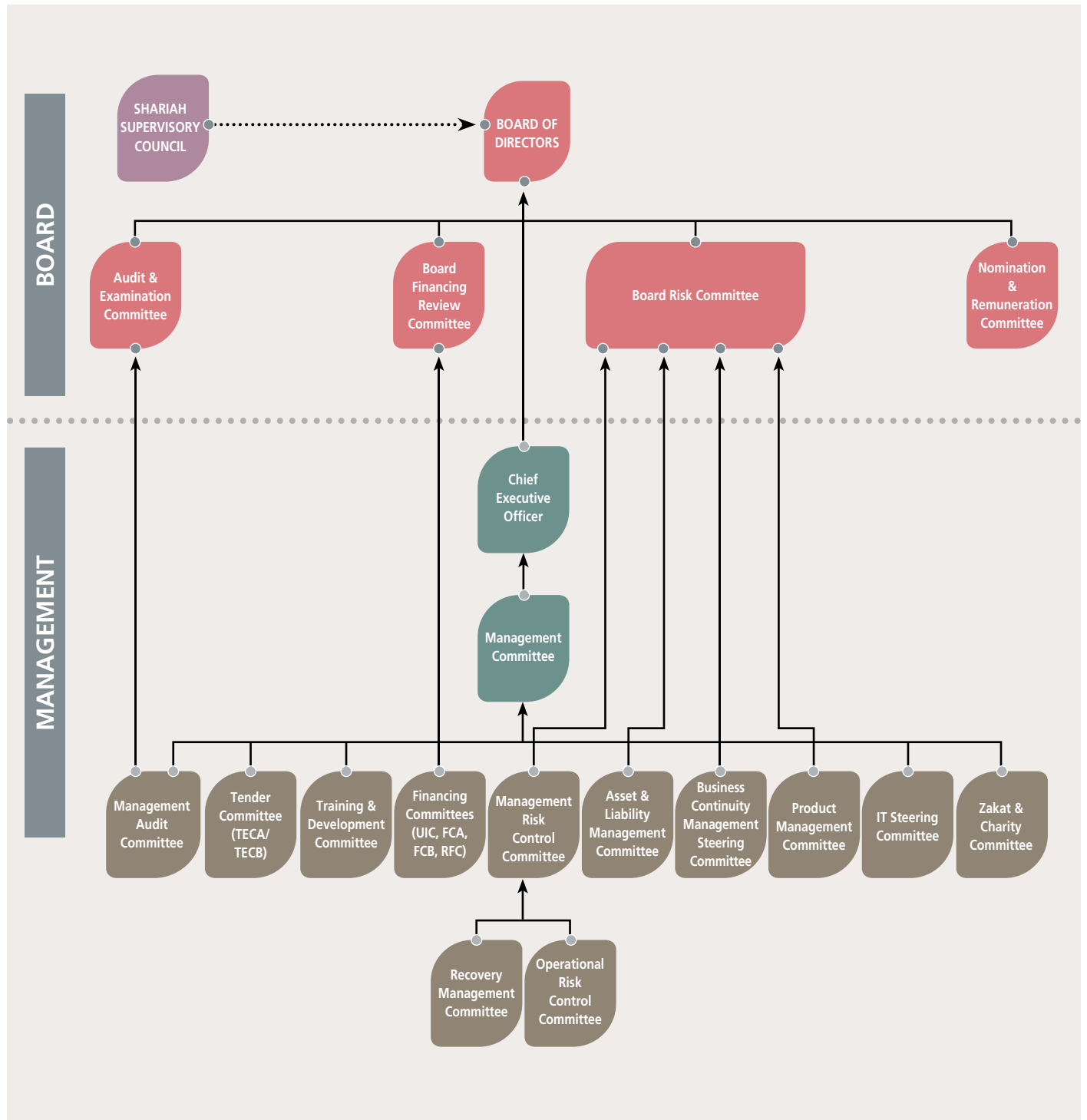
### THE ASSETS ASIAN AWARDS 2017

- Best Islamic ESG Bank



The corporate governance framework of the Bank embraced the recommended practices of Bank Negara Malaysia’s (“BNM”) Corporate Governance Policy issued on 3 August 2016 (“BNM CG Policy”), the Malaysian Code on Corporate Governance issued in 2017 (“MCCG 2017”) and other relevant requirements as outlined under the respective guidelines by BNM. The application of the recommendations set out in BNM CG Policy and MCCG 2017 will be highlighted in the various sections of this Statement on Corporate Governance.

The governance structure of Bank Islam is illustrated below:-





**PRINCIPLE A OF MCCG 2017  
BOARD LEADERSHIP AND EFFECTIVENESS****Board Charter**

The Board is ultimately responsible to provide the leadership in meeting the strategic objectives and goal of the Bank. Towards achieving this intended outcome, the Board has established the Board Charter. The Board Charter clearly outlines the Board's duties and responsibilities, powers and relevant requirements to promote the Board's effectiveness and good conduct in accordance with good corporate governance practices based on the recommendations and guidelines issued by the relevant regulatory authorities.

The salient areas covered in the Board Charter are as follows:-

<b>DUTIES &amp; RESPONSIBILITIES</b>	<ul style="list-style-type: none"> <li>• Fiduciary Duties of Directors</li> <li>• Roles &amp; Responsibilities of the Board, Board Committees, Chairman, Chief Executive Officer &amp; Management, Independent Directors, Nominee Directors and Company Secretary</li> </ul>
<b>POWERS OF THE BOARD</b>	<ul style="list-style-type: none"> <li>• Authority &amp; Delegation</li> <li>• Matters Reserved for the Board</li> </ul>
<b>BOARD CONDUCT</b>	<ul style="list-style-type: none"> <li>• Code of Ethics</li> <li>• Conflict of Interest</li> <li>• Whistle Blowing</li> </ul>
<b>BOARD EFFECTIVENESS</b>	<ul style="list-style-type: none"> <li>• Board Composition</li> <li>• Board Appointment/Removal/Succession Planning</li> <li>• Board Training</li> <li>• Board Evaluation</li> <li>• Board Remuneration</li> </ul>

In addition to the Board Charter, the Board is also guided by its Terms of Reference which sets out amongst others, the primary duties and responsibilities of the Board, the authority and conduct of the Board meetings.

The Board Charter and the Terms of Reference are reviewed regularly from time to time or at least once every two (2) years to reflect the relevant changes in the Bank's policies and rules and regulations imposed by the relevant regulatory authorities.

The Board Charter and the Terms of Reference of the Board is available at [www.bankislam.com.my](http://www.bankislam.com.my)

**Roles and Responsibilities of the Board**

The Board has the overall responsibility to promote the sustainable growth and financial soundness of Bank Islam. The business and operations of Bank Islam are managed under the direction and oversight of the Board since the Board is ultimately responsible for the stewardship of the Bank. The Board has the fiduciary duty to ensure that at all times they act in the best interest of the Bank.

The roles and responsibilities of the Chairman and the Chief Executive Officer are clearly demarcated in the Board Charter. The Board Charter also stipulates the roles and responsibilities of the Non-Executive Directors and the Company Secretary.

<b>ROLE</b>	<b>KEY RESPONSIBILITIES</b>
<b>CHAIRMAN</b> Datuk Zamani Abdul Ghani	The key responsibilities of the Chairman include the following:- <ul style="list-style-type: none"> <li>• Provide leadership to the Board and steer the Board in meeting the corporate goals and objectives of Bank Islam;</li> <li>• Preside over the Board meetings and ensure the effective functioning of the Board in line with good corporate governance standards;</li> <li>• Encourage healthy discussion and ensure that dissenting views can be freely expressed and discussed;</li> <li>• Ensure that decisions are taken on a sound and well-informed basis; and</li> <li>• Lead efforts to address the Board's developmental needs.</li> </ul>

ROLE	KEY RESPONSIBILITIES
<p><b>NON-EXECUTIVE DIRECTORS</b> (both Independent and Non-Independent)</p> <p>Professor Emeritus Tan Sri Dato' Dr Abdul Shukor Husin</p> <p>Zahari @ Mohd Zin Idris</p> <p>Datuk Zaiton Mohd Hassan</p> <p>Mohamed Ridza Mohamed Abdulla</p> <p>Noraini Che Dan</p> <p>Nik Mohd Hasyudeen Yusof</p> <p>Dato' Sri Khazali Ahmad</p> <p>Azizan Ahmad</p>	<p>The key responsibilities of the Non-Executive Directors include the following:-</p> <ul style="list-style-type: none"> <li>• Review and approve strategic and policy matters of the Bank's business and operations. Supervise and monitor the performance of the Management in implementing the approved strategies and policies;</li> <li>• Review the adequacy and integrity of the Bank's accounting and financial reporting system and ensure appropriate controls are in place;</li> <li>• Oversee the implementation of the Bank's governance, risk management and internal control framework and periodically review whether these remain appropriate with the Bank's operations;</li> <li>• Oversee the Bank's compliance with any regulatory requirements as imposed by the relevant regulatory authorities; and</li> <li>• Review the succession plan for the Board, Shariah Supervisory Council ("SSC") and Senior Management.</li> </ul>
<p><b>CHIEF EXECUTIVE OFFICER</b></p> <p>Khairul Kamarudin</p>	<p>The key responsibilities of the Chief Executive Officer include the following:-</p> <ul style="list-style-type: none"> <li>• Develop and provide the strategic direction of Bank Islam's business plan;</li> <li>• Ensure the Bank's strategies, corporate policies and day-to-day business affairs are effectively implemented and managed;</li> <li>• Ensure that the Board's decisions are implemented and the Board's directions are responded to;</li> <li>• Keep the Board fully informed of all important aspects of the Bank's operations and ensure sufficient information is disseminated to the Board; and</li> <li>• Provide strong leadership and effectively communicate the vision, management philosophy and business strategies of the Bank to the employees.</li> </ul>
<p><b>COMPANY SECRETARY</b></p> <p>Maria Mat Said</p>	<p>The key responsibilities of the Company Secretary to the Board include the following:-</p> <ul style="list-style-type: none"> <li>• Support the effective functioning of the Board by providing counsel on governance matters and advising on relevant laws, rules and regulations affecting the Board;</li> <li>• Advise the directors on their obligations and duties, disclosure of their interest or any conflict of interest in any transaction involving the Bank;</li> <li>• Manage the Board and Board Committees' meetings logistics and record the proceedings of the meetings including any significant concerns or dissenting views from the Board;</li> <li>• Facilitate effective information flows between the Board and Senior Management; and</li> <li>• Facilitate the orientation of new directors and assist in Directors' training and development.</li> </ul> <p>All directors have direct and unrestricted access to the advice and services of the Company Secretary.</p>

As the Board of an Islamic bank, the Board has the responsibility to ensure the business operation of the Bank complies with the Shariah requirements, in accordance with the expectation set out in the Shariah Governance Framework ("SGF") for Islamic Financial Institutions issued by BNM. Hence, the Board must give due regard to any decisions of the SSC and BNM Shariah Advisory Council.



The composition of the SSC, its duties and responsibilities as well as details of meetings attended by each SSC member can be found in pages 131 to 133 of this Integrated Annual Report under Section A of the Statement on Corporate Governance.

## STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

### Roles and Responsibilities of the Board Committees

Four (4) Board Committees are established to assist the Board in carrying out their duties and responsibilities. The Board remains fully accountable for any authority delegated to the Board Committees. The Board Committees' specific responsibilities are clearly defined in their respective terms of reference.

The Board Committees and their main responsibilities are as follows:-

ROLE	KEY RESPONSIBILITIES
<b>BOARD RISK COMMITTEE ("BRC")</b> <b>Chairman</b> Datuk Zaiton Mohd Hassan Ceased w.e.f. 1 February 2018 Nik Mohd Hasyudeen Yusoff Appointed w.e.f. 1 February 2018	Responsible to assist the Board in meeting the expectations on risk management as set out by BNM and oversee the Management's activities in managing credit risk, market risk, liquidity risk, operational risk, legal risk, Shariah risk and other risk and to ensure that the risk management process is in place and functioning.
<b>AUDIT &amp; EXAMINATION COMMITTEE ("AEC")</b> <b>Chairman</b> Datuk Zaiton Mohd Hassan Ceased w.e.f. 1 February 2018 Noraini Che Dan Appointed w.e.f. 1 February 2018	Responsible to support the Board in ensuring that there is a reliable and transparent financial reporting process and internal control system within the Bank and oversee the effectiveness of the internal auditors and external auditors of the Bank.
<b>NOMINATION &amp; REMUNERATION COMMITTEE ("NRC")</b> <b>Chairman</b> Noraini Che Dan	Responsible to assist the Board on the process for the nomination and remuneration as well as the succession plan of the Board, Board Committees, SSC, the Chief Executive Officer and key Senior Management personnel.
<b>BOARD FINANCING REVIEW COMMITTEE ("BFRC")</b> <b>Chairman</b> Zahari @ Mohd Zin Idris	Responsible for the review of financing and/or investment proposals approved by the Financing Committee 'A' ("FCA") and/or Underwriting & Investment Committee ("UIC") of the Management based on the limits determined by the Board. The BFRC, may if necessary, exercise the right to veto FCA/UIC approvals/decisions.

The Terms of Reference of the BRC, AEC and NRC are available at [www.bankislam.com.my](http://www.bankislam.com.my)

### Authority and Delegation

The Board has the authority to decide and approve matters within its primary duties and responsibilities. However, the Board has authorised the Management to execute certain functions to facilitate the day-to-day operations of Bank Islam. The said authorisation is stipulated in the Authority Limits document which is reviewed at least once every two (2) years or as and when necessary. The said delegation and authorisation does not absolve the Board's responsibility as the Board will remain responsible for the exercise of power by the Management.

Nevertheless, there are certain key matters which are not delegated and reserved for the Board's ultimate decision:-

#### KEY MATTERS RESERVED FOR THE BOARD

- Strategic policy matters which include business plan, budget and corporate structure;
- Financial results and declaration of dividends;
- Any significant operating and credit policies;
- Risk appetite setting;
- Capital management plan;
- Authority limits including discretionary authority;
- Any corporate exercise which include acquisition or divestment of strategic interest;
- Major acquisition or disposal of capital expenditure;
- Appointment and remuneration of directors, SSC members, the CEO and key Senior Management officers;
- Entry into any related party transaction; and
- Any new outsourcing proposals.

### Access to Information

The Board has full and unrestricted access to all information pertaining to the Bank's business and affairs which include the financial results, annual budgets and business plan to enable the Board to discharge its duties effectively. All directors have access to the Management and to the advice and services of the Company Secretary. In addition, they may also seek independent professional advice where necessary. The Board is regularly updated by the Management and/or the Company Secretary on any changes to the regulations and guidelines issued by BNM or other regulatory authorities.

Board materials and reports providing updates on operational, financial and corporate developments are circulated prior to Board meetings to enable the directors to seek further clarification or explanation where necessary in order to be adequately apprised before the meeting. The Management and external advisers may be invited to attend the Board meetings to provide explanation and clarification to the Board, when necessary.

### Board Evaluation

An annual performance evaluation process for the Board is implemented to assess the effectiveness of the Board as a whole, the Board Committees and the contribution of each individual director.

The Board Evaluation comprises a detailed set of questionnaires covering the following areas:

- (a) Board Composition/Structure;
- (b) Board Process;
- (c) Board Governance;
- (d) Major Responsibilities of the Board; and
- (e) Board Committees Functions.

A peer assessment by each individual director is also performed to evaluate the effectiveness of the individual directors, the independent directors and the nominee directors.

The results of the evaluation are tabulated and reviewed by the NRC prior to deliberation at the Board.



## BOARD ACTIVITIES AND MEETINGS

Before Meeting	At Every Meeting	Frequent and Effective Engagement with the Board
<ul style="list-style-type: none"> <li>• All Board and Board committee meetings are planned and scheduled in advance in consultation with the directors to facilitate their participation and commitment for the meetings.</li> <li>• The Chairman, in consultation with the CEO and the Company Secretary, reviews the setting of the agenda of the Board meetings to ensure that there is sufficient information and time to address all agenda items.</li> <li>• The agenda of the Board meetings is carefully thought out and managed.</li> <li>• A comprehensive Board paper comprising the objectives, background, purposes, implications, risks, appropriate analysis/statistics, recommendations and other relevant information is prepared to enable the Board to make informed decisions.</li> </ul>	<ul style="list-style-type: none"> <li>• The Chairman promotes open and constructive debates by all directors at the Board meetings.</li> <li>• The Board members attend the meeting well-prepared and engage in robust deliberation on key matters discussed.</li> <li>• When there is a conflict of interest, the interested director will excuse himself/herself from the discussion and will abstain from participating in the Board decision.</li> <li>• The CEO gives a complete and comprehensive update on the Bank's business and operations as well as a macro perspective on industry trends and developments.</li> </ul>	<ul style="list-style-type: none"> <li>• The Board is regularly updated on the performance of Bank Islam and its subsidiaries.</li> <li>• As and when required, for straight forward and less complex matters, the Board approvals can be obtained through Directors' Written Resolutions.</li> <li>• As and when required, ad-hoc meetings are held to facilitate the request for urgent decisions. There were four (4) ad-hoc Board meetings held in 2017.</li> <li>• The CFO provides the Board with detailed financial performance reports every two (2) months.</li> <li>• Directors have direct access to Senior Management and may request from the Management, any additional information to make informed and timely decisions.</li> </ul>

STATEMENT ON  
**CORPORATE GOVERNANCE**

(cont'd)

**BOARD ACTIVITIES AND MEETINGS**

<b>Before Meeting</b>	<b>At Every Meeting</b>	<b>Frequent and Effective Engagement with the Board</b>
<ul style="list-style-type: none"> <li>• All materials for Board and Board committee meetings are circulated to the Board members at least five (5) days prior to the meetings. This allows sufficient time for directors to read and if necessary, request for further information for deliberation at the meeting to ensure informed decision-making.</li> <li>• Any director may request matters to be included in the agenda.</li> <li>• In the event a director is unable to attend the Board or Board committee meeting in person, he/she can participate by telephone or video-conference.</li> <li>• Directors have the discretion to engage external advisers.</li> </ul>	<ul style="list-style-type: none"> <li>• The Chief Financial Officer (CFO) presents the financial performance and significant financial highlights.</li> <li>• The respective Heads of Division and external advisors may be invited to attend the Board meetings to advise the Board on matters within their purview to enable informed decision-making. Directors will have the opportunity to discuss specific areas with them and where relevant, challenge the ideas presented.</li> <li>• External professionals or in-house subject matter experts may also be invited to present key topics identified by the Board as well as updates on latest regulations or industry practices, which may have an impact on the Bank's affairs.</li> <li>• Decisions of the Board and Board Committees are made on unanimous basis. The proceeding of the meeting and the decisions are recorded in the Board minutes. The minutes shall also record any key concerns or dissenting views raised by the Directors during the meeting.</li> <li>• Minutes of the meetings are circulated earlier to all Directors for their perusal prior to the meetings. The Directors may request for clarification or raise comments on the minutes prior to their confirmation. After the minutes have been confirmed, the Chairman of the meeting signs the minutes as a correct record of the proceedings. The meeting minutes are kept for safe custody and record by the Company Secretary.</li> </ul>	<ul style="list-style-type: none"> <li>• The Directors also have various opportunities to interact with the Board members and Senior Management during the Bank's official functions/events.</li> <li>• Some directors also sit on the Board of the subsidiaries. This arrangement provides the Board with access to the operation and activities of the subsidiaries.</li> <li>• Directors have access to the Company Secretary at all times. The Company Secretary attends all Board meetings and generally assists the directors in the discharge of their duties. The Company Secretary facilitates communication between the Board, Board Committees and Management. The Company Secretary also helps with the induction of new Directors. The appointment and removal of the Company Secretary requires the approval of the Board.</li> </ul>



## Board Meeting

The Board and Board Committees' meetings are scheduled at the beginning of the year based on the required frequency as stipulated in the Terms of Reference. Additional meetings will be convened as and when warranted by situations, to facilitate important and timely decisions that are required between the scheduled meetings.

Based on its Terms of Reference, the Board meetings are to be held at least six (6) times in a year. For the financial year ended 31 December 2017, ten (10) Board meetings were held. 87.5% of the Directors recorded 100% attendance requirement of the Board meetings and 100% complied with the minimum 75% attendance requirement as stipulated below:-

Name of Directors	Attendance	%	Other Attendees
Datuk Zamani Abd Ghani Chairman/Independent Non-Executive Director	10/10	100	<ul style="list-style-type: none"> <li>The Chairman of the SSC of the Bank attends the Board meetings as a permanent invitee to facilitate the Board in deliberating and discussing issues that relate to Shariah.</li> <li>The CEO and the Chief Strategy Officer also attends the Board meetings to assist the Board in the meeting deliberation.</li> </ul>
Dato' Sri Zukri Samat* Managing Director	5/6	83	
Professor Emeritus Tan Sri Dato' Dr Abdul Shukor Husin Non-Independent Non-Executive Director	10/10	100	
Zahari @ Mohd Zin Idris Non-Independent Non-Executive Director	10/10	100	
Datuk Zaiton Mohd Hassan Independent Non-Executive Director	10/10	100	
Mohamed Ridza Mohamed Abdulla Independent Non-Executive Director	10/10	100	
Noraini Che Dan Independent Non-Executive Director	10/10	100	
Nik Mohd Hasyudeen Yusoff Independent Non-Executive Director	10/10	100	

\* Dato' Sri Zukri Samat was absent in one of the Board meeting since he was already on leave in view of his retirement on 9 June 2017.

ALL MEMBERS COMPLIED WITH  
THE MINIMUM ATTENDANCE  
REQUIREMENT UNDER THE BNM CG  
POLICY OF NOT LESS THAN **75%**

TOTAL  
BOARD  
MEETINGS  
HOURS

**19.0** HOURS



## STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

### Board Activities


Amongst the strategic matters considered by the Board during the financial year under review include the following:-



**MATTERS CONSIDERED BY THE BOARD**

The Bank's annual strategy and business plan. This include the annual capital expenditure, budget, capital plan and the setting of the Key Performance Indicators ("KPI") for the ensuing year. The Board ensures that the KPI is in line with the proposed strategy and business plan. The Board reviews and deliberates on the Management's views/assumptions and takes into consideration all relevant aspects to ensure informed decision, in the best interest of the Bank.

In 2017, the Board has approved the Bank's strategy and business plan for financial year 2018 based on the theme of "Value-based Intermediary" ("VBI"). The said theme was chosen as the new business model, aimed to deliver a sustainable performance with a strategic focus to support economic, social and environmental development.



**MATTERS CONSIDERED BY THE BOARD**


The Board is regularly updated on the Bank's business performance based on the financial reports presented to the Board at every Board meeting. Based on the said financial reports, the Board reviews the performance of the Chief Executive Officer and the Management against the approved KPIs. The Board is well-informed and updated on the progress of the strategic initiatives and key operational issues of the Bank.



**MATTERS CONSIDERED BY THE BOARD**

The Board Risk Committee ("BRC") assists the Board in overseeing the establishment, implementation and effectiveness of the overall risk management system of the Bank. The BRC also reviews periodic reports on risk management and makes relevant recommendations to the Board for its approval.

In 2017, the Board has reviewed and approved risk management related policies, credit policies, and other significant operational policies based on the recommendations of the BRC. The Board also approved the review of the authority limits of the financing committees to ensure better credit prudence and oversight by the Board.



**MATTERS CONSIDERED BY THE BOARD**

The Board is also responsible in overseeing the establishment, implementation and effectiveness of the compliance function. The BRC and the Audit & Examination Committee ("AEC") assist the Board in discharging this function. Periodic reports on compliance activities are presented at every BRC meeting for review and deliberation and any significant compliance issues are escalated to the Board from time to time.

In 2017, the Bank has engaged an independent consultant to review the Bank's Anti-Money Laundering ("AML") and compliance process. The AEC and BRC reviewed and deliberated on the report and approved the proposed action plans on behalf of the Board. During the financial year under review, the Board also approved the review of AML/CFT policy.



**AREA OF FOCUS:  
GOVERNANCE**

#### **MATTERS CONSIDERED BY THE BOARD**

The Board has the responsibility to oversee the implementation of the Bank's overall governance framework to be in line with the requirements under BNM Corporate Governance Policy and other best practices. Being an Islamic bank, the Board must also ensure that the Bank complies with the requirements of the Shariah Governance Framework for Islamic Financial Institutions.

In 2017, the Board has approved the establishment of the Board Charter which contains broad principles and requirements on the Board's governance. In addition, the Board also approved the review of the Terms of Reference of the Board and the SSC. Periodic updates on Shariah Governance are tabled to the Board at every meeting for review.



**AREA OF FOCUS:  
SUCCESSION  
PLANNING**

#### **MATTERS CONSIDERED BY THE BOARD**

The Board, through the Nomination & Remuneration Committee ("NRC"), is responsible for the processes for nomination, remuneration as well as the succession plan of the Board, Board Committees, SSC, the CEO and key Senior Management personnel. The Board also oversees the overall remuneration system of the Bank to ensure that it is in line with the business and risk strategies, corporate values and long-term interest of the Bank.

In 2017, the Board has reviewed and approved the appointment of Encik Khairul Kamarudin as the new CEO to replace the former Managing Director, Dato' Sri Zukri Samat who retired on 9 June 2017. During the financial year under review the Board has also approved the following:-

1. Re-appointment of Non-Independent Non-Executive Director namely Professor Emeritus Tan Sri Dato' Dr. Abdul Shukor Husin;
2. Re-appointment and re-designation of Datuk Zaiton Mohd Hassan from an Independent Non-Executive Director to a Non-Independent Non-Executive Director;
3. Appointment of two (2) new Independent Non-Executive Directors namely Dato' Sri Khazali Ahmad and Azizan Ahmad;
4. Re-appointment of SSC members namely Professor Dato' Dr. Ahmad Hidayat Buang, Ustaz Dr. Ahmad Shahbari @ Sobri Salamon, Assistant Professor Dr. Uzaimah Ibrahim and Associate Professor Dr. Yasmin Hanani Mohd Safian; and
5. Appointment of new SSC members namely Ustaz Dr. Md. Nurdin Ngadimon and Sahibus Samahah Dr. Anhar Opir to replace Ustaz Dr. Muhammad Syafii Antonio and Encik Muhammad Zahid Abdul Aziz who had retired.

Following the re-designation of Datuk Zaiton Mohd Hassan from an Independent Non-Executive Director to a Non-Independent Non-Executive Director, the Board has approved the change in the chairmanship of the AEC and BRC to ensure compliance with BNM Corporate Governance requirements, i.e. that the said committees be chaired by an Independent Non-Executive Director.

In addition, following the appointment of Dato' Sri Khazali Ahmad and Azizan Ahmad to the Board, there were changes to the composition of the Board Committees. Encik Azizan Ahmad, was appointed as a new member of the BFRC and BRC whilst Dato' Sri Khazali Ahmad was appointed as a new member of the AEC.

## STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

### Board Committees Meeting

#### Board Risk Committee ("BRC")

Six (6) BRC meetings were held during the financial year ended 31 December 2017, in line with the required frequency as stipulated in the Terms of Reference of the BRC. 83.3% of the BRC members recorded 100% attendance of the meetings as stipulated below:-

BRC Members	Attendance	%	Other Attendees
Datuk Zaiton Mohd Hassan (Chairman) Independent Non-Executive Director	6/6	100	<ul style="list-style-type: none"> <li>Two (2) SSC representatives attend the BRC meetings as permanent invitees to facilitate and assist the BRC in deliberation of issues that relate to Shariah.</li> <li>In addition, the BRC is assisted by the Chief Executive Officer, Chief Risk Officer, Chief Credit Officer, Chief Strategy Officer, Chief Shariah Officer and Chief Compliance Officer who also attend the meeting as permanent invitees.</li> </ul>
Datuk Zamani Abd Ghani Independent Non-Executive Director	4/6	67	
Professor Emeritus Tan Sri Dato' Dr Abdul Shukor Husin Non-Independent Non-Executive Director	6/6	100	
Zahari @ Mohd Zin Idris Non-Independent Non-Executive Director	6/6	100	
Noraini Che Dan Independent Non-Executive Director	6/6	100	
Nik Mohd Hasyudeen Yusoff Independent Non-Executive Director	6/6	100	



#### MATTERS CONSIDERED BY BRC

Summary of the BRC activities during the financial year under review include the following:-

- Reviewed the risk management report covering credit risk, market risk, operational risk and Shariah non-compliance risk and emerging risk report;
- Reviewed compliance report covering Anti-Money Laundering / Counter Financing of Terrorism (AML/CFT), regulatory compliance and update on new policies and regulations;
- Reviewed and recommended to the Board the risk appetite setting for the Bank to ensure it is in line with the corporate strategy and direction;
- Reviewed and recommended to the Board the stress test scenario and its methodology;
- Reviewed the implementation of the Internal Capital Adequacy Assessment Process (ICAAP) for the Bank;
- Reviewed and deliberated new product/services and product programmes proposed by the business units to ensure it is in line with the target risk profile and risk acceptance criteria for the Bank; and
- Reviewed and deliberated significant business and operating policies of the Bank.

FIVE (5) BRC MEMBERS COMPLIED  
WITH THE MINIMUM ATTENDANCE  
REQUIREMENT UNDER THE BNM CG  
POLICY OF NOT LESS THAN **75%**

TOTAL  
BRC  
MEETINGS  
HOURS  
**22.75 HOURS**

**Audit & Examination Committee ("AEC")**

The Terms of Reference of the AEC stipulates the AEC meeting to be held at least four (4) times a year. Nine (9) AEC meetings were held during the financial year ended 31 December 2017. 66.6% of the AEC members recorded 100% attendance and 100% met with the 75% minimum attendance requirement of the meetings as stipulated below:-

AEC Members	Attendance	%	Other Attendees
Datuk Zaiton Mohd Hassan (Chairman) Independent Non-Executive Director	9/9	100	The Chief Executive Officer, Chief Internal Auditor and Chief Compliance Officer attend all AEC meetings as permanent invitees to facilitate deliberation of the issues discussed.
Datuk Zamani Abd Ghani Independent Non-Executive Director	8/9	89	
Mohamed Ridza Mohamed Abdulla Independent Non-Executive Director	8/9	89	
Zahari @ Mohd Zin Idris Non-Independent Non-Executive Director	9/9	100	
Noraini Che Dan Independent Non-Executive Director	9/9	100	
Nik Mohd Hasyudeen Yusoff Independent Non-Executive Director	9/9	100	

**MATTERS CONSIDERED BY AEC**

Summary of the AEC activities during the financial year under review include the following:-

- Reviewed and recommended to the Board the unaudited interim financial statements as well as the audited financial statements for approval;
- Reviewed internal audit reports on the Head Office, the branches and identified critical units of Bank Islam;
- Reviewed Shariah audit report on relevant units/functions of Bank Islam;
- Deliberated on significant matters highlighted by the Management or the External Auditor and reviewed progress updates on the action plan;
- Reviewed the Independent Consultant's report on Anti-Money Laundering and Compliance process for Bank Islam;
- Reviewed the investigation reports on fraud cases in the Bank;
- Approved the external auditors and internal auditors' audit plan and reviewed the progress accordingly; and
- Evaluated the performance of the External Auditors and recommended their appointment to the Board.

ALL MEMBERS COMPLIED WITH  
THE MINIMUM ATTENDANCE  
REQUIREMENT UNDER THE BNM CG  
POLICY OF NOT LESS THAN **75%**

TOTAL  
AEC  
MEETINGS  
HOURS

**19.0 HOURS**





## STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

### Nomination & Remuneration Committee ("NRC")

The Terms of Reference of the NRC stipulates the NRC meeting to be held at least once a year. However, ten (10) NRC meetings were held during the financial year ended 31 December 2017. 80% of the NRC members recorded 100% attendance and 100% of the members met with the 75% minimum attendance requirement of the meetings as stipulated below:-

NRC Members	Attendance	%	Other Attendees
Noraini Che Dan (Chairman) Independent Non-Executive Director	10/10	100	<ul style="list-style-type: none"> <li>The Chief Executive Officer attends all NRC meetings to facilitate deliberation of the issues discussed.</li> <li>The Head of Human Resource is invited for the NRC meetings to facilitate deliberation of the issues under his purview.</li> </ul>
Datuk Zaiton Mohd Hassan Independent Non-Executive Director	10/10	100	
Datuk Zamani Abd Ghani Independent Non-Executive Director	10/10	100	
Professor Emeritus Tan Sri Dato' Dr Abdul Shukor Husin Non-Independent Non-Executive Director	9/10	90	
Zahari @ Mohd Zin Idris Non-Independent Non-Executive Director	10/10	100	



### MATTERS CONSIDERED BY NRC

Summary of the NRC activities during the financial year under review include the following:-

- Reviewed and recommended the appointment of the new CEO to replace the former Managing Director, who retired on 9 June 2017;
- Reviewed and recommended the re-appointment of Non-Independent Non-Executive Director;
- Reviewed and recommended the re-appointment and re-designation of an Independent Non-Executive Director to a Non-Independent Non-Executive Director;
- Reviewed and recommended the appointment of two (2) new Independent Non-Executive Directors;
- Reviewed and recommended the re-appointment of current SSC members and appointment of new SSC members;
- Reviewed and recommended the revised composition of the Board Committees;
- Reviewed and recommended the renewal of the contract of service of Senior Management and their remuneration; and
- Reviewed and recommended the annual reward for Senior Management based on their performance and KPIs.

ALL MEMBERS COMPLIED WITH  
THE MINIMUM ATTENDANCE  
REQUIREMENT UNDER THE BNM CG  
POLICY OF NOT LESS THAN **75%**

TOTAL  
NRC  
MEETINGS  
HOURS

**9.25 HOURS**



**Board Financing Review Committee (“BFRC”)**

Twelve (12) BFRC meetings were held during the financial year ended 31 December 2017. All BFRC members met the 75% minimum attendance requirement of the meetings as stipulated below:-

BFRC Members	Attendance	%	Other Attendees
Zahari @ Mohd Zin Idris (Chairman) Non-Independent Non-Executive Director	12/12	100	<ul style="list-style-type: none"> <li>The Heads of Business units are invited to present the credit/investment proposals.</li> <li>The BFRC is assisted by the Chief Executive Officer, the Chief Credit Officer and the Chief Strategy Officer who attend the meeting as permanent invitees.</li> </ul>
Dato’ Sri Zukri Samat * Managing Director	3/4	75	
Datuk Zaiton Mohd Hassan Independent Non-Executive Director	10/12	83	
Datuk Zamani Abd Ghani Independent Non-Executive Director	12/12	100	
Nik Mohd Hasyudeen Yusoff Independent Non-Executive Director	11/12	92	

\* Dato’ Sri Zukri Samat was absent in one of the BFRC meeting since he was already on leave in view of his retirement on 9 June 2017.

**MATTERS CONSIDERED BY BFRC**

During the financial year under review, the BFRC has reviewed and where necessary exercised their right to veto the following proposals which are within its authority limit:-

- 39 new investment or financing/credit proposals;
- 88 review of existing investment or financing/credit proposals;
- Underwriting of Restricted Investment Account under the Investment Account Platform (IAP); and
- Connected party transactions under BNM Guidelines on Credit Transactions and Exposures with Connected Parties for Islamic Banks.

The BFRC also provides oversight on the approvals of investment or financing/credit proposals made by the Management at the Underwriting and Investment Committee and Financing Committee A. During the year under review, the Bank promoted the Value-based Intermediaries investments or financing/credit proposals in line with the corporate strategic direction.

ALL MEMBERS HAVE COMPLIED  
WITH THE MINIMUM ATTENDANCE  
REQUIREMENT UNDER THE BFRC’S  
TERMS OF REFERENCE **75%**

TOTAL  
BFRC  
MEETINGS  
HOURS

**8.75 HOURS**



## STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

### BOARD COMPOSITION

#### Overall Composition

On 9 June 2017, Dato' Sri Zukri Samat, the Managing Director retired and ceased to be a member of the Board. Encik Khairul Kamarudin, who was an internal candidate, groomed to take over the leadership of the Bank was appointed to be the Chief Executive Officer on 14 June 2017.

On 2 January 2018, two (2) additional independent non-executive directors, namely, Dato' Sri Khazali Ahmad and Encik Azizan Ahmad were appointed to the Board. On 2 February 2018, Datuk Zaiton Mohd Hassan, was re-designated as a non-independent non-executive director, after serving the Bank for more than eleven (11) years as an independent non-executive director. With these changes, the Board composition consists of nine (9) members of which six (6) are independent non-executive directors and three (3) are non-independent non-executive directors.

The above composition complies with the BNM CG Policy requirement, i.e. for the Board to have majority independent directors. The Chairman of the Board is also an independent non-executive director. This provides an effective check and balance in the functions of the Board.

Based on the current Board composition, Bank Islam also adheres to the BNM CG Policy requirement, i.e. for the number of directors with common directorship within the group to remain in the minority

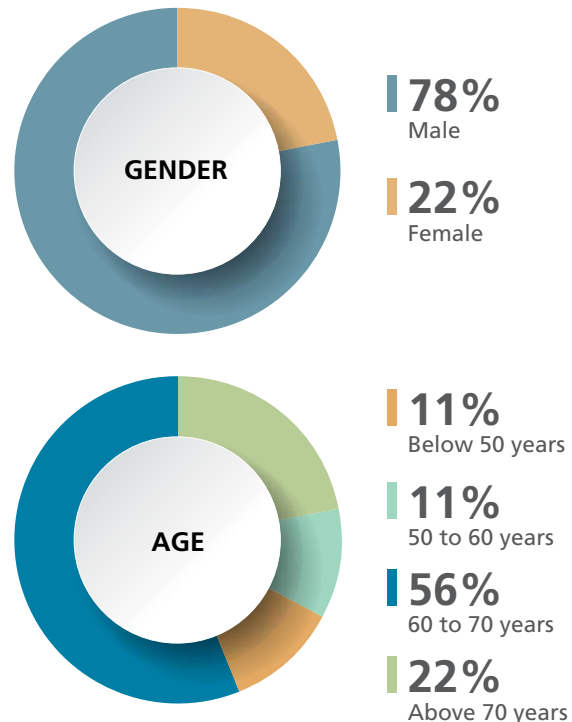
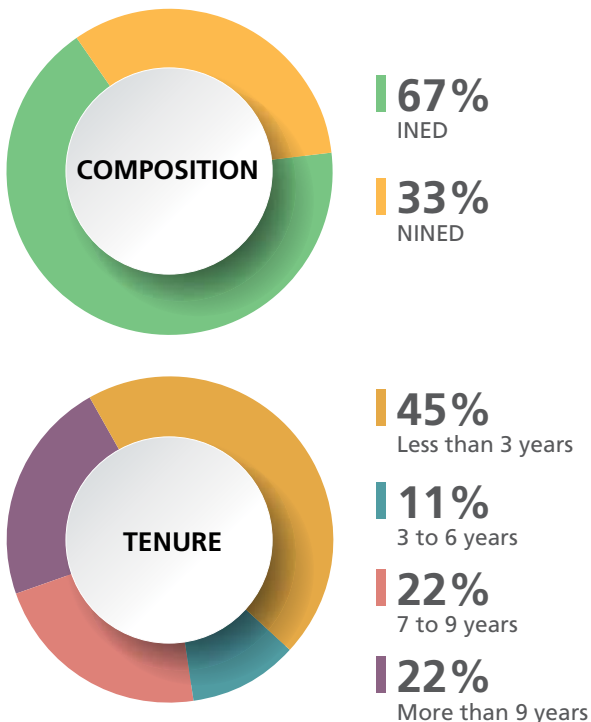
to ensure that the group interests are appropriately balanced. Only three (3) out of nine (9) directors on the Board of the Bank have common directorship within the group.

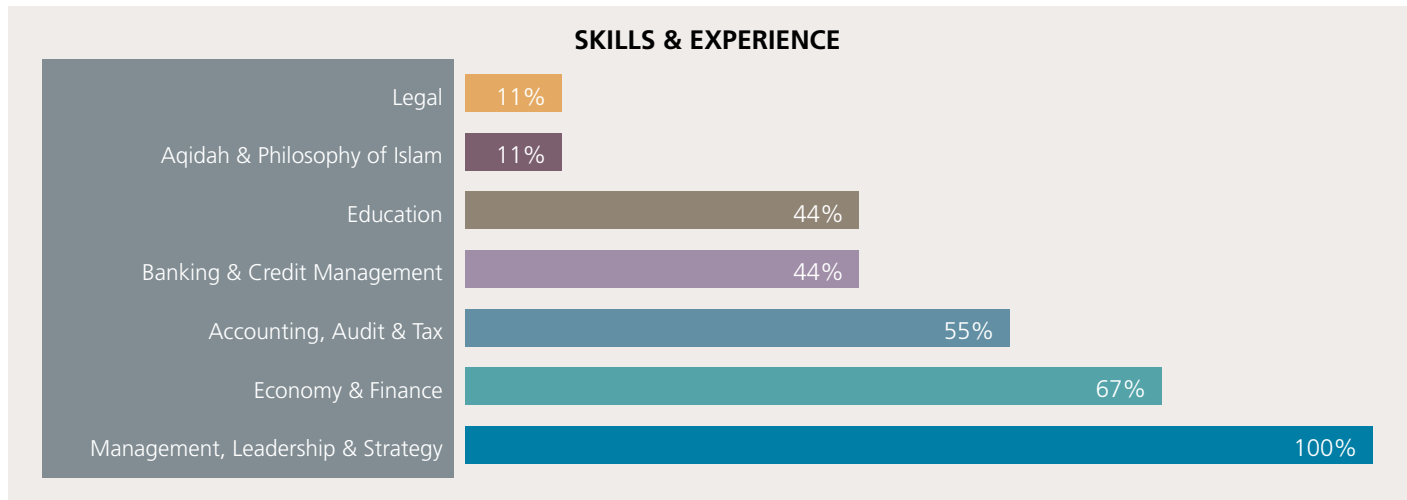
Meanwhile, the composition of the Board Committees, in particular the BRC, AEC and NRC complies with the following requirements of the BNM CG Policy:-

1. Have at least three (3) directors;
2. Have a majority of independent directors;
3. Chaired by an independent director;
4. The Chairman of the Board does not chair any of the Board Committees;
5. The Executive Director is not a member of the Board Committees; and
6. Comprised directors who have skill, knowledge and experience relevant to the responsibilities of the Board Committees.

#### Diversity

The Board is committed in ensuring diversity in its composition and acknowledged that having a diverse Board would have a positive impact to the Bank. In this regard, the Board aims to maintain diversity in terms of gender, age, educational background, professional experience, skills, knowledge and length of service.





### Independent Non-Executive Director

The current Board composition has a strong degree of independence in view that more than half of its members comprised independent non-executive directors. The independent non-executive directors are responsible to provide the necessary independence and objectivity to the Board. He/she must be able to constructively challenge and contribute feedback to the Management on any proposals presented to the Board. The effective participation of independent non-executive directors will enhance the accountability in the Board decision making process.

The Board via the NRC will assess the independence of an independent non-executive director upon his/her appointment and re-appointment. The Board has adopted a set of criteria in determining the independence of a director which include, whether he/she has been engaged in any significant business or contractual relationship with a value of above RM1.0 million, either with Bank Islam or any of its affiliates within the last two (2) years.

All independent non-executive directors are required to declare their compliance with the independence criteria adopted by the Bank on annual basis to facilitate the Board in assessing the independence of a director.

An independent non-executive director is also subject to a maximum tenure of nine (9) consecutive years. Nevertheless, the Board acknowledged that the independence of a director does not necessarily depend on the tenure. Hence, in certain circumstances, the Board may decide to retain a member as an independent non-executive director beyond the nine (9) years period subject to the approval of the shareholders and BNM. With the exception of Datuk Zaiton Mohd Hassan who was re-designated as a Non-Independent Non-Executive Director on 2 February 2018, after serving the Board for eleven (11) years, all other independent non-executive directors have not reached the 9-year tenure in Bank Islam.

### Appointment and Re-appointment of Directors

There is a formal and transparent process which has been adopted and implemented by the Board for the appointment and re-appointment of directors. The said process is in accordance with BNM CG Policy. The Board delegated its duties to the NRC in ensuring that the level and make-up of its members are of the necessary credibility, integrity and calibre with the required skills and knowledge. The NRC is responsible to screen and perform the requisite evaluation and assessment on the candidate's ability to discharge his/her duties effectively prior to making any recommendation to the Board for approval. Where necessary, the NRC will interview the candidate to determine his/her suitability for appointment before making any recommendation to the Board.

The appointment and re-appointment of a director is subject to the minimum requirements as stipulated in BNM CG Policy as well as the Fit and Proper Criteria as adopted by Bank Islam, in line with BNM Fit and Proper Criteria Policy. The Fit and Proper Criteria sets out the attributes and qualifications required of a candidate to determine his/her suitability. In determining if an individual is 'fit and proper' to hold the position of a director, the following criteria will be taken into consideration:-

- His/her probity, personal integrity and reputation which is demonstrated through personal qualities such as honesty, integrity, diligence, independence of mind and fairness;
- His/her financial integrity which is reflected whether he/she has been declared a bankrupt or any bankruptcy proceeding/legal action in relation to dishonesty and fraud has been taken against him/her;
- His/her history of offence(s) involving fraud and dishonesty;
- Whether he/she has been a director of a company that has been wound up due to insolvency;

## STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

- His/her competency and capabilities which is demonstrated whether he/she possess the necessary qualification, skills, technical expertise and relevant experience (which include holding senior position of not less than 10 years) to carry out the role; and
- His/her compliance with the restriction on the number of external professional commitment set by the Bank to ensure that he/she will have sufficient time and commitment to discharge his/her duties effectively. In this regard, the Bank set the maximum number of external professional commitment that a director could hold to be not more than ten (10) in organisations other than Bank Islam with the number of directorship in listed companies must not be more than five (5).

For the re-appointment of a director, the history of his/her attendance in Board and Board Committee meetings and the results of peer evaluation on the director's effectiveness, contribution and participation will be taken into consideration.

The appointment and re-appointment of directors are subject to BNM's approval.

All directors are required to declare their compliance with the fit and proper criteria set by the Bank annually. This will facilitate the Bank to determine their suitability in holding such position, in line with the BNM Fit and Proper Criteria Policy and BNM CG Policy.

### Re-Election of Directors

In accordance with Bank Islam's Articles of Association, all directors are subject to retirement by rotation. The retiring directors are eligible for re-election.

Directors who are appointed as additional new directors or to fill casual vacancies during the year are subject to re-election by the shareholder at the next Annual General Meeting following their appointment.

### Succession Planning

The Board has conducted a review to ensure a proper and smooth implementation of its succession plan for those directors who are expected to retire or to undertake new responsibilities within the group. The review takes into consideration various factors which include compliance with the requirements of BNM CG Policy pertaining to Board composition, potential vacancy due to expiry of tenure and retirement as well as the risk of independent non-executive directors being re-designated as non-independent non-executive directors after serving the Board more than nine (9) years.

Following the above review, the composition of the Board Committee membership has been revised to ensure compliance with BNM CG Policy as well as to facilitate the potential successors to be familiar with the role and function of the Board Committees. As per BNM CG Policy requirement, the Chairman of the Board no longer chairs the Board Committees. Relevant directors have been identified as potential successors to the existing directors who potentially would be retiring within the next one (1) or two (2) years.

*Based on the succession plan, Encik Khairul Kamarudin, an internal candidate that was groomed and identified to be the successor to the Managing Director, was appointed to be the Chief Executive Officer of the Bank on 14 June 2017. As part of the succession plan for the Board, following the re-designation of Datuk Zaiton Mohd Hassan as a non-independent non-executive director, in February 2018, Puan Noraini Che Dan was appointed as the Chairman of the AEC whilst Encik Nik Mohd Hasyudeen Yusoff was appointed as the Chairman of the BRC.*

## BOARD PROFESSIONALISM

### Board Training

The directors are encouraged to have continuous professional development as it is vital for the directors to refresh their skills and knowledge to keep abreast with the latest development and challenges in the banking industry to enable them to discharge their responsibilities effectively. The Bank has adopted a policy on directors' training which includes the following:

- Any director that is newly appointed to the Board will undergo an orientation session with the Management. He/she will be briefed on the Bank's governance structure, key management members, business and operations and important regulations and laws. A director's handbook, the latest Annual Report of the Bank and other relevant information will be made available to the director. The said session will be organised as soon as practicable not later than three (3) months upon the appointment of the director;
- All directors of the Bank will be required to register for the director's core training programme under the Financial Institutions Directors' Education Programme (FIDE) within a year and to complete the programme within two (2) years upon his/her appointment;
- The directors are encouraged to attend other trainings that are relevant to enable them to discharge their responsibilities effectively. In this regard, focus will be on the elective trainings organised by FIDE Forum as such trainings are structured based on areas that would be relevant to the banking industry and conducted by experienced speakers and trainers;
- The directors may also attend other trainings organised by local professional bodies and regulatory authorities within Malaysia in areas that are relevant to the Bank; and
- The NRC may approve any directors to attend trainings overseas if such trainings are viewed to be crucial for the Bank and the trainings are not available within Malaysia.



*Except for the two (2) newly appointed directors who have registered for the Director's Core Training Programme under FIDE, all other Board members have attended and completed the Director's Core Training Programme under FIDE within the period stipulated under the Director's Training Policy of the Bank. In line with the MCCG 2017 recommended practice, the Company Secretary facilitates the orientation of new directors and assist in directors' training and development. All newly appointed directors of the Bank underwent the orientation and induction programme, organised by the Company Secretary.*

The training programmes attended by the directors in the financial year ended 31 December 2017 include the following:-

Name of Directors	Training Programme	Organiser
Datuk Zamani Abd Ghani	<ul style="list-style-type: none"> <li>• Latest Development in Risk Management, Basel III &amp; Capital Adequacy for Banks</li> <li>• Focus Group 1 Session – Discussion in Preparation for Dialogue with BNM's Senior Management</li> <li>• BNM's Annual Report 2016 / Financial Stability and Payments Systems Report 2016</li> <li>• 4<sup>th</sup> BNM-FIDE Forum Annual Dialogue with Deputy Governor of BNM</li> <li>• Efficient Inefficiency : Making Board Effective in a Changing World by Professor Sampler</li> <li>• Compliance Conference 2017</li> <li>• AIF International Symposium 2017</li> <li>• Briefing on Funds Transfer Pricing</li> <li>• Shariah Masterclass Training</li> <li>• Briefing on Companies Act 2016</li> <li>• 9<sup>th</sup> International Conference on Financial Crime and Terrorism Financing 2017</li> </ul>	<ul style="list-style-type: none"> <li>• Red Money Sdn Bhd</li> <li>• FIDE</li> <li>• BNM</li> <li>• FIDE</li> <li>• FIDE</li> <li>• BNM</li> <li>• Asian Institute of Finance</li> <li>• Bank Islam (Internal)</li> <li>• Bank Islam (Internal)</li> <li>• Bank Islam (Internal)</li> <li>• Asian Institute of Finance</li> </ul>
Professor Emeritus Tan Sri Dato' Dr Abdul Shukor Husin	<ul style="list-style-type: none"> <li>• Bengkel Penyelidikan Pematuhan Parameter Syarak dalam Pelaksanaan Cukai Barangan</li> <li>• Briefing on Companies Act 2016</li> </ul>	<ul style="list-style-type: none"> <li>• JAKIM</li> <li>• Bank Islam (Internal)</li> </ul>
Zahari @ Mohd Zin Idris	<ul style="list-style-type: none"> <li>• Compliance Conference 2017</li> <li>• Briefing on Funds Transfer Pricing</li> <li>• Shariah Masterclass Training</li> <li>• Briefing on Companies Act 2016</li> </ul>	<ul style="list-style-type: none"> <li>• BNM</li> <li>• Bank Islam (Internal)</li> <li>• Bank Islam (Internal)</li> <li>• Bank Islam (Internal)</li> </ul>
Datuk Zaiton Mohd Hassan	<ul style="list-style-type: none"> <li>• Focus Group 1 Session – Discussion in Preparation for Dialogue with BNM's Senior Management</li> <li>• Risk &amp; Reward : What Must Boards Know about a Sustainable FI Remuneration System for Senior Management and Material Risk Takers</li> </ul>	<ul style="list-style-type: none"> <li>• FIDE Forum</li> <li>• FIDE</li> </ul>
Mohamed Ridza Mohamed Abdulla	<ul style="list-style-type: none"> <li>• Highlights of the Companies Act 2016 – Changes &amp; Implication</li> <li>• Compliance Conference 2017</li> <li>• FinTech : Opportunities for the Financial Services Industry in Malaysia</li> <li>• Briefing on Funds Transfer Pricing</li> <li>• Shariah Masterclass Training</li> <li>• Briefing on Companies Act 2016</li> </ul>	<ul style="list-style-type: none"> <li>• Bursatra Sdn Bhd</li> <li>• BNM</li> <li>• FIDE</li> <li>• Bank Islam (Internal)</li> <li>• Bank Islam (Internal)</li> <li>• Bank Islam (Internal)</li> </ul>

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(cont'd)

Name of Directors	Training Programme	Organiser
Noraini Che Dan	<ul style="list-style-type: none"> <li>• FIDE Core Programme - Banks (Module A &amp; Module B)</li> <li>• Briefing on Funds Transfer Pricing</li> <li>• Shariah Masterclass Training</li> <li>• Briefing on Companies Act 2016</li> </ul>	<ul style="list-style-type: none"> <li>• ICLIF</li> <li>• Bank Islam (Internal)</li> <li>• Bank Islam (Internal)</li> <li>• Bank Islam (Internal)</li> </ul>
Nik Mohd Hasyudeen Yusoff	<ul style="list-style-type: none"> <li>• FIDE Core Programme - Banks (Module A &amp; Module B)</li> <li>• Audit Committee Conference 2017 – Making and Impact</li> </ul>	<ul style="list-style-type: none"> <li>• ICLIF</li> <li>• Malaysian Institute of Accountants (MIA)</li> </ul>

**Board Remuneration**

Bank Islam has in place a remuneration structure for the directors that is sufficient to attract, retain and remunerate for their contribution to the Bank.

The remuneration structure for the non-executive directors takes into consideration the relevant factors which include the function, workload, responsibilities and time spent for the preparation of the Board and Board Committees' meeting. A higher rate (premium) is given to the Chairman of the Board and the Board Committees in view of his/her additional role in guiding and managing the Board and the Board Committees. The remuneration includes monthly fees, meeting allowances and other benefits such as leave passage. In line with good corporate governance, the review of remuneration for the non-executive directors is conducted every three (3) years.

To ensure the remuneration structure for the non-executive directors remains competitive with the industry, the Bank has undertaken a review exercise in 2016. The said review, took into account the recommendations in the FIDE Forum Directors' Remuneration report 2015. The revised remuneration took effect in 2017 and the same has been approved by the shareholder at the annual general meeting of the Bank.



The details of directors' remuneration during the financial year are disclosed in Note 33 on pages 208 to 210 of Bank Islam's Financial Statements for the Financial Year ended 31 December 2017.

**Code of Ethics for the Board**

The Board has the responsibility to set the tone and standards of the Bank through its code of ethics. In line with this, the Board observes the Code of Ethics based on the Code of Ethics for the Financial Services Industry issued by the Financial Services Professional Board, the Company Directors' Code of Ethics issued by the Companies Commission of Malaysia and such other code of ethics issued by the relevant governing authorities.

In addition, the directors are expected to demonstrate utmost integrity and conduct themselves with high standards of behaviour based on the following fundamental principles:-

- Duty to avoid conflict of interest;
- Duty to avoid misuse of position;
- Duty of confidentiality and prevent misuse of information;
- Ensure integrity of records and transactions;
- Ensure all business dealings are fair with equitable treatment;
- Avoid interfering in the day-to-day running of the Bank;
- Accept and support the collective decision of the Board;
- Loyalty to the Bank and the Board; and
- Manner of speaking in public and usage of social media.

Details of the Code of Ethics are stipulated in the Board Charter which is available at [www.bankislam.com.my](http://www.bankislam.com.my)

**Conflict of Interest**

In line with the statutory requirements on disclosure of director's interest, each director is required to declare at the Board meeting if they have interests in the proposals being considered by the Board, including where such interest arises through close family members.

Where the directors could be deemed as interested, they will abstain from voting and leave the meeting room. They will not participate in any deliberations or decisions of the Board.

### Directors' Indemnity

Directors and Officers of Bank Islam are indemnified under the Directors and Officers Liability Insurance against any liability incurred by them in the discharge of their duties while holding office as the Directors and Officers of the Bank. The policy is currently taken at the holding company level, i.e. BIMB Holdings Berhad, which covers the directors and officers of Bank Islam and its group. However, the directors and officers shall not be indemnified where there is any negligence, fraud, breach of duty or breach of trust proven against them.



Further information on the Directors and Officers Liability Insurance can be found in the Integrated Annual Report 2017 of BIMB Holdings Berhad.

### Whistle-Blowing Policy

Bank Islam has established its Whistle-Blowing Policy which sets out avenues for anyone to raise concerns about illegal, unethical or questionable practices on the Bank's business and affairs in confidence and without the risk of reprisal. A whistle-blowing policy reflects the Bank's commitment to be vigilant at all times. It also assists Bank Islam to manage its risks and contingencies as well as to avoid recurring acts of wrongdoing.

Bank Islam encourages its employees to aspire to the highest possible standards of compliance and ethics. Whistle-blowing policies have therefore been integrated into Bank Islam's practices and culture to help to deter fraud, corruption and mismanagement. Through the effective implementation of this policy, Bank Islam is able to preserve its integrity and transparency.

## PRINCIPLE B OF MCCG 2017 BOARD EFFECTIVE AUDIT AND RISK MANAGEMENT

The Board has the responsibility to ensure that an effective governance, risk management and internal control framework are put in place to ensure that the Bank remains resilient and sustainable. Two (2) Board Committees, namely the Audit & Examination Committee ("AEC") and the Board Risk Committee ("BRC") assist the Board in discharging these duties.

### Audit and Examination Committee

With effect from 2 February 2018, the Audit and Examination Committee ("AEC") is chaired by an Independent Non-Executive Director, Puan Noraini Che Dan. Puan Noraini replaced Datuk Zaiton Mohd Hassan who was re-designated as a Non-Independent Non-Executive Director, after serving the Board of Bank Islam for more than eleven (11) years. In addition, a new Independent Non-Executive Director, namely Dato' Sri Khazali Ahmad was appointed as a new member of the AEC. With his appointment, the AEC of Bank Islam comprises seven (7) members of which five (5) are Independent Non-Executive Directors. The composition of the AEC is in line with the requirements of the BNM CG Policy, which amongst others, require for a majority of independent directors and chaired by an independent non-executive director who is not the Chairman of the Board.

Three (3) of the AEC members are members to the Malaysian Institute of Accountant ("MIA") of which two (2) of them are also members of the Malaysian Institute of Certified Public Accountants (MICPA). Apart from having members who are experienced in auditing and accounting, the AEC also comprised members that have experience in banking, economy, finance, legal and tax management. Collectively, the AEC possess a wide range of necessary skills to discharge its duties effectively.

The Board, through the AEC, is assisted by the Internal Auditors that mainly perform the function of independently reviewing the adequacy and effectiveness of the Bank's risk management, internal control and governance systems and processes. In addition, the Board and the AEC places a heavy emphasis on the objectivity and independence of the External Auditors.



Details on Audit and Accountability of Bank Islam can be found in pages 135 to 136 of this Integrated Annual Report under Section B of the Statement on Corporate Governance.

### Board Risk Committee

In line with the requirements of BNM CG Policy, the Board Risk Committee ("BRC") comprised majority Independent Non-Executive Directors and is chaired by an Independent Non-Executive Director, who is not the Chairman of the Board. With effect from 2 February 2018, the BRC is chaired by Encik Nik Mohd Hasyudeen Yusof, who replaced Datuk Zaiton Mohd Hassan who was re-designated as a Non-Independent Non-Executive Director. A new member, Encik Azizan Ahmad, an Independent Non-Executive Director was also appointed to the BRC. With the said appointment, the BRC currently comprised seven (7) members of which four (4) are Independent Non-Executive Directors.

## STATEMENT ON CORPORATE GOVERNANCE

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The BRC assists the Board in meeting the expectations on risk management as set out by BNM and oversee the Management's activities in managing credit risk, market risk, liquidity risk, operational risk, legal risk, Shariah risk and other risk and to ensure that the risk management process is in place and functioning. In addition, the Board and the BRC are also committed in promoting compliance culture as part of Bank Islam's corporate culture.



Details on Risk Management and Compliance Culture of Bank Islam can be found in pages 137 to 143 of this Integrated Annual Report under Section C and Section D, respectively, of the Statement on Corporate Governance.

### PRINCIPLE C OF MCCG 2017 BOARD INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

The Board acknowledged the importance of having an ongoing engagement and communication with the stakeholders to build the trust and understanding between the Bank and its stakeholders. In this respect the Bank is committed to provide effective and open communication in order to improve disclosure and transparency.

Bank Islam's corporate website provides comprehensive and easy access to the updated information about the Bank. Amongst the information that is available on the corporate website includes Bank Islam's corporate profile, Board of Director' profile, SSC members profile, Management Team's profile, financial results, annual reports and information on Bank Islam's subsidiaries.

As a wholly owned subsidiary of BIMB Holdings Berhad, a listed company on Bursa Malaysia, Bank Islam also leverages on BIMB Holdings Berhad's investor relations activities such as the analyst briefing presentations, in disseminating relevant and material information about the Bank to its stakeholders.



Disclosure on Investor Relations activities can be found in BIMB Holdings Berhad Integrated Annual Report 2017 and website [www.bimbholdings.com](http://www.bimbholdings.com).



## SECTION A SHARIAH SUPERVISORY COUNCIL (“SSC”)

### Composition of the SSC

The SSC currently has five (5) members. In 2017, Bank Islam appointed a new local Shariah scholar as a member. At the same time, one (1) foreign scholar has retired and ceased to be a SSC member. The current composition of the SSC is in line with the requirement of Principle 2 of the Shariah Governance Framework (“SGF”).

The members of the SSC come from diverse background, experience and knowledge. Each SSC member is an expert in their respective specialised field such as Islamic law, Islamic banking, capital market, takaful, waqf, zakat, fatwa, halal industry etc. Additionally, their qualification in Islamic jurisprudence (*usul al-fiqh*) and Islamic commercial laws (*fiqh al-mu’amalat*), expertise and vast experiences in the academia as well as in the industry definitely support the depth and breadth of the Shariah deliberations.

### Duties and Responsibilities of the SSC

In addition to the Board’s oversight accountability on Shariah compliance, the SSC, which functionally reports to the Board, was established to perform an oversight role on any Shariah matters and to advise the Bank in ensuring its business, affairs and activities comply with Shariah.

The SSC’s primary duties and responsibilities are outlined in the Terms of Reference that includes performing any specific duties and responsibilities outlined in any policy documents or standards issued by the relevant authority at all times, e.g., the Shariah Contract Based Regulatory Framework issued by BNM.

The Terms of Reference also sets out the conduct of the SSC meetings and contains statements on the SSC’s code of conduct, fit and proper criteria, methodology and means of decision making, parameters on SSC’s decision pronouncement, methodology on the retreat from a mistaken decision and review to the previous decision and delegation of SSC authorities to the Chief Shariah Officer of the Bank.

The Terms of Reference are reviewed from time to time, at least once every two (2) years to reflect relevant changes in Bank’s policies and any updated rules and regulations imposed by the relevant regulatory authorities.

The Terms of Reference of the SSC is available at [www.bankislam.com.my](http://www.bankislam.com.my)

### Authorities of the SSC

In discharging its duties and responsibilities, the SSC shall have the following authorities:

- To decide on Shariah-related matters referred to the SSC by taking into consideration of the published rulings of the SAC of BNM. In the event where the decision given by the SSC is different from the ruling given by the SAC, the rulings of the SAC shall prevail. However, the SSC is allowed to adopt a more stringent Shariah decision;
- To decide on Shariah-related matters without undue influence that would hamper the SSC from exercising objective judgment in deliberating issues brought before them;
- To ensure that decisions made by the SSC are duly observed and implemented by the Bank. Decisions made by the SSC should not be set aside or modified without its consent;
- Access to accurate, timely and complete information from the Management including but not limited to all relevant records, transactions, or manuals as required by them in performing their duties. If the information provided is insufficient, the SSC may request for additional information which shall be duly provided by the Bank; and
- To inform the Board of any case that the SSC has reason to believe that the Bank has been carrying on Shariah non-compliant activities and to recommend suitable measures to rectify the situation. In cases where Shariah non-compliant activities are not effectively or adequately addressed or no rectification measures are made by the Bank, the SSC shall inform BNM of the fact. In this case, the SSC will not be regarded as breaching the confidentiality and secrecy code if the confidential information is disclosed to BNM in good faith.

### Code of Conduct of SSC Members

In discharging its duties, the SSC members are expected to possess good character, competence, diligence and capability of making sound judgment. In this regard, the SSC has formalised its Code of Conduct that includes the following:-

- The member must at all times maintain good character, i.e. demonstrate honesty, integrity, fairness and good reputation at all times when dealing with the Bank as well as personal relationships with the public;



## STATEMENT ON CORPORATE GOVERNANCE

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- The member must maintain independence and professionalism while carrying out his/her duties. A member must always have complete moral, intellectual and professional independence. In carrying out his/her obligations, the member is required to:-
  - ✓ Uphold fairness and equity for all the stakeholders;
  - ✓ Act in a manner that preserves his/her honesty and integrity;
  - ✓ Exercise appropriate discretion in decision-making by taking into consideration not only the technical aspects of Shariah compliance; and
  - ✓ Appreciate the diversity of opinions among various *mazhabs* and differences in expertise among the members of the SSC; and
- The member has the duty to observe confidentiality of information with which the member is entrusted by the Bank.

In order to ensure the quality and consistency of the decisions, the SSC has formulated the Methodology and Means of Decision Making to arrive to a decision on a given issue by applying the *usul fiqh* discipline and making reference to Shariah standards, *fatwa* and resolutions of Shariah authority councils and *fiqh* academies. It also provides the process of the SSC and the Bank to review previous decisions at the request of the Bank or on its own initiative.

### Responsibilities of the Bank Towards Shariah Compliance

While the SSC is responsible for forming and expressing decisions on the Bank's compliance with Shariah, the ultimate responsibility for compliance rests with the Management of the Bank. Therefore, it is crucial that the Bank works hand-in-hand with the SSC to ensure that all business activities, products, services and operations are in compliance with Shariah. Therefore, it is the responsibility of the Bank to perform the following:-

- To refer all Shariah issues in its business operations to the SSC for decision;
- To adopt and take necessary measures for implementation of the SSC's decisions;
- To provide sufficient resources to the SSC including budget allocation, independent expert consultation, reference materials and training;
- To ensure that the SSC is familiar with the operations and business of the Bank;
- To provide the SSC access to all relevant records, transactions, manuals and relevant information, as required by its members in performing their duties; and
- To recommend the appropriate remuneration to the SSC members which commensurate with and reflect the duties and responsibilities of the SSC.

It is the Bank's responsibility to perform the following with regard to Shariah Compliance:-

- To comply with SSC decisions and establish Shariah requirements in its entire products, services, legal documentations and activities; and
- The Bank shall not change its allegiance and obedience to the SSC decisions to suit its convenience. Such a practice can impair the independence of the SSC and have a damaging impact on the integrity and credibility of the Bank, in particular, and the Islamic banking industry as a whole.

### Appointment and Re-Appointment of SSC Members

The Board, on the recommendation of the NRC, decides on the appointment and re-appointment of the SSC members, subject to BNM's written approval. The Board ensures the level and make-up of the SSC members are of the necessary credibility, integrity and calibre with the required skills and knowledge.

The appointment and re-appointment of the SSC member will be subject to the Fit and Proper Criteria adopted by Bank Islam as required under Principle 4 of the SGF and Fit and Proper policy document issued by BNM. The Fit and Proper Criteria sets out the attributes and qualifications required of a candidate to determine his/her suitability that includes the following:-

- Probity, personal integrity and reputation – the person must have key qualities such as honesty, integrity, diligence, independence of mind and fairness;
- Competency and capability – the person must have the relevant knowledge, experience and ability to understand the technical requirements of the business, the inherent risks and the management process required to perform his role as a SSC member; and
- Financial integrity – the person must manage his own financial affairs properly and prudently.

For the re-appointment of a SSC member, the results of a peer evaluation and evaluation by internal resources management on the member's effectiveness, contribution and participation will be taken into account.

A scholar among the approved members of the SSC, was appointed by the Board to become the Chairman of the SSC.

## SSC Meetings

SSC meetings are scheduled at the beginning of the year based on the required frequency stipulated in the Terms of Reference, i.e. at least six (6) meetings annually with additional meetings convened as and when warranted, to facilitate important decisions that are required between the scheduled meetings.

Eight (8) SSC meetings were held during the financial year ended 31 December 2017. 66.6% of the SSC members recorded 100% attendance and all of the members met with the 75% minimum attendance requirement of the SSC meetings as stipulated below:-

Name of SSC Members	Attendance	%	Other Attendees
Professor Dato' Dr Ahmad Hidayat Buang (Chairman)	8/8	100	Three (3) directors attend the SSC meetings as permanent invitees. Their presence at the meetings does not only improve the quality of engagement between the Board members with SSC members but also increase their appreciation towards Shariah deliberations and decisions. However, the Board members presence does not affect the independent deliberation by the SSC members in their informed decision making.
Ustaz Dr Ahmad Shahbari @ Sobri Salamon	8/8	100	
Ustaz Dr Muhammad Syafii Antonio*	2/2	100	
Assistant Professor Dr Uzaimah Ibrahim	8/8	100	
Associate Professor Dr Yasmin Hanani Mohd Safian	7/8	88	
SS Ustaz Dato' Dr Anhar Opir**	5/6	83	

\* Ustaz Dr Muhammad Syafii Antonio ceased to be member w.e.f. 31 March 2017

\*\* SS Ustaz Dato' Dr Anhar Opir was appointed as a Member w.e.f. 1 April 2017

ALL MEMBERS COMPLIED WITH THE  
MINIMUM ATTENDANCE REQUIREMENT  
UNDER THE BNM SHARIAH  
GOVERNANCE FRAMEWORK  
OF NOT LESS THAN **75%**

TOTAL  
SSC  
MEETINGS  
HOURS

**32.0** HOURS



## SSC Training

In line with Principle 4 of the SGF, continuous training is vital for the SSC members to keep abreast with the development in the banking industry and to enhance their skills and knowledge in discharging their responsibilities effectively. During the financial year, two (2) of the SSC members had enrolled in the newly inaugurated Certified Shariah Advisor (CSA) by the Association of Shariah Advisors in Islamic Finance Malaysia (ASAS). The certification was commissioned by BNM to motivate professionalism among Shariah advisors. This initiative by ASAS was mentioned in the Malaysian Financial Blueprint 2011-2020 under Agenda 3.2 to develop Malaysia as reference centre for Islamic financial transactions.

## STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

Throughout 2017, the SSC members have attended the following programmes:

Name of SSC Members	Training Programme	Organiser
Professor Dato' Dr. Ahmad Hidayat Buang	<ul style="list-style-type: none"> <li>Muzakarah Ahli Majlis Penasihat Syariah Institusi Kewangan di Malaysia Kali ke-13</li> <li>Trade Operations (1<sup>st</sup> Session)</li> <li>Trade Operations (2<sup>nd</sup> Session)</li> <li>Examining Financial Reports of Islamic Banks</li> </ul>	<ul style="list-style-type: none"> <li>JAKIM - Mahkamah Syariah Wilayah Putrajaya</li> <li>Bank Islam (Internal)</li> <li>Bank Islam (Internal)</li> <li>Shape Knowledge Services</li> </ul>
Ustaz Dr. Ahmad Shahbari @ Sobri Salamon	<ul style="list-style-type: none"> <li>Shariah Investing Forum 2017 (SIF 2017)</li> <li>Muzakarah Cendekiawan Syariah Nusantara Ke-11 (MCSN 2017)</li> <li>Trade Operations (1<sup>st</sup> Session)</li> <li>Dialogue on VBI</li> <li>Trade Operations (2<sup>nd</sup> Session)</li> <li>Examining Financial Reports of Islamic Banks</li> <li>12<sup>th</sup> International Shariah Scholars Forum (ISSF 2017)</li> <li>Principles Of Accounting &amp; Finance (CSA/CSP)</li> <li>Introduction To Commercial Law (CSA/CSP)</li> <li>Principles Of Economics</li> <li>Examination of Accounting and Finance &amp; Principles of Economics</li> <li>Examination : Introduction To Commercial Law</li> </ul>	<ul style="list-style-type: none"> <li>BURSA - Sasana Kijang, Bank Negara Malaysia</li> <li>ISRA</li> <li>Bank Islam (Internal)</li> <li>Bank Negara Malaysia</li> <li>Bank Islam (Internal)</li> <li>Shape Knowledge Services</li> <li>ISRA</li> <li>ASAS</li> <li>ASAS</li> <li>ASAS</li> <li>ASAS</li> <li>ASAS</li> <li>ASAS</li> </ul>
Assistant Professor Dr. Uzaimah Ibrahim	<ul style="list-style-type: none"> <li>Trade Operations (1<sup>st</sup> Session)</li> <li>Trade Operations (2<sup>nd</sup> Session)</li> <li>Examining Financial Reports of Islamic Banks</li> <li>12<sup>th</sup> International Shariah Scholars Forum (ISSF 2017)</li> </ul>	<ul style="list-style-type: none"> <li>Bank Islam (Internal)</li> <li>Bank Islam (Internal)</li> <li>Shape Knowledge Services</li> <li>ISRA</li> </ul>
Associate Professor Dr. Yasmin Hanani Mohd Safian	<ul style="list-style-type: none"> <li>Shariah Investing Forum 2017 (SIF 2017)</li> <li>Muzakarah Ahli Majlis Penasihat Syariah Institusi Kewangan di Malaysia Kali ke-13</li> <li>Trade Operations (1<sup>st</sup> Session)</li> <li>Trade Operations (2<sup>nd</sup> Session)</li> <li>Muzakarah Kewangan Islam KLIFF 2017</li> </ul>	<ul style="list-style-type: none"> <li>Bank Negara Malaysia</li> <li>JAKIM</li> <li>Bank Islam (Internal)</li> <li>Bank Islam (Internal)</li> <li>CERT</li> </ul>
Sahibus Samahah Dato' Dr. Haji Anhar Haji Opir	<ul style="list-style-type: none"> <li>Muzakarah Cendekiawan Syariah Nusantara Ke-11 (MCSN 2017)</li> <li>Muzakarah Ahli Majlis Penasihat Syariah Institusi Kewangan di Malaysia Kali ke-13</li> <li>Trade Operations (1<sup>st</sup> Session)</li> <li>Trade Operations (2<sup>nd</sup> Session)</li> <li>Muzakarah Kewangan Islam KLIFF 2017</li> <li>12<sup>th</sup> International Shariah Scholars Forum (ISSF 2017)</li> <li>Introduction To Commercial Law (CSA/CSP)</li> <li>Principles Of Economics (CSA/CSP)</li> <li>Examination of Accounting and Finance &amp; Principles of Economics Principles Of Economics</li> <li>Examination : Introduction To Commercial Law</li> </ul>	<ul style="list-style-type: none"> <li>ISRA</li> <li>JAKIM</li> <li>Bank Islam (Internal)</li> <li>Bank Islam (Internal)</li> <li>CERT</li> <li>ISRA</li> <li>ASAS</li> <li>ASAS</li> <li>ASAS</li> <li>ASAS</li> </ul>

- International Shari'ah Research Academy for Islamic Finance ("ISRA")
- Association of Shariah Advisors in Islamic Finance ("ASAS")
- Centre For Research and Training ("CERT")

### SSC Remuneration

Bank Islam has in place a remuneration structure for the SSC members that is sufficient to attract, retain and remunerate for their contribution to the Bank. The remuneration structure takes into consideration the relevant factors which include the function, workload, responsibilities and time spent for the preparation of the SSC meetings. A higher rate (premium) is given to the Chairman of the SSC in view of his additional role in guiding and managing the SSC. The remuneration includes monthly fees, meeting allowances and other benefits such as training fund.

Effective 2017, the remuneration of the SSC members has been reviewed to ensure that it remains competitive in the industry and the revised remunerations were approved by the shareholder at the annual general meeting of the Bank. In line with good corporate governance practice of the Bank, the review of the remuneration is conducted every three (3) years.

### SSC Evaluation

The SSC has formalised the evaluation process that was duly approved by the Board in line with the requirements of Para 4.4 of the SGF to annually assess its effectiveness in supporting a sound Shariah governance system within the Bank. The evaluation process includes collective assessment, peer evaluation and evaluation by internal resources.

The SSC, led by its Chairman, together evaluates the overall performance of the SSC against the pre-established criteria in the following areas:

- (a) Effectiveness of the SSC structure;
- (b) Effectiveness of the SSC meeting;
- (c) Quality of proposal and meeting materials; and
- (d) Succession planning.

A peer assessment is also performed by each SSC member to evaluate the individual performance of his/her peers based on the competency, knowledge and contribution as well as the overall effectiveness of the SSC. In addition, another evaluation is conducted by internal resources, i.e. the Management members who attend the SSC meetings to evaluate on the contribution of the SSC members in deliberating papers presented before them and their accessibility as and when guidance and decision is required.

The results of the assessments are tabulated and reviewed at the NRC meeting prior to deliberation at the Board meeting.

## SECTION B AUDIT AND ACCOUNTABILITY

### Internal Audit Function

The internal audit function of the Bank is fulfilled by the Internal Audit Division (“IAD”), led by the Chief Internal Auditor. The IAD reports directly to the AEC and is independent of the activities and operations of the operating units of the Bank. Its authority is provided in the Internal Audit Charter, which formally documents the roles, authority, duties and responsibilities of the IAD and its relationship with the Board, AEC, Management, external auditor and regulators.

The primary function of the IAD is to assist the Board, mainly through the AEC, by independently reviewing and reporting on the adequacy and effectiveness of the Bank’s risk management, internal control and governance systems and processes.

IAD undertakes the audit of entities within the Bank, its subsidiaries and related parties of the Bank. The annual Audit Plan is reviewed and approved by the AEC prior to the start of each financial year. IAD adopts a risk-based approach in determining the auditable units and frequency of the audits.

The results of the audits conducted, including its risks and recommendations are reported to the AEC on a regular basis. Resolution of the audit findings and recommendations are performed by the Management and closely observed by the Management Audit Committee whose members comprise of the members of the senior management. Additionally, Shariah audit reports including their findings, risks and recommendations are notified and deliberated at the SSC meetings.

The IAD is committed to provide an independent, objective assurance and advisory services that will add value and improve the Bank’s operations. It does this by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the risk management, control and governance processes, in line with the conceptual framework and guidance promulgated by the Institute of Internal Auditors (“IIA”).

## STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

### Financial Reporting

The Board takes responsibility for presenting a clear, balanced and comprehensive assessment of the Bank's financial performance, position and future prospects through its Annual Audited Financial Statements and quarterly reports. The Board ensures that the financial statements are properly drawn up and gives a true and fair view of the state of affairs of the Bank in accordance with the provisions of the Companies Act and approved accounting standards in Malaysia. The Board is assisted by the AEC in scrutinising the information disclosed in the Annual Audited Financial Statements and quarterly reports to ensure accuracy, adequacy, completeness and transparency.

### Statement of Internal Control

The Board recognises the importance of maintaining a sound system of internal control and risk management practices as well as good corporate governance. The Board exercises overall responsibility in identifying, evaluating and reviewing the adequacy and effectiveness of the Bank's risk management, governance and internal controls. The Board recognises that risks cannot be eliminated completely and as such, systems and processes have been put in place to provide reasonable, and not absolute, assurance against material misstatement of financial information or against any losses and fraud.

The Board is of the view that the internal control framework that has been instituted throughout Bank Islam is sufficient to safeguard the shareholder's investment, customers' interest and Bank Islam's assets. Reviews are continuously carried out to ensure effectiveness of the system.

The BRC was established to further strengthen Bank Islam's risk management process, where it meets regularly with the objective of assisting the Board in managing Bank Islam's range of inter-related risks in an integrated manner.

The key processes that the Board has established in reviewing the integrity of the system of internal controls are as follows:-

- (a) The CEO is entrusted with the management of Bank Islam, where his role and responsibilities, and authority limits are set by the Board. The appointment of the CEO requires the approval of the Board;
- (b) Specific responsibilities have been delegated to the relevant Board Committees, based on their respective terms of reference. These Committees have the authority to examine all matters within their scope of responsibility and submit their recommendations to the Board. The ultimate responsibility for the final decision on all matters, however, lies with the Board;

- (c) Delegation of authority, including limits at various levels of Management and those requiring the Board's approval, are documented and designed to ensure proper accountability and responsibility;
- (d) Policies and procedure manuals for key processes are documented and regularly reviewed and updated for application across Bank Islam;
- (e) The AEC regularly reviews the adequacy and integrity of Bank Islam's internal control systems and management information system including systems for compliance with applicable laws, regulations, rules, directives and guidelines as identified by the internal auditors, the external auditor and regulatory authorities. It also reviews the adequacy and comprehensiveness of the internal audit process, scope of audit, competency of the auditors and the independence of the Internal Audit function;
- (f) Bank Islam's annual business plan and budget are submitted to the Board for approval. In addition, variances between actual and targeted results are also presented on a monthly basis. This allow for timely responses and corrective actions to be taken to mitigate risks;
- (g) The IAD reports to the AEC, performs regular reviews of the processes to assess their effectiveness and highlights any significant risks affecting Bank Islam. The AEC reviews the internal auditors auditable areas and resources annually, via the Audit Plan and budget;
- (h) The AEC regularly reviews and holds discussions with the Management on actions taken to address lapses in internal controls and issues identified in reports prepared by the internal auditors, external auditor and regulatory authorities; and
- (i) The BRC regularly reviews risk profiles based on a range of key risk indicators, as well as other risk assessment tools.

### Relationship with External Auditors

Bank Islam, through the AEC, has established an appropriate and transparent relationship with the external auditor. The AEC will conduct an annual assessment on the external auditor's performance to ensure their suitability, objectivity and independence. The assessment include the ability of the external auditor in meeting the Bank's requirements, business insights and ideas, service efficiency and effectiveness as well as value management. The AEC also meets at least once a year with the external auditors without the presence of the Management.



## SECTION C RISK MANAGEMENT

### Overview

The banking industry continues to face challenges globally and locally in the form of rising funding and operational costs, volatility in markets, and changes in consumer demand and preferences. Against such rapidly evolving and highly competitive environment, the Bank remains resilient and will continue to strive for innovation in products and services, and strengthen overall liquidity and capital levels. Asset quality preservation, retention of customers; as well as cost and resources optimisation remains critical to the Bank.

In the course of achieving the Bank's competitive advantage, risk management continues to be a compelling advocate in making the Bank's key business decisions. Leveraging on the strategic partnership with the business units, the Bank's risk management function continues to be the core element of doing business as well as in strategic decision-making.

### Risk Management Framework

Risk is inherent in all aspects of the Bank's businesses and operations. The management of risk has therefore become an important driver for strategic decision in supporting the business objectives, balancing the risk appetite and return and maintaining sound financial position and capital of the Bank.

The Bank's approach to management of risk is being guided by its Risk Management Framework, which consists of the following key elements:

- Risk Governance;
- Risk Appetite;
- Risk Management Process; and
- Risk Culture.



## STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

### (a) Risk Governance

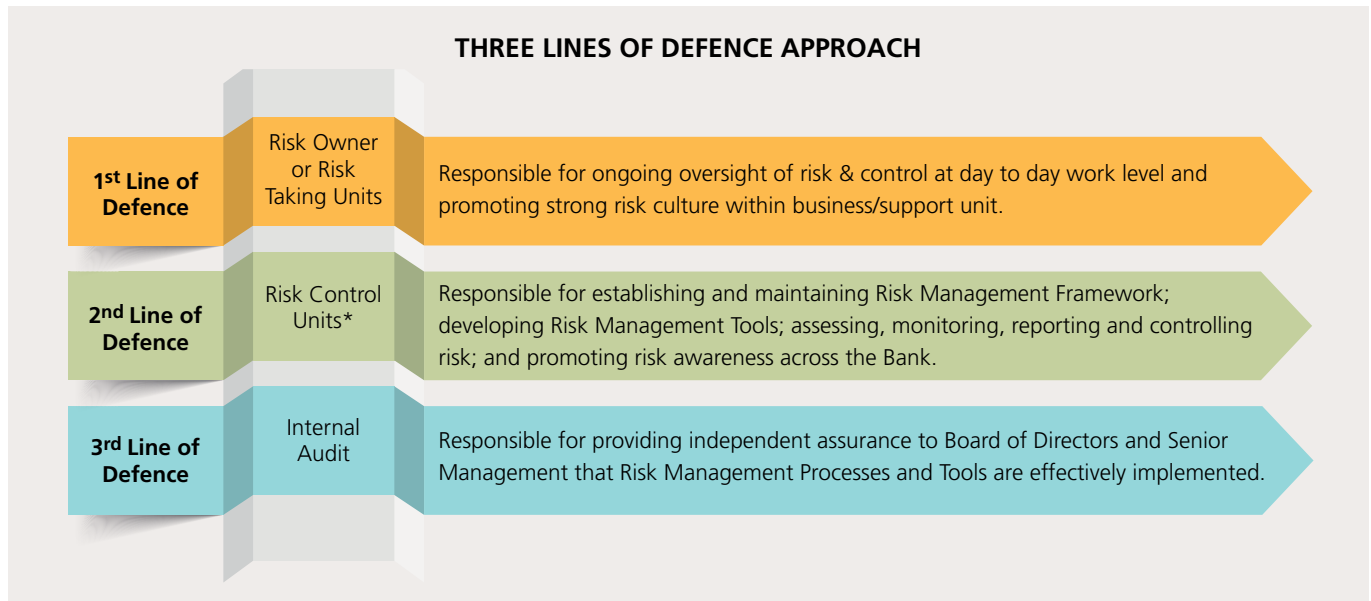
The risk governance approach adopted by the Bank is guided by BNM's Risk Governance Policy, Corporate Governance Policy and Shariah Governance Framework for Islamic Financial Institutions.

The Bank's risk governance structure is the key component of the Risk Management Framework as it provides a formalised and transparent structure in supporting the implementation of the Framework.

The following Risk Committees have been established to facilitate the implementation of Risk Management Framework. Each Committee plays an important role in ensuring sound and prudent system of risk management. The roles and responsibilities of the Committees and their sub-Committees are set out in the following chart:

BOARD OF DIRECTORS					
The Bank's ultimate governing body which plays a critical role in ensuring sound and prudent policy and practices in the Bank. It provides an effective check and balance mechanism in the overall management of the Bank.					
BOARD COMMITTEES					
BOARD FINANCING REVIEW COMMITTEE ("BFRC")	BOARD RISK COMMITTEE ("BRC")				
A committee of the Board responsible for reviewing all investment and financing/credit related proposals above specified limits.	A committee of the Board responsible for overseeing the Bank's activities in managing credit risk, market risk, liquidity risk, operational risk, legal risk, Shariah-compliance risk, compliance risk and any other relevant risks and to ensure that the risk management process is in place and functioning.				
MANAGEMENT COMMITTEES					
FINANCING COMMITTEES	BUSINESS CONTINUITY MANAGEMENT STEERING COMMITTEE ("BCMSTC")	MANAGEMENT RISK CONTROL COMMITTEE ("MRCC")		PRODUCT MANAGEMENT COMMITTEE ("PMC")	ASSET & LIABILITY MANAGEMENT COMMITTEE ("ALCO")
Committees of BFRC and responsible to assess/approve credits and investment/capital market proposals.	BCMSTC is a sub-committee of BRC and responsible to review the Bank's BCM issues and make appropriate recommendations where necessary.	MRCC is a sub-committee of BRC and the highest risk committee at Management level. It is responsible to perform the oversight functions and to ensure effective management of key issues relating to the overall risk management of the Bank.		PMC is a sub-committee of BRC with the main function to review end-to-end process of product origination and compliance to Shariah Contract Based Regulatory Framework.	ALCO is a sub-committee of BRC and responsible to perform the oversight function and deliberate key issues related to the Bank's asset and liability management and market risk.
		OPERATIONAL RISK CONTROL COMMITTEE ("ORCC")	RECOVERY MANAGEMENT COMMITTEE ("RMC")		
		ORCC is a sub-committee of MRCC and responsible to facilitate the function and objective of MRCC in the management of key issues on operational risk.	RMC is a sub-committee of MRCC and responsible to provide the oversight function on recovery issues and related operational strategies on recovery in the Bank.		

The Bank's risk governance approach is premised on the 3-Lines of Defence Approach by placing accountability and ownership of risks to where they arise while maintaining level of independence among risk taking units, risk control units and independent assurance unit in managing risk.



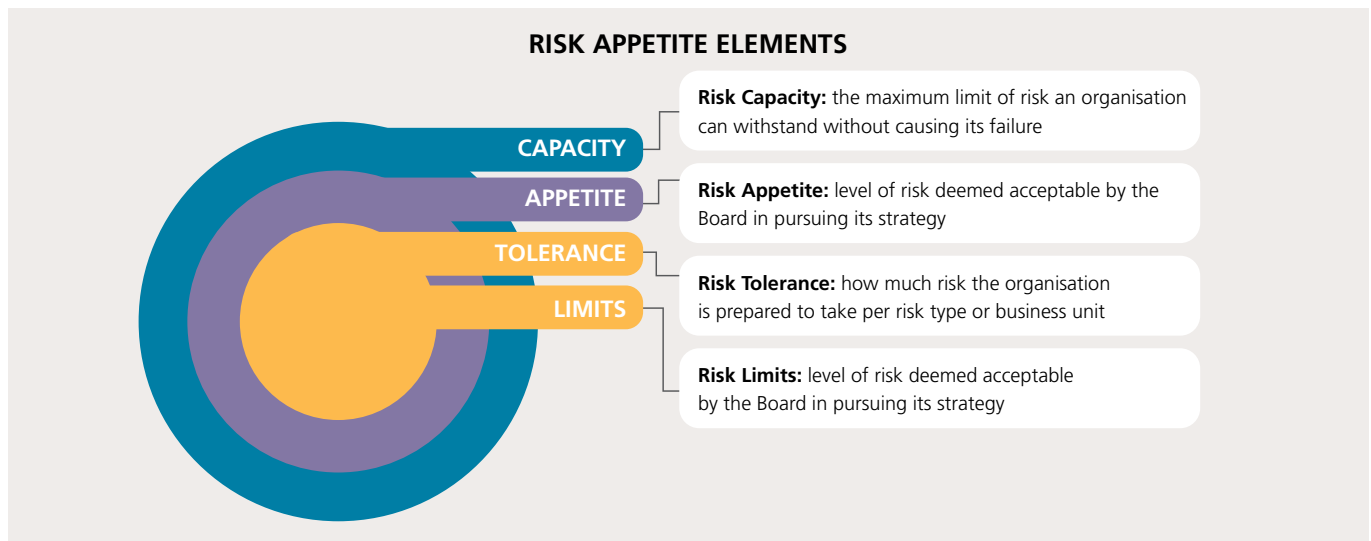
\* Consists of Risk Management Division (including Shariah Risk Management), Credit Management Division, Compliance Division and Information Security & Governance Division.

(b) Risk Appetite

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.

The risk appetite is a critical component of the Bank's robust Risk Management Framework and is driven by both top-down Board leadership and bottom-up involvement of Management at all levels. It enables the Board and Management at all levels to communicate, understand and assess the types and level of risks that the Bank is willing to accept in pursuing its strategy.

The Bank's risk appetite has been integrated into its Corporate Direction and Business Plan and is changeable based on business and market conditions. The various elements of the risk appetite adopted by the Bank are depicted below:



## STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

The Bank constantly ensures that trigger levels, limit structures and delegated authorities are realigned and potential risk appetite implications are considered in all major resource allocation decisions, especially during the Bank's Annual Budget exercise. This will help shift the discussion of risks from a mindset of 'loss minimising' to one of optimising the organisation's risk-return profile and as such the risk appetite setting process can greatly enhance the Bank's risk adjusted returns.

The articulation of the risk appetite has been integrated across the Bank and it takes into consideration the needs of the Bank's stakeholders. Notwithstanding that, the Bank will at all times be guided and adheres to relevant laws, including Shariah rules and principles. The Bank has zero-tolerance with respect to regulatory and Shariah non-compliance (SNC).

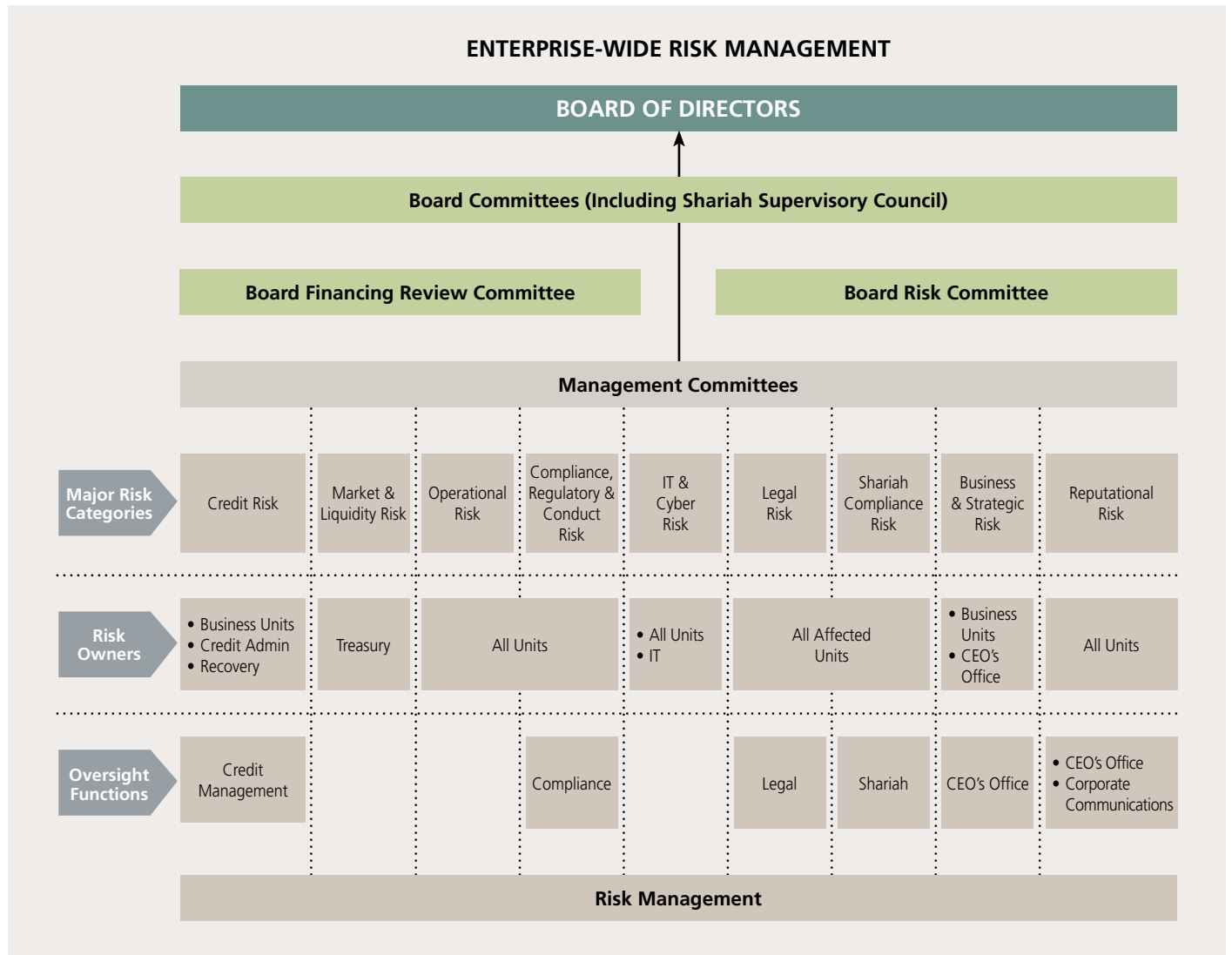
### (c) Risk Management Process

Based on the Bank's structure, the Bank's risk management has continuously enhanced its integrated risk management approach towards an effective management of enterprise-wide risks. Under this approach, active involvement of the Board, Senior Management and all level of staff is required in the risk management process to ensure a uniform view of risks across the Bank.

A standard risk management process has been adopted by the Bank to ensure that Bank-wide risks are properly identified and managed in a structured, systematic and consistent manner. The risk management process comprises the following:



With the standard risk management process adopted, the principal/major categories risks faced by the Bank together with their respective Risk Owners and Oversight Functions have been identified accordingly under the Enterprise-wide Risk Management Structure as follows:





## STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

### (d) Risk Culture

Risk culture is a key aspect of an effective enterprise-wide risk management and the most important factor in determining the long-term effectiveness of the risk management strategy. Culture, as defined by the Institute of International Finance is *“the norms and traditions of individuals and of Banks within an organisation that determine the way in which they identify, understand, discuss and act upon the risks the organisation confronts and the risk it takes.”*

*The Bank views that risk culture is the responsibility of the Board, Senior Management and ultimately all employees of the Bank, in tandem with the Bank's Risk Management's Tagline, i.e. “Managing Risk is Everyone's Business”.*

In building a strong risk culture, the risk management process/approach has been embedded in all the Bank's core business processes, functions and activities. The Bank views that risk management as an important means of enhancing the Bank's competitiveness and performance.

### Shariah Compliance Risk

Shariah compliance risk (SCR) is classified as part of the operational risk. It is defined as “the possible failures to meet the obligation to Shariah principles, or in other words, possible incidences of Shariah non-compliances”.<sup>1</sup>

The Bank's Shariah risk management is guided by its Shariah Risk Management Guideline which sets out the high-level framework supporting the Shariah Compliance Policy and details out the Shariah risk management processes and tools. The guideline serves to provide a consistent framework for managing SCR across the Bank.

Shariah risk management is a discipline that systematically identifies, measures, monitors and controls SCR to mitigate the occurrence of SNC events within the Bank. Being part of operational risk, it leverages on the same principles, processes and tools of operational risk. The responsibility of managing SCR is spearheaded by the Bank's Shariah Risk Management Department.

In general, all Operational Risk Management (ORM) tools are extended to the process of managing SCR. However, the tools are modified to suit the regulatory requirements on Shariah governance in order to provide a robust and consistent approach in managing SCR.

In managing SCR, the reactive ORM tool, i.e. Risk Loss Event Management & Reporting (RLEMR) is replaced with the Shariah Non-Compliance Management & Reporting (SNCMR). It behaves similar to ORM's RLEMR, with some modification to comply with

BNM's SNC reporting requirements<sup>2</sup>, i.e. confirmation on SNC event, its rectification plans which include corrective and preventive measures to ensure non-recurrence and systematic capturing of the loss due to SNC events.

In 2017, the generic Shariah Key Risk Indicators were introduced and implemented. The KRI serves as a “Dashboard View” on the effectiveness of Shariah Governance, Risk Management and Controls (GRC). It is used as an indicator to trigger the independent Shariah Risk Mapping as well as to provide standardised parameters for reporting of SCR.

Extensive and continuous Shariah risk awareness initiatives have been conducted for the Bank's staff including Shariah session for Risk Controllers. A structured Islamic banking certification programme which includes important modules on Shariah has been offered as an effort to grow our own timber. Meanwhile, all new recruits of the Bank are required to undergo a *Muamalat 101* training in conjunction with the orientation programme in which they are exposed to the fundamentals of Shariah applied in Islamic banking business.

### Information Technology Risk

Banking industry heavily relies on technology and Bank Islam is of no exception. Such reliance poses the Bank to IT risks such as cyber attacks and system disruptions. To mitigate this, Bank Islam continues to enhance its controls and processes as well as invest in the latest IT infrastructure. In essence, the Bank is leveraging on information technology not only as an enabler to serve and protect customers better but also to minimise business disruptions.

The responsibility for managing IT risk is spearheaded by the Information Security & Governance Department. While it is responsible to establish, maintain and enforce IT risk policies and guidelines, it also works closely with the IT Division, especially in identification, assessment, mitigation and monitoring of IT risk in the Bank.

The following are steps taken by the Bank in managing IT risk:

- a) Design policies and internal controls - policies and internal controls are designed to reduce IT related risks to an acceptable level and the effectiveness of those controls are monitored;
- b) Perform risk assessment - risk assessment exercise is performed, looking at vulnerabilities and threats including those related to emerging technologies, making reference to audit findings, loss events, IT projects etc.; and
- c) Monitor process - reviews are conducted to ensure controls are adequately implemented and if not available, interim actions to mitigate the risk must be applied.

<sup>1</sup> BNM's Shariah Governance Framework, 2011 page 5. The term Shariah compliance risk and Shariah non-compliance risk are used interchangeably in the Bank's documents. However, they carry the same meaning.

<sup>2</sup> BNM Operational Risk Integrated Online Network (ORION) Policy Document.



## SECTION D COMPLIANCE CULTURE

The Board and the Management have continuously demonstrated commitment to mitigate conduct risk and promote compliance culture as part of Bank Islam's corporate culture. The initiatives rolled out in 2017 further promotes ethical behavior, integrity and trust. KPI and remuneration were also used as a compliance tool to mitigate conduct risk and propagates compliance culture. The aforementioned criteria are taken into account during assessment of staff's performance. This is in line with one of the Bank's core values – to be an organisation that is trustworthy; constantly strives for the highest level of integrity, honesty and responsibility, which are the foundation of Islamic principles.

The initiatives rolled out in 2017 to enhance the compliance culture comprises amongst others, the following:-

- Compliance & Integrity Day – Personal email issued by the CEO on topics of Compliance, Integrity and Ethics every Monday;
- Weekly Compliance Briefing - Thursday scheduled briefing at branches on slides prepared by Compliance;

- Zero-Tolerance Campaign – Launch of pinned badge to all staff to remind them Management's zero-tolerance stance on non-compliance;
- Scenario Learning – Scenarios with dialogues on AML and banking secrecy learning fitted as posters and screen savers;
- Branch Compliance Awareness Programme – Role play video and essay writing competitions; and
- Anti-Corruption Pledge – by BIMB Holdings Berhad and Bank Islam Senior Management team to launch a nationwide pledge by all branches in each state.

In addition to the above initiatives, the Bank continues to enhance staff's awareness on AML compliance requirements and new typologies. This was done by face-to-face training by AML Department nationwide and via e-Learning platform which was made mandatory for all staff.

# FINANCIAL STATEMENTS



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# DIRECTORS' REPORT

## for the financial year ended 31 December 2017

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 2017.

### 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.

### 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 during the financial year and until the date of this report.

### SUBSIDIARIES

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

### RESULTS

	GROUP RM'000	BANK RM'000
Profit before zakat and tax expense	767,053	766,109
Zakat and tax expense	(200,935)	(200,760)
Profit for the year	566,118	565,349

### RESERVES AND PROVISIONS

During the financial year ended 31 December 2017, the Bank has transferred RM1,392,158,939 from statutory reserve to its retained earnings pursuant to the Revised Policy Document on Capital Funds for Islamic Banks issued by Bank Negara Malaysia ("BNM") on 3 May 2017, as disclosed in Note 2.1(a) and Note 22.

During the financial year ended 31 December 2017, the Bank has also transferred RM64,645,000 from its retained earnings to regulatory reserve to comply with BNM's Policy on Classification and Impairment Provisions for Financing, as disclosed in Note 22.

### 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 2016 as reported in the Directors' Report of that year:	
Final dividend of approximately 5.58 sen per ordinary share paid on 15 June 2017	134,167
In respect of the financial year ended 31 December 2017:	
Interim dividend of approximately 5.41 sen per ordinary share paid on 20 September 2017	132,310
	266,477

The Directors recommend a final dividend of 6.09 sen per ordinary share totalling RM150,180,000 for the financial year ended 31 December 2017.



## 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)  
 Tan Sri Dato' Dr. Abdul Shukor Husin  
 Datuk Zaiton Mohd Hassan  
 Zahari @ Mohd Zin Idris  
 Mohamed Ridza Mohamed Abdulla  
 Noraini Che Dan  
 Nik Mohd Hasyudeen Yusoff  
 Dato' Sri Zukri Samat (retired on 9 June 2017)  
 Dato' Sri Khazali Ahmad (appointed on 2 January 2018)  
 Azizan Ahmad (appointed on 2 January 2018)

## 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
BIMB Investment Management Berhad	Nik Mohd Hasyudeen Yusoff (appointed on 13 September 2017) Najmuddin Mohd Lutfi Dato' Ghazali Awang Datuk Noripah Kamso Dr. Mohd Hatta Dagap Malkiat Singh @ Malkit Singh Maan A/L Delbara Singh Mujibburrahman Abd Rashid (appointed on 5 December 2017) Khairul Kamarudin (resigned on 13 September 2017)
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.	Razman Ismail (appointed on 1 August 2017) Maria Mat Said Khairul Kamarudin (resigned on 1 August 2017)

None of the Bank and subsidiaries' Directors holding office as at 31 December 2017 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 Directors as shown in the Note 33 to 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.

**DIRECTORS' REPORT**

for the financial year ended 31 December 2017

(cont'd)

**ISSUE OF SHARES**

On 15 June 2017, the Bank increased its issued and paid-up capital from RM2,669,174,100 to RM2,803,340,600 via the issuance of 41,282,000 new ordinary shares at a consideration of RM3.25 per share arising from the Dividend Reinvestment Plan of one hundred percent of the final dividend of approximately 5.58 sen per share in respect of financial year ended 31 December 2016, as disclosed in Note 37 to the financial statements.

On 20 September 2017, the Bank further increased its issued and paid-up capital from RM2,803,340,600 to RM2,869,497,600 via the issuance of 20,356,000 new ordinary shares at a consideration of RM3.25 per share arising from the Dividend Reinvestment Plan of fifty percent of the interim dividend of approximately 5.41 sen per share in respect of financial year ended 31 December 2017, as disclosed in Note 37 to the financial statements.

There were no other changes in the 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.

**INDEMNITY AND TAKAFUL COSTS**

During the financial year, the total amount of Takaful cost incurred for Directors and Officers Liability Takaful coverage of the Group and of the Bank is RM111,570.

**OTHER STATUTORY INFORMATION****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.

## 2018 BUSINESS PLAN AND OUTLOOK BUSINESS PLAN, STRATEGY AND FUTURE OUTLOOK

The Bank's corporate direction for 2018 is premised on the overarching themes of Value-Based Intermediation ("VBI"). VBI is at the heart of the Bank's business model, to deliver a sustainable performance with a strategic focus to support economic, social and environmental development. Shariah rules and principles remain as fundamentals to the Bank's direction along with the new Triple Bottom Line ("TBL") approach embedded in all operating principles.

The Bank will focus on optimising its risks and returns, optimising its resource and productivity as well as its franchise value, which is underpinned by a disciplined balance sheet management. This is to sustain net income margin, preserve asset quality as well as to minimise financial impact arising from the implementation of Malaysian Financial Reporting Standards on Financial Instruments ("MFRS 9") in 2018 and the upcoming Net Stable Funding Ratio ("NSFR") requirements.

The Bank will stay the course with its strategy to collaborate with FinTech companies in enhancing its reach and spurring innovation. The Bank will also carry on to invest in its people, to build a strong compliance and risk culture as well as enhance its capability and capacity as one of the key players in the Islamic Finance world.

**DIRECTORS' REPORT**for the financial year ended 31 December 2017  
(cont'd)**RATINGS ACCORDED BY EXTERNAL RATING AGENCY**

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

<b>RATING AGENCY</b>	<b>DATE RE-AFFIRMED</b>	<b>RATINGS</b>
RAM Rating Services Berhad	12 December 2017	Long-term rating: AA3 Short-term rating: P1 Outlook: Stable

**AUDITORS**

The auditors, Messrs. KPMG Desa Megat PLT, have indicated their willingness to accept reappointment.

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**

Chairman

**Noraini Che Dan**

Director

Kuala Lumpur,

Date: 23 March 2018

## STATEMENT BY DIRECTORS

pursuant to Section 251(2) of the Companies Act 2016

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In the opinion of the Directors, the financial statements set out on pages 159 to 258 are drawn up in accordance with Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards (“IFRS”), and the requirements of the Companies Act 2016 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 2017 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

**Noraini Che Dan**

Director

Kuala Lumpur,

Date: 28 March 2018



# REPORT OF THE SHARIAH SUPERVISORY COUNCIL



الحمد لله رب العالمين. والصلاة والسلام على سيدنا محمد، الذي أرسله الله رحمة للعالمين، هادياً مهندياً، 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 ("SSC") as prescribed in the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia ("BNM") and in compliance with our letter of appointment, we hereby submit our report for the financial year ended 31 December 2017.

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 have obtained all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has complied with the Shariah rules and principles.

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 Shariah Review and Shariah Risk Management functions also report to Chief Compliance Officer and Chief Risk Officer respectively. The roles of these functions are facilitating new research & product development activities, refining existing products & procedures, providing Shariah training, managing Shariah non-compliance risks bank-wide, conducting Shariah audit & review on departments and branches and coordinating with us on any matter that requires our decision.

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

## APPROVALS

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

## SHARIAH GOVERNANCE

We have approved in our meetings, initiatives in strengthening the Shariah governance of the Bank which include the review and update of the Shariah Review Guideline, Shariah Non-Compliance Management & Reporting Guideline and Shariah Compliance Risk Management Guideline that aim, among others, to set out the Shariah Compliance Risk Management framework and Shariah review processes.

## SHARIAH RISK MANAGEMENT

We observe that the Bank implements measures in managing its Shariah non-compliance risk. The implementation of Risk Control Self-Assessment (“RCSA”) aims to assess the significance of identified Shariah non-compliance risks and effectiveness of the existing controls in the respective functional areas including continuous improvements to existing controls to provide reasonable mitigation to avoid any occurrence of Shariah non-compliance event in meeting the business objectives.

Since the introduction of RCSA, continuous process of identifying and assessing Shariah risks at respective functional areas are carried out. The increase in numbers of identified Shariah risks reflects the increasing level of Shariah awareness among staff especially Risk Controllers (“RC”) at each functional area.

## 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. Shariah Review is required to perform assessment on newly launched products 6 months (not later than a year) after the products are launched.

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

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

### SHARIAH AUDIT

- 1) Capital Market Division
- 2) Consumer Collections and Recovery
- 3) Shariah Division
- 4) Corporate Support Division
- 5) Treasury Division
- 6) BIMB Securities Sdn Bhd
- 7) Corporate Recovery Department
- 8) Corporate Banking Division
- 9) Product Management Division
- 10) Human Resources Division
- 11) Commercial Banking Division
- 12) Bank Islam Card Centre
- 13) Bank Islam Labuan Offshore Branch
- 14) Bank Islam Trust Company (Labuan) Limited
- 15) Abandoned Housing Projects
- 16) Assessment on the compliance with the BNM’s Tawarruq Policy Document
- 17) Assessment on the compliance with the BNM’s Murabahah Policy Document

### SHARIAH REVIEW

- 1) Validation on compliance with Tawarruq Policy Document
- 2) Validation on compliance with Murabahah Policy Document
- 3) Validation on compliance with BNM’s Guidelines on Introduction of New Products
- 4) Validation on compliance with BNM’s Guidelines on Products Transparency and Disclosure
- 5) Human Resources
- 6) Treasury – Derivatives Instruments
- 7) Telemarketing Activities - UTS Marketing Solutions
- 8) Bank Islam Card Centre (“BICC”) – Follow-up Review on MCC 5813
- 9) Wafiyah Account Investment
- 10) RIA (Wakalah) via Investment Account Platform
- 11) Mudarabah Current Account (“TCIA”)
- 12) BIMB Holding Berhad, Syarikat Al-Ijarah Sdn Bhd and BIMB Securities (Holdings) Sdn Bhd
- 13) Verification on the Compliance to SSC of Bank Islam’s Decision
- 14) Verification on the Compliance to Resolution of the SAC of BNM
- 15) Verification on the Compliance to Resolution of the SAC of SC
- 16) Bank Islam Trust (Labuan) Limited
- 17) Bank Islam Labuan Offshore Branch (“BILOB”)

## SHARIAH TRAINING & AWARENESS

During the year, seventeen (17) Shariah training and briefing sessions were held covering 832 participants among the Bank's employees nationwide.

All new recruits of the Bank spend one day in the Muamalat 101 training module during the orientation programme in which they learn the fundamentals of Shariah applied in Islamic banking business.

The Bank has embarked on an initiative to increase the knowledge of the staff by engaging Islamic Banking and Finance Institute Malaysia ("IBFIM") for in-house certification programme namely Associate Qualification in Islamic Finance ("AQIF") which comprises six (6) important modules. The Bank's Shariah officers are part of the trainers for the AQIF modules. AQIF enhances the staff competencies, skills and knowledge in Islamic finance by providing exposure on the basic foundation and philosophy of Islamic finance and its operational applications. Successful participants of AQIF are offered to pursue the subsequent levels of the certification programme i.e. Intermediate Qualification of Islamic Finance ("IQIF") and Certified Qualification in Islamic Finance ("CQIF") accordingly.

To increase the awareness on Shariah compliance among the RCs, the Bank conducts three (3) Shariah Town Hall sessions whereby the RCs are updated on new Shariah requirements/rulings issued either by us or the regulators and any occurrence of Shariah non-compliances.

## SHARIAH NON-COMPLIANT EVENTS & INCOME

We confirm the following incidences that breach Shariah rules and principles for products in 2017:

- (i) Four (4) occurrences of absence of *wakalah aqad* execution for Term Deposit Tawarruq-i ("TDT-i") in branches;
- (ii) One (1) occurrence of absence of *wakalah aqad* execution for Wafiyah Investment Account in branches;
- (iii) Overcharge of *ta'widh* and profit on Bank Islam Card Credit's customer; and
- (iv) Absence of commodity trading for TDT-i.

We were informed on the root causes of the incidences and noted that the Bank took corrective as well as preventive measures in order to avoid the same incidences from occurring in the future.

We confirm that all of the events together with the rectification plans were presented to the Board of Directors and us and reported to BNM in accordance with the Shariah non-compliance reporting requirement prescribed by the regulator.

During the financial year, the Bank detected non-significant Shariah non-compliance income amounting to RM8,374.23. This amount was disposed off to charitable causes upon our approval as further described in the Note 23 – Sources and Uses of Charity Fund.

## BUSINESS ZAKAT

During the financial year, the Bank fulfilled its obligation to pay *zakat* on its business to state *zakat* authorities by adopting the capital growth computation method and in compliance with the Manual Pengurusan Zakat Perbankan issued by Jabatan Wakaf, Zakat dan Haji ("JAWHAR"). The Bank paid the *zakat* on the Bank's portion i.e. shareholders' fund as well as other funds received by the Bank except for depositors' fund.

Several *zakat* authorities have mandated distribution of a portion of the *zakat* paid by the Bank on the basis of the Bank acting as their agent (*wakil*) for distribution to eligible beneficiaries (*asnaf*) among needy individuals, mosques, non-governmental organizations, institutions of higher learning (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 is duly presented and approved by us. The performance of the Investment Account is disclosed and reported via issuance of Fund Performance Report (“FPR”) which is made available on the Bank’s website.

We have reviewed the financial statements of the Bank and confirm that the financial statement is 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 seven (7) Shariah non-compliance incidences mentioned above, during the financial year ended 31 December 2017 that were reviewed are in compliance with the Shariah rules and principles;
2. The allocation of profit and charging of losses relating to Investment Account conformed 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 have been disposed off to charitable causes.

On that note, we, members of Shariah Supervisory Council of Bank Islam Malaysia Berhad, do hereby confirm that, in our level best, the operations of the Bank for the year ended 31 December 2017 have been conducted in conformity with the Shariah rules and principles.

***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**

**Ustaz Dr. Ahmad Shahbari@Sobri Salamon**

**Sahibus Samahah Dato’ Dr. Hj. Anhar Hj. Opir**

**Associate Professor Dr. Yasmin Hanani Mohd Safian**

**Assistant Professor Dr. Uzaimah Ibrahim**

Kuala Lumpur,  
Date: 28 March 2018

## STATUTORY DECLARATION

pursuant to Section 251(1)(b) of the Companies Act 2016

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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 159 to 258 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration 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 28 March 2018.

**Mohd Muazzam bin Mohamed**

Before me,

# INDEPENDENT AUDITORS' REPORT

## to the Member of Bank Islam Malaysia Berhad

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### 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 2017 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 159 to 258.

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 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

#### Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our 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 obtained at the date of this auditors' report is the information included in the Annual Report, but does not include the financial statements of the Group and of the Bank and our auditors' report thereon.

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

In connection with our audit of the financial statements of the Group and of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the 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 on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of the Directors for the Financial Statements

The Directors of the Bank are responsible for the preparation of financial statements of the 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 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the 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.



**INDEPENDENT AUDITORS' REPORT**  
to the Member of Bank Islam Malaysia Berhad  
(cont'd)**Auditors' Responsibilities for the Audit of the Financial Statements** (cont'd)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional 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.

**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

**Adrian Lee Lye Wang**

Approval Number: 02679/11/2019 J  
Chartered Accountant

Date: 28 March 2018  
Petaling Jaya

## STATEMENTS OF FINANCIAL POSITION

as at 31 December 2017

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	Note	GROUP		BANK	
		31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
<b>Assets</b>					
Cash and short-term funds	3	4,185,697	3,963,417	4,185,561	3,963,268
Deposits and placements with banks and other financial institutions	4	–	100,000	–	100,000
Financial assets held-for-trading	5	380,925	574,835	375,664	569,750
Derivative financial assets	6	68,319	124,572	68,319	124,572
Financial assets available-for-sale	7	9,252,683	9,957,286	9,253,140	9,957,743
Financial assets held-to-maturity	8	–	57,703	–	57,703
Financing, advances and others	9	42,113,420	39,189,274	42,113,420	39,189,274
Other assets	10	123,503	99,015	121,062	95,928
Statutory deposits with Bank Negara Malaysia	11	1,407,284	1,374,876	1,407,284	1,374,876
Current tax assets		1,792	1,779	1,737	1,737
Deferred tax assets	12	37,288	48,378	37,288	48,378
Investments in subsidiaries	13	–	–	15,525	15,525
Property and equipment	14	172,003	185,562	171,240	184,547
<b>Total assets</b>		<b>57,742,914</b>	<b>55,676,697</b>	<b>57,750,240</b>	<b>55,683,301</b>
<b>Liabilities and equity</b>					
Deposits from customers	15	46,192,910	45,940,414	46,209,028	45,949,715
Investment accounts of customers	16	4,260,185	3,812,261	4,260,185	3,812,261
Deposits and placements of banks and other financial institutions	17	–	30,000	–	30,000
Derivative financial liabilities	6	74,668	111,089	74,668	111,089
Bills and acceptance payable		420,258	46,278	420,258	46,278
Subordinated Sukuk Murabahah	18	1,006,486	704,393	1,006,486	704,393
Other liabilities	19	782,299	601,750	773,769	598,591
Zakat and taxation	20	46,404	45,046	46,340	45,019
<b>Total liabilities</b>		<b>52,783,210</b>	<b>51,291,231</b>	<b>52,790,734</b>	<b>51,297,346</b>
<b>Equity</b>					
Share capital	21	2,869,498	2,404,384	2,869,498	2,404,384
Reserves		2,090,206	1,981,082	2,090,008	1,981,571
<b>Total equity</b>		<b>4,959,704</b>	<b>4,385,466</b>	<b>4,959,506</b>	<b>4,385,955</b>
<b>Total liabilities and equity</b>		<b>57,742,914</b>	<b>55,676,697</b>	<b>57,750,240</b>	<b>55,683,301</b>
<b>Restricted investment accounts managed by the Bank</b>					
	16	124,384	141,343	124,384	141,343
<b>Total Islamic banking asset owned and managed by the Bank</b>					
		57,867,298	55,818,040	57,874,624	55,824,644
<b>Commitments and contingencies</b>	43	13,768,162	13,704,559	13,768,162	13,704,559

The notes on pages 165 to 258 are an integral part of these financial statements.

## STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME for the financial year ended 31 December 2017

	Note	GROUP		BANK	
		31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Income derived from investment of depositors' funds	24	<b>2,324,187</b>	2,342,204	<b>2,324,187</b>	2,342,204
Income derived from investment account funds	25	<b>247,046</b>	113,893	<b>247,046</b>	113,893
Income derived from investment of shareholders' funds	26	<b>434,353</b>	407,357	<b>421,285</b>	398,392
Net allowance for impairment on financing and advances, net of recoveries	27	<b>15,613</b>	(92,105)	<b>15,613</b>	(92,105)
Allowance for impairment on investments	28	–	(255)	–	(255)
Net allowance of impairment on other assets		<b>(243)</b>	608	<b>(243)</b>	608
Direct expenses		<b>(18,421)</b>	(20,387)	<b>(18,421)</b>	(20,387)
<b>Total distributable income</b>		<b>3,002,535</b>	2,751,315	<b>2,989,467</b>	2,742,350
Wakalah performance incentive fees from restricted investment accounts	16	<b>2,595</b>	5,328	<b>2,595</b>	5,328
Income attributable to depositors	29	<b>(1,103,036)</b>	(1,069,637)	<b>(1,103,275)</b>	(1,069,869)
Income attributable to investment account holders	30	<b>(105,301)</b>	(38,387)	<b>(105,301)</b>	(38,387)
<b>Total net income</b>		<b>1,796,793</b>	1,648,619	<b>1,783,486</b>	1,639,422
Personnel expenses	31	<b>(569,343)</b>	(506,673)	<b>(560,447)</b>	(500,177)
Other overhead expenses	32	<b>(419,101)</b>	(382,069)	<b>(415,634)</b>	(379,339)
Finance cost on Subordinated Sukuk Murabahah	18	<b>808,349</b>	759,877	<b>807,405</b>	759,906
		<b>(41,296)</b>	(39,465)	<b>(41,296)</b>	(39,465)
<b>Profit before zakat and tax</b>		<b>767,053</b>	720,412	<b>766,109</b>	720,441
Zakat		<b>(13,373)</b>	(12,859)	<b>(13,306)</b>	(12,844)
Tax expense	35	<b>(187,562)</b>	(176,591)	<b>(187,454)</b>	(176,590)
<b>Profit for the year</b>		<b>566,118</b>	530,962	<b>565,349</b>	531,007
<b>Earnings per share (sen)</b>	36	<b>23.27</b>	22.29		
Profit for the year		<b>566,118</b>	530,962	<b>565,349</b>	531,007
<b>Other comprehensive income, net of tax:</b>					
<b>Items that are or may be reclassified subsequently to profit or loss</b>					
Currency translation differences in respect of foreign operations		<b>45,908</b>	(20,252)	<b>45,990</b>	(20,293)
Fair value reserve					
Net change in fair value		<b>43,480</b>	15,229	<b>43,480</b>	15,229
Net amount transferred to profit or loss		<b>(6,157)</b>	(51,249)	<b>(6,157)</b>	(51,249)
Income tax (expense)/credit relating to components of other comprehensive income		<b>(8,958)</b>	8,645	<b>(8,958)</b>	8,645
<b>Other comprehensive income/(expense) for the year, net of tax</b>		<b>74,273</b>	(47,627)	<b>74,355</b>	(47,668)
<b>Total comprehensive income for the year</b>		<b>640,391</b>	483,335	<b>639,704</b>	483,339

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December 2017

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GROUP	Note	←——— ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK ———→				TOTAL EQUITY RM'000
		←——— NON-DISTRIBUTABLE ———→		DISTRIBUTABLE		
		SHARE CAPITAL RM'000	SHARE PREMIUM RM'000	OTHER RESERVES RM'000	RETAINED EARNINGS RM'000	
<b>At 1 January 2016</b>		<b>2,363,283</b>	<b>175,452</b>	<b>1,107,920</b>	<b>385,913</b>	<b>4,032,568</b>
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 (expense)/income for the year		—	—	(47,627)	530,962	483,335
Transfer to reserve fund		—	—	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
<b>At 31 December 2016/1 January 2017</b>		<b>2,404,384</b>	<b>264,790</b>	<b>1,193,045</b>	<b>523,247</b>	<b>4,385,466</b>
Profit for the year		—	—	—	566,118	566,118
Currency translation difference in respect of foreign operations		—	—	45,908	—	45,908
Fair value reserve— Net change in fair value		—	—	43,480	—	43,480
— Net amount reclassified to profit or loss		—	—	(6,157)	—	(6,157)
Income tax expense relating to components of other comprehensive income		—	—	(8,958)	—	(8,958)
Total comprehensive income for the year		—	—	74,273	566,118	640,391
Transfer of share premium to share capital	21	264,790	(264,790)	—	—	—
Transfer of reserve fund to retained earnings		—	—	(1,392,159)	1,392,159	—
Transfer to regulatory reserve	22	—	—	64,645	(64,645)	—
Dividends paid on ordinary shares	37	—	—	—	(266,477)	(266,477)
Issue of shares pursuant to Dividend Reinvestment Plan	37	200,324	—	—	—	200,324
<b>At 31 December 2017</b>		<b>2,869,498</b>	<b>—</b>	<b>(60,196)</b>	<b>2,150,402</b>	<b>4,959,704</b>

Note 22

**STATEMENTS OF CHANGES IN EQUITY**

for the financial year ended 31 December 2017

BANK	Note	←—— ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK ——→			DISTRIBUTABLE RETAINED EARNINGS RM'000	TOTAL EQUITY RM'000
		←—— NON-DISTRIBUTABLE ——→ SHARE CAPITAL RM'000	SHARE PREMIUM RM'000	OTHER RESERVES RM'000		
<b>At 1 January 2016</b>		<b>2,363,283</b>	<b>175,452</b>	<b>1,107,738</b>	<b>386,580</b>	<b>4,033,053</b>
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 – Net amount reclassified to profit or loss		–	–	15,229	–	15,229
Income tax credit relating to components of other comprehensive income		–	–	(51,249)	–	(51,249)
Total comprehensive (expense)/income for the year		–	–	(47,668)	531,007	483,339
Transfer to reserve fund		–	–	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
<b>At 31 December 2016/1 January 2017</b>		<b>2,404,384</b>	<b>264,790</b>	<b>1,192,822</b>	<b>523,959</b>	<b>4,385,955</b>
Profit for the year		–	–	–	565,349	565,349
Currency translation difference in respect of foreign operations		–	–	45,990	–	45,990
Fair value reserve – Net change in fair value – Net amount reclassified to profit or loss		–	–	43,480	–	43,480
Income tax expense relating to components of other comprehensive income		–	–	(6,157)	–	(6,157)
Total comprehensive income for the year		–	–	74,355	565,349	639,704
Transfer of share premium to share capital	21	264,790	(264,790)	–	–	–
Transfer of reserve fund to retained earnings		–	–	(1,392,159)	1,392,159	–
Transfer to regulatory reserve	22	–	–	64,645	(64,645)	–
Dividends paid on ordinary shares	37	–	–	–	(266,477)	(266,477)
Issue of shares pursuant to Dividend Reinvestment Plan	37	200,324	–	–	–	200,324
<b>At 31 December 2017</b>		<b>2,869,498</b>	<b>–</b>	<b>(60,337)</b>	<b>2,150,345</b>	<b>4,959,506</b>

Note 22

# STATEMENTS OF CASH FLOW

for the financial year ended 31 December 2017

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	GROUP		BANK	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<b>Cash flows from operating activities</b>				
Profit before zakat and tax	<b>767,053</b>	720,412	<b>766,109</b>	720,441
Adjustments for:				
Depreciation of property and equipment	<b>54,480</b>	59,582	<b>54,220</b>	59,338
Net (gain)/loss on disposal of property and equipment	<b>71</b>	(527)	<b>71</b>	(527)
Property and equipment written off	<b>56</b>	8	<b>56</b>	8
Collective assessment allowance	<b>34,706</b>	161,667	<b>34,706</b>	161,667
Individual assessment allowance	<b>71,735</b>	30,662	<b>71,735</b>	30,662
(Reversal)/Allowance of impairment losses on other assets	<b>243</b>	(608)	<b>243</b>	(608)
Allowance for impairment loss on financial assets available-for-sale	–	255	–	255
Net (gain)/loss on sale of financial assets held-for-trading	<b>765</b>	(5,605)	<b>765</b>	(5,260)
Net gain on sale of financial assets available-for-sale	<b>(6,157)</b>	(51,249)	<b>(6,157)</b>	(51,249)
Net gain on sale of financial assets held to maturity	<b>(31,551)</b>	–	<b>(31,551)</b>	–
Fair value (gain)/loss on financial assets held-for-trading	<b>(5,214)</b>	4,074	<b>(5,214)</b>	3,904
Dividends from securities	<b>(2,600)</b>	(4,991)	<b>(2,422)</b>	(4,991)
Net derivative loss	<b>779</b>	4,515	<b>779</b>	4,515
Finance cost on Subordinated Sukuk Murabahah	<b>41,296</b>	39,465	<b>41,296</b>	39,465
Operating profit before changes in assets and liabilities	<b>925,662</b>	957,660	<b>924,636</b>	957,620
Changes in assets and liabilities:				
Financing, advances and others	<b>(3,030,587)</b>	(5,086,913)	<b>(3,030,587)</b>	(5,086,913)
Statutory deposits with Bank Negara Malaysia	<b>(32,408)</b>	216,584	<b>(32,408)</b>	216,584
Bills and other receivables	<b>31,476</b>	(34,000)	<b>30,876</b>	(33,474)
Deposits from customers	<b>252,496</b>	2,384,064	<b>259,313</b>	2,354,768
Investment accounts of customers	<b>447,924</b>	3,136,156	<b>447,924</b>	3,136,156
Deposits and placements of banks and other financial institutions	<b>(30,000)</b>	30,000	<b>(30,000)</b>	30,000
Bills and acceptance payable	<b>373,980</b>	(76,299)	<b>373,980</b>	(76,299)
Other liabilities	<b>143,352</b>	62,210	<b>137,981</b>	94,748
Cash generated from/(used in) operations	<b>(918,105)</b>	1,589,462	<b>(918,285)</b>	1,593,190
Zakat paid	<b>(12,869)</b>	(8,721)	<b>(12,837)</b>	(8,704)
Tax paid	<b>(184,591)</b>	(138,380)	<b>(184,473)</b>	(138,284)
Tax refund	<b>45</b>	10,869	–	10,808
<b>Net cash generated from/(used in) operating activities</b>	<b>(1,115,520)</b>	1,453,230	<b>(1,115,595)</b>	1,457,010



**STATEMENTS OF CASH FLOW**

for the financial year ended 31 December 2017

(cont'd)

	GROUP		BANK	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<b>Cash flows from investing activities</b>				
Purchase of property and equipment	(41,360)	(36,887)	(41,349)	(36,500)
Proceeds from disposal of property and equipment	305	1,181	305	1,181
Dividends from securities	2,600	4,991	2,422	4,991
Net proceeds from disposal/(purchase) of securities	1,035,696	(151,202)	1,035,872	(151,547)
<b>Net cash generated from/(used in) investing activities</b>	<b>997,241</b>	<b>(181,917)</b>	<b>997,250</b>	<b>(181,875)</b>
<b>Cash flows from financing activities</b>				
Subordinated Sukuk Murabahah	300,000	–	300,000	–
Dividend paid on ordinary shares	(266,477)	(260,876)	(266,477)	(260,876)
Proceeds from issuance of ordinary shares pursuant to Dividend Reinvestment Plan	200,324	130,439	200,324	130,439
Finance cost paid on Subordinated Sukuk Murabahah	(39,203)	(39,452)	(39,203)	(39,452)
Net cash generated from/(used in) financing activities*	194,644	(169,889)	194,644	(169,889)
<b>Net increase in cash and cash equivalents</b>	<b>76,365</b>	<b>1,101,424</b>	<b>76,299</b>	<b>1,105,246</b>
<b>Cash and cash equivalents at 1 January</b>	<b>4,063,417</b>	<b>2,982,246</b>	<b>4,063,268</b>	<b>2,978,315</b>
<b>Exchange difference on translation</b>	<b>45,915</b>	<b>(20,253)</b>	<b>45,994</b>	<b>(20,293)</b>
<b>Cash and cash equivalents at 31 December</b>	<b>4,185,697</b>	<b>4,063,417</b>	<b>4,185,561</b>	<b>4,063,268</b>
Cash and cash equivalents comprise:				
Cash and short-term funds	4,185,697	3,963,417	4,185,561	3,963,268
Deposits and placements with banks and other financial institutions	–	100,000	–	100,000
	<b>4,185,697</b>	<b>4,063,417</b>	<b>4,185,561</b>	<b>4,063,268</b>

\* Net cash generated from/(used in) financing activities are solely attributable to changes from financing cash flows.

# NOTES TO THE FINANCIAL STATEMENTS

## for the financial year ended 31 December 2017

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### 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 28 March 2018.

### 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 2016 in Malaysia and Shariah requirements.

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 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 2014-2017 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 2014-2017 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****2.1 Basis of preparation (cont'd)****(a) Statement of compliance (cont'd)*****MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019***

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

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

- MFRS 17, *Insurance Contracts*

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

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

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

- 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.
- from the annual period beginning on 1 January 2021 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2021.

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 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.

The standard introduces new requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting. The approach for classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held with three measurement categories - amortised cost, fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVOCI").

For impairment, MFRS 9 introduces an expected-loss impairment model which will require more timely recognition of expected credit losses to reflect changes of credit risk of financial instruments as well as future economic conditions.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.1 Basis of preparation (cont'd)

#### (a) Statement of compliance (cont'd)

##### **MFRS 9, *Financial Instruments*** (cont'd)

The Group and the Bank anticipate changes to the financial statements in the areas of classification and measurements for financial assets and liabilities and they are as follows:

- Financing, advances and others that are classified as financing and receivables as well as investments in debt securities classified as held to maturity under MFRS 139 are expected to be classified as financial assets measured at amortised cost under MFRS 9;
- The majority of the debt securities classified as available for sale (“AFS”) under MFRS 139 are expected to be classified as investment securities measured at FVOCI;
- Financial assets and liabilities held for trading are expected to be continued to be measured at FVTPL; and
- Investment in equity instruments that are currently classified as AFS and measured at cost due to absence of quoted market price are expected to be classified and measured at FVTPL.

The expected changes on the above classification of financial assets and liabilities are not expected to have material impact on the assets value of the Group and the Bank.

Separately, under the new expected loss impairment model, the Group and the Bank expect that the allowance for impairment on financing and investment in securities to increase by approximately 20% - 30% as compared to the balance as at 31 December 2017.

The Group and the Bank continues to refine and validate the impairment models which may change the actual impact on adoption.

##### **MFRS 16, *Leases***

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

MFRS 16 introduces a single accounting model for a lessee and eliminates the distinction between finance lease and operating lease. Lessee is now required to recognise assets and liabilities for all leases. However, a lessee may elect not to apply the requirements for short-term leases which are for the term 12 months or less and leases for which the underlying asset is of low value. For such leases, lessees may elect to expense off the lease payments on a straight line basis over the lease term or using other systematic method. Upon adoption of MFRS 16, the Group and the Bank are required to account for major part of their operating leases in the statement of financial position by recognising the ‘right-of-use’ asset and the lease liability, thus increasing the assets and liabilities of the Group and of the Bank.

The recognition of the ‘right-of-use’ asset and the lease liability are expected to increase the Group’s and the Bank’s total assets and liabilities by less than 1%.

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****2.1 Basis of preparation (cont'd)****(a) Statement of compliance (cont'd)****Companies Act 2016**

The financial statements of the Group and of the Bank have been prepared in accordance with the requirements of the Companies Act 2016 ("CA 2016"), which replaced the Companies Act 1965. Amongst the key changes introduced in the CA 2016 which affected the financial statements of the Group and of the Bank upon the commencement of the CA 2016 on 31 January 2017 were:

- (a) the removal of the authorised share capital;
- (b) the ordinary shares of the Bank ceased to have par or nominal value; and
- (c) the Bank's share premium became part of the share capital.

During the financial year ended 31 December 2017, the Bank transferred RM264,790,400 share premium to its share capital pursuant to the transition provisions set out in Section 618(2) of the CA 2016.

There was no impact on the number of ordinary shares in issue or the relative entitlement of any of the members as a result of this transfer of the amount in the share premium account to the share capital account.

**Revised Policy Document on Capital Funds and Capital Funds for Islamic Banks issued by Bank Negara Malaysia ("BNM")**

On 3 May 2017, BNM issued a revised Policy Document on Capital Funds and Capital Funds for Islamic Banks ("Revised Policy Document"). This Revised Policy Document was applicable to banking institutions in Malaysia covering licensed banks, licensed investment banks and licensed Islamic banks. The issuance of this Revised Policy Document has superseded two guidelines issued by BNM previously, namely Capital Funds and Capital Funds for Islamic Banks dated 1 July 2013.

The key changes in the Revised Policy Document were:

- (a) the removal of the requirement on maintenance of a reserve fund; and
- (b) the revised component of capital funds shall exclude share premium and reserve fund.

During the financial year, the Bank transferred RM1,392,158,939 from statutory reserve fund to its retained earnings pursuant to the Revised Policy Document.

**(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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.1 Basis of preparation (cont'd)

#### (d) Use of estimates and judgement (cont'd)

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.

#### (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 noncontrolling 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.



**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****2.2 Basis of consolidation (cont'd)****(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.

**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 (cont'd)

### 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.

Financial instruments are categorised 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 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

###### **(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.

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****2.5 Financial instruments (cont'd)*****Financial assets*** (cont'd)**(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.

***Derivative financial instruments***

The Group and the Bank hold 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.

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 (cont'd)

### 2.5 Financial instruments (cont'd)

#### **Financial liabilities** (cont'd)

##### **(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.

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

##### (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 risk and reward 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 receives fees for the agency service provided.

#### **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.

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.

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****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.

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 (cont'd)

### 2.6 Property and equipment (cont'd)

#### (c) Depreciation (cont'd)

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.

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.



**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****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 determine 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.

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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.10 Impairment (cont'd)

#### **Financial assets** (cont'd)

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.

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 (except for current tax assets and deferred tax 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.

### 2.12 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.

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****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 Chief Executive Officer 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.

**2.16 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 have considered all contractual terms of the financial instruments but do 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 (cont'd)

### 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.

### 2.20 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 have 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 have 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.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2017  
(cont'd)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 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.

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	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Cash and balances with banks and other financial institutions	<b>921,777</b>	932,674	<b>921,641</b>	932,525
Money at call and interbank placements with remaining maturity not exceeding one month	<b>3,263,920</b>	3,030,743	<b>3,263,920</b>	3,030,743
	<b>4,185,697</b>	3,963,417	<b>4,185,561</b>	3,963,268

**4. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
Licensed Islamic banks	-	100,000

**5. FINANCIAL ASSETS HELD-FOR-TRADING**

	GROUP		BANK	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
<b>At fair value</b>				
Malaysian Government Investment Issues	355,681	324,500	355,681	324,500
Sukuk	19,983	245,250	19,983	245,250
Unit trust	5,261	5,085	-	-
	<b>380,925</b>	<b>574,835</b>	<b>375,664</b>	<b>569,750</b>

**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**

	NOTIONAL AMOUNT RM'000	31.12.2017 FAIR VALUE	
		ASSETS RM'000	LIABILITIES RM'000
Forward contracts	3,218,824	63,827	(72,767)
Profit rate swaps	607,992	4,492	(1,901)
	<b>3,826,816</b>	<b>68,319</b>	<b>(74,668)</b>

	NOTIONAL AMOUNT RM'000	31.12.2016 FAIR VALUE	
		ASSETS RM'000	LIABILITIES RM'000
Forward contracts	3,117,570	117,445	(107,469)
Profit rate swaps	836,027	7,127	(3,620)
	<b>3,953,597</b>	<b>124,572</b>	<b>(111,089)</b>



**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**7. FINANCIAL ASSETS AVAILABLE-FOR-SALE**

	GROUP		BANK	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
<b>At fair value</b>				
Malaysian Government Investment Issues	<b>1,525,094</b>	2,057,324	<b>1,525,094</b>	2,057,324
Negotiable Islamic Debt Certificates	–	496,681	–	496,681
Sukuk	<b>7,690,740</b>	7,367,563	<b>7,691,197</b>	7,368,020
	<b>9,215,834</b>	9,921,568	<b>9,216,291</b>	9,922,025
<b>At fair value</b>				
Quoted shares				
- outside Malaysia	<b>17,612</b>	21,124	<b>17,612</b>	21,124
Quoted unit trust				
- in Malaysia	<b>13,937</b>	9,294	<b>13,937</b>	9,294
	<b>31,549</b>	30,418	<b>31,549</b>	30,418
<b>At cost</b>				
Unquoted shares in Malaysia*	<b>23,520</b>	25,468	<b>23,520</b>	25,468
Less: Accumulated impairment loss*	<b>(18,239)</b>	(20,187)	<b>(18,239)</b>	(20,187)
	<b>5,281</b>	5,281	<b>5,281</b>	5,281
<b>At cost</b>				
Unquoted shares outside Malaysia	<b>329</b>	329	<b>329</b>	329
Less: Impairment loss	<b>(310)</b>	(310)	<b>(310)</b>	(310)
	<b>19</b>	19	<b>19</b>	19
	<b>9,252,683</b>	9,957,286	<b>9,253,140</b>	9,957,743

\* Movement in unquoted shares and accumulated impairment loss are due to translation differences.

**8. FINANCIAL ASSETS HELD-TO-MATURITY**

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
<b>At amortised cost</b>		
Unquoted securities in Malaysia: Sukuk	<b>6,887</b>	64,590
Less: Accumulated impairment loss	<b>(6,887)</b>	(6,887)
	–	57,703

## 9. FINANCING, ADVANCES AND OTHERS

## (a) By type and Shariah contract

Group and Bank 31 December 2017	Bai'		Bai		Bai		At-		Ijarah		Ijarah		Total RM'000
	Bithaman Ajil RM'000	Murabahah RM'000	Al-Dayn RM'000	Al-Inah RM'000	Tawarruq RM'000	Bit-Tamleek RM'000	Thumma Al-Bai RM'000	Istisna' RM'000	Ar-Rahnu RM'000				
<b>At amortised cost</b>													
Cash line	-	-	-	29,197	1,207,519	-	-	-	-	-	-	-	1,236,716
Term financing													
House financing ^	4,127,474	-	-	-	11,981,534	-	-	55,733	-	-	-	-	16,164,741
Syndicated financing	-	-	-	44,968	578,156	-	108,570	-	-	-	-	-	731,694
Leasing financing	-	-	-	-	-	87,945	299	-	-	-	-	-	88,244
Bridging financing	-	-	-	-	-	-	-	76,622	-	-	-	-	76,622
Personal financing ^	-	-	-	20,340	12,347,365	-	-	-	-	-	-	-	12,367,705
Other term financing	1,532,421	1,130,377	-	3,429	7,558,287	-	-	1,257	-	-	-	-	10,225,771
Staff financing	71,358	7,634	-	-	134,660	-	-	11,676	-	-	-	-	225,328
Credit cards	-	-	-	-	458,138	-	-	-	-	-	-	-	458,138
Trade bills discounted	-	819,992	186,433	-	-	-	-	-	-	-	-	-	1,006,425
Trust receipts	-	2,922	-	-	-	-	-	-	-	-	-	-	2,922
Pawn broking	-	-	-	-	-	-	-	-	-	-	-	87,222	87,222
Investment Account	-	-	-	-	-	-	-	-	-	-	-	-	-
Platform *	-	-	-	-	14,408	-	-	-	-	-	-	-	14,408
	<b>5,731,253</b>	<b>1,960,925</b>	<b>186,433</b>	<b>97,934</b>	<b>34,280,067</b>	<b>87,945</b>	<b>108,869</b>	<b>145,288</b>	<b>87,222</b>	<b>87,222</b>	<b>87,222</b>	<b>87,222</b>	<b>42,685,936</b>
Allowance for impairment on financing, advances and others													
- collective assessment allowance													(446,069)
- individual assessment allowance													(126,447)
<b>Net financing, advances and others</b>													<b>42,113,420</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2017

(cont'd)

## 9. FINANCING, ADVANCES AND OTHERS (cont'd)

## (a) By type and Shariah contract (cont'd)

Group and Bank 31 December 2016	Bai' Bithaman Ajjil		Bai Al-Dayn		Bai Al-Inah		At- Tawarruq		Ijarah Muntahiah Bit-Tamleek		Ijarah Thumma Al-Bai		Istisna'		Ar-Rahnu		Total	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>At amortised cost</b>																		
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	9,004	98,821	30,607,236	90,610	124,091	157,122	85,315	39,872,443						
Allowance for impairment on financing, advances and others																		
- collective assessment allowance																		(554,971)
- individual assessment allowance																		(128,198)
<b>Net financing, advances and others</b>																		39,189,274

^ Included in house financing and personal financing as at 31 December 2017 are underlying assets under the Unrestricted Investment Accounts ("URIA") amounting RM3,127,603,000 (2016: RM2,687,318,000) and RM1,132,582,000 (2016: RM1,124,943,000) 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.

## 9. FINANCING, ADVANCES AND OTHERS (cont'd)

## (b) By type of customer

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
Domestic non-bank financial institutions	<b>1,354,806</b>	1,376,559
Domestic business enterprise	<b>7,015,168</b>	6,908,806
Small medium industries	<b>896,444</b>	896,530
Government & statutory bodies	<b>820,586</b>	938,069
Individuals	<b>31,986,842</b>	28,957,975
Other domestic entities	<b>8,195</b>	7,239
Foreign entities	<b>603,895</b>	787,265
	<b>42,685,936</b>	39,872,443

## (c) By profit rate sensitivity

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
Fixed rate		
House financing	<b>1,168,200</b>	1,268,632
Others	<b>3,560,756</b>	4,059,422
Floating rate		
House financing	<b>15,625,095</b>	13,382,969
Others	<b>22,331,885</b>	21,161,420
	<b>42,685,936</b>	39,872,443

## (d) By remaining contractual maturity

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
Maturity within one year	<b>4,414,217</b>	4,312,581
More than one year to three years	<b>1,087,304</b>	1,400,480
More than three years to five years	<b>2,598,903</b>	2,197,573
More than five years	<b>34,585,512</b>	31,961,809
	<b>42,685,936</b>	39,872,443

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**9. FINANCING, ADVANCES AND OTHERS (cont'd)****(e) By geographical distribution**

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
Central Region	<b>20,673,380</b>	18,853,925
Eastern Region	<b>6,860,968</b>	6,534,376
Northern Region	<b>6,121,471</b>	5,864,200
Southern Region	<b>5,908,526</b>	5,499,121
East Malaysia Region	<b>3,121,591</b>	3,120,821
	<b>42,685,936</b>	39,872,443

**(f) By sector**

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
Primary agriculture	<b>486,679</b>	377,285
Mining and quarrying	<b>8,080</b>	12,931
Manufacturing (including agro-based)	<b>835,268</b>	747,410
Electricity, gas and water	<b>337,388</b>	868,319
Wholesale & retail trade, and hotels & restaurants	<b>1,228,681</b>	1,274,954
Construction	<b>2,176,453</b>	2,161,215
Real estate	<b>1,582,531</b>	1,205,740
Transport, storage and communications	<b>655,633</b>	870,559
Finance, insurance and business activities	<b>2,147,118</b>	2,134,947
Education, health and others	<b>1,210,056</b>	1,256,209
Household sectors	<b>32,018,049</b>	28,962,874
	<b>42,685,936</b>	39,872,443

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

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
At 1 January 2017/1 January 2016	<b>389,445</b>	381,270
Classified as impaired during the year	<b>648,281</b>	580,341
Reclassified as not impaired during the year	<b>(331,592)</b>	(284,602)
Amount recovered	<b>(92,432)</b>	(112,502)
Amount written off	<b>(209,231)</b>	(178,052)
Exchange differences	<b>(6,194)</b>	2,990
At 31 December 2017/31 December 2016	<b>398,277</b>	389,445
Gross impaired financing as a percentage of gross financing, advances and others	<b>0.93%</b>	0.98%

## 9. FINANCING, ADVANCES AND OTHERS (cont'd)

## (h) Impaired financing by geographical distribution

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
Central Region	223,305	142,841
Eastern Region	107,422	92,848
Northern Region	28,710	36,299
Southern Region	22,915	31,329
East Malaysia Region	15,925	86,128
	<b>398,277</b>	389,445

## (i) Impaired financing by sector

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
Primary agriculture	–	1,311
Manufacturing (including agro-based)	35,448	36,739
Wholesale & retail trade, and hotels & restaurants	38,433	25,651
Construction	86,357	13,714
Transport, storage and communications	12,604	15,579
Finance, insurance and business activities	3,799	70,948
Education, health & others	5,106	3,076
Household sectors	216,530	222,427
	<b>398,277</b>	389,445

## (j) Movement of allowance for impairment on financing

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
<b>Collective assessment allowance</b>		
At 1 January 2017/1 January 2016	554,971	541,065
Net allowance made during the year	34,706	161,667
Amount written off	(141,940)	(146,725)
Exchange differences	(1,668)	(1,036)
At 31 December 2017/31 December 2016	<b>446,069</b>	554,971
<b>Individual assessment allowance</b>		
At 1 January 2017/1 January 2016	128,198	124,471
Net allowance made during the year	102,059	54,566
Amount recovered	(30,324)	(23,904)
Amount written off	(67,291)	(29,928)
Exchange differences	(6,195)	2,993
At 31 December 2017/31 December 2016	<b>126,447</b>	128,198



**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**10. OTHER ASSETS**

	GROUP		BANK	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Other receivables	90,137	65,825	87,964	63,968
Less: Impairment loss	(475)	(256)	(475)	(256)
	89,662	65,569	87,489	63,712
Deposit and prepayments	33,086	32,741	31,968	31,441
Related companies*	755	705	1,605	775
	123,503	99,015	121,062	95,928

\* This relates to amounts due from holding and related companies that are unsecured, not subject to compensation charges for late payment and repayment is neither fixed nor expected.

**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	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Property and equipment	–	–	(8,986)	(16,993)	(8,986)	(16,993)
Provisions	26,478	24,483	–	–	26,478	24,483
Unabsorbed capital allowances	12,829	24,963	–	–	12,829	24,963
Change in fair value reserve	6,967	15,925	–	–	6,967	15,925
Set off of tax	(8,986)	(16,993)	8,986	16,993	–	–
Net tax assets	37,288	48,378	–	–	37,288	48,378

Movement in temporary differences during the year:

GROUP AND BANK	AT	RECOGNISED	RECOGNISED	AT	RECOGNISED	RECOGNISED	AT
	1.1.2016 RM'000	IN PROFIT OR LOSS (NOTE 35) RM'000	IN OTHER COMPREHENSIVE INCOME RM'000	31.12.2016/ 1.1.2017 RM'000	IN PROFIT OR LOSS (NOTE 35) RM'000	IN OTHER COMPREHENSIVE INCOME RM'000	31.12.2017 RM'000
Property and equipment	(20,252)	3,259	–	(16,993)	8,007	–	(8,986)
Provisions	23,087	1,396	–	24,483	1,995	–	26,478
Unabsorbed capital allowances	25,067	(104)	–	24,963	(12,134)	–	12,829
Change in fair value reserve	7,280	–	8,645	15,925	–	(8,958)	6,967
Total assets	35,182	4,551	8,645	48,378	(2,132)	(8,958)	37,288

**12. DEFERRED TAX ASSETS** (cont'd)**Unrecognised deferred tax assets**

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

	GROUP		BANK	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Unabsorbed capital allowance	<b>78,475</b>	28,475	<b>78,440</b>	28,440
Unutilised tax losses	<b>6,701</b>	6,701	–	–
Deductible temporary differences	<b>329</b>	329	–	–
	<b>85,505</b>	35,505	<b>78,440</b>	28,440

The Bank's unabsorbed capital allowances of RM78,440,000 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	
	31.12.2017 RM'000	31.12.2016 RM'000
<b>At cost</b>		
Unquoted shares in Malaysia	<b>16,447</b>	16,447
Less: Accumulated impairment loss	<b>(922)</b>	(922)
	<b>15,525</b>	15,525

Details of subsidiaries are as follows:

NAME OF COMPANY	PRINCIPAL ACTIVITIES	EFFECTIVE OWNERSHIP INTEREST	
		31.12.2017 %	31.12.2016 %
Al-Wakalah Nominees (Tempatan) Sdn. Bhd.	Provides nominee services	<b>100</b>	100
BIMB Investment Management Berhad	Manages Islamic Unit Trust Funds	<b>100</b>	100
Bank Islam Trust Company (Labuan) Ltd.	Provides services as a Labuan registered trust company	<b>100</b>	100
and its subsidiary:			
BIMB Offshore Company Management Services Sdn. Bhd.	Acts as Resident Corporate Secretary and Director for Offshore Companies	<b>100</b>	100
Farihan Corporation Sdn. Bhd.	Provides manpower services to the Bank	<b>100</b>	100

**NOTES TO THE FINANCIAL STATEMENTS**

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(cont'd)

**14. PROPERTY AND EQUIPMENT**

GROUP	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
<b>Cost</b>									
At 1 January 2016	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
Additions	–	545	1,807	4,983	11,552	466	4,733	17,274	41,360
Reclassifications	–	256	1,362	686	3,159	–	(2,304)	(3,159)	–
Disposals	–	–	(3)	(209)	(1,339)	(680)	–	–	(2,231)
Written off	–	(113)	(921)	(420)	–	–	–	–	(1,454)
Exchange difference	–	(2)	(32)	(45)	(32)	–	–	–	(111)
<b>At 31 December 2017</b>	<b>14,784</b>	<b>33,858</b>	<b>125,078</b>	<b>95,086</b>	<b>360,310</b>	<b>943</b>	<b>2,491</b>	<b>19,841</b>	<b>652,391</b>
<b>Accumulated depreciation</b>									
At 1 January 2016	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
Depreciation for the year	174	2,004	9,128	7,065	35,991	118	–	–	54,480
Disposals	–	–	(3)	(203)	(1,332)	(317)	–	–	(1,855)
Written off	–	(104)	(898)	(396)	–	–	–	–	(1,398)
Exchange difference	–	(2)	(31)	(41)	(30)	–	–	–	(104)
<b>At 31 December 2017</b>	<b>1,826</b>	<b>24,231</b>	<b>83,755</b>	<b>78,251</b>	<b>291,810</b>	<b>515</b>	<b>–</b>	<b>–</b>	<b>480,388</b>
<b>Carrying amounts</b>									
At 1 January 2016	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
<b>At 31 December 2017</b>	<b>12,958</b>	<b>9,627</b>	<b>41,323</b>	<b>16,835</b>	<b>68,500</b>	<b>428</b>	<b>2,491</b>	<b>19,841</b>	<b>172,003</b>

## 14. PROPERTY AND EQUIPMENT (cont'd)

BANK	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
<b>Cost</b>									
At 1 January 2016	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
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	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
Additions	-	545	1,807	4,980	11,544	466	4,733	17,274	41,349
Reclassifications	-	256	1,362	686	3,159	-	(2,304)	(3,159)	-
Disposals	-	-	(3)	(209)	(1,339)	(680)	-	-	(2,231)
Written off	-	(113)	(921)	(417)	-	-	-	-	(1,451)
Exchange difference	-	(2)	(32)	(31)	(6)	-	-	-	(71)
<b>At 31 December 2017</b>	<b>14,784</b>	<b>33,669</b>	<b>125,002</b>	<b>94,738</b>	<b>358,308</b>	<b>943</b>	<b>2,491</b>	<b>19,841</b>	<b>649,776</b>
<b>Accumulated depreciation</b>									
At 1 January 2016	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
Depreciation for the year	174	1,971	9,118	7,059	35,780	118	-	-	54,220
Disposals	-	-	(3)	(203)	(1,332)	(317)	-	-	(1,855)
Written off	-	(104)	(898)	(393)	-	-	-	-	(1,395)
Exchange difference	-	(2)	(31)	(28)	(6)	-	-	-	(67)
<b>At 31 December 2017</b>	<b>1,826</b>	<b>24,073</b>	<b>83,707</b>	<b>77,919</b>	<b>290,496</b>	<b>515</b>	<b>-</b>	<b>-</b>	<b>478,536</b>
<b>Carrying amounts</b>									
At 1 January 2016	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
<b>At 31 December 2017</b>	<b>12,958</b>	<b>9,596</b>	<b>41,295</b>	<b>16,819</b>	<b>67,812</b>	<b>428</b>	<b>2,491</b>	<b>19,841</b>	<b>171,240</b>

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**15. DEPOSITS FROM CUSTOMERS****(a) By type of deposit**

	GROUP		BANK	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
<b>Saving Deposit</b>				
<i>Wadiah</i>	<b>4,138,519</b>	4,131,604	<b>4,138,519</b>	4,131,604
<b>Demand Deposit</b>				
<i>Wadiah</i>	<b>11,333,608</b>	10,001,972	<b>11,343,024</b>	10,004,601
<b>Term Deposit</b>	<b>30,617,889</b>	31,700,310	<b>30,624,591</b>	31,706,982
Special Investment Deposit <i>Mudharabah</i>	<b>6,182</b>	27,711	<b>6,182</b>	27,711
General Investment Deposit <i>Mudharabah</i>	<b>322,561</b>	394,639	<b>322,561</b>	394,639
Term Deposit-i <i>Tawarruq</i>	<b>26,728,087</b>	28,208,548	<b>26,734,789</b>	28,215,220
Negotiable Islamic Debt Certificates (NIDC)	<b>3,561,059</b>	3,069,412	<b>3,561,059</b>	3,069,412
<b>Others</b>	<b>102,894</b>	106,528	<b>102,894</b>	106,528
<b>Total Deposits</b>	<b>46,192,910</b>	45,940,414	<b>46,209,028</b>	45,949,715

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

	GROUP		BANK	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Due within six months	<b>18,565,407</b>	26,475,051	<b>18,571,396</b>	26,481,013
More than six months to one year	<b>8,742,154</b>	4,166,465	<b>8,742,867</b>	4,166,465
More than one year to three years	<b>1,618,691</b>	690,590	<b>1,618,691</b>	691,300
More than three years to five years	<b>1,691,637</b>	368,204	<b>1,691,637</b>	368,204
	<b>30,617,889</b>	31,700,310	<b>30,624,591</b>	31,706,982

**15. DEPOSITS FROM CUSTOMERS** (cont'd)**(c) By type of customers**

	GROUP		BANK	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Domestic non-bank financial institutions	<b>14,063,475</b>	15,501,713	<b>14,079,593</b>	15,511,014
Business enterprises	<b>12,406,686</b>	11,730,076	<b>12,406,686</b>	11,730,076
Government and statutory bodies	<b>8,847,454</b>	6,890,474	<b>8,847,454</b>	6,890,474
Individuals	<b>4,810,541</b>	4,817,561	<b>4,810,541</b>	4,817,561
Domestic banking institutions	<b>3,395,740</b>	2,994,256	<b>3,395,740</b>	2,994,256
Others	<b>2,669,014</b>	4,006,334	<b>2,669,014</b>	4,006,334
	<b>46,192,910</b>	45,940,414	<b>46,209,028</b>	45,949,715

**16. INVESTMENT ACCOUNTS OF CUSTOMERS****(a) By type and Shariah contract**

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
<b>Unrestricted investment accounts</b>		
Without maturity		
<i>Mudharabah</i>	<b>1,994,491</b>	1,516,844
With maturity		
<i>Wakalah</i>	<b>2,265,694</b>	2,295,417
	<b>4,260,185</b>	3,812,261
<b>Restricted investment accounts ("RIA") managed by the Bank<sup>^</sup></b>		
With maturity		
<i>Wakalah</i>	<b>124,384</b>	141,343

<sup>^</sup> 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 RM123,962,000 (2016:RM141,033,000).

**(b) By type of customers**

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
Individuals	<b>2,212,239</b>	1,677,636
Government and statutory bodies	<b>400,709</b>	762,888
Business Enterprises	<b>474,464</b>	737,961
Non-bank financial institutions	<b>1,077,298</b>	476,125
Bank and other financial institutions	–	45,919
Others	<b>95,475</b>	111,732
	<b>4,260,185</b>	3,812,261



## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2017  
(cont'd)

### 16. INVESTMENT ACCOUNTS OF CUSTOMERS (cont'd)

#### (c) Movement of investment accounts of customers

GROUP AND BANK	UNRESTRICTED INVESTMENT ACCOUNTS			RESTRICTED INVESTMENT ACCOUNTS
	MUDHARABAH RM'000	WAKALAH RM'000	TOTAL RM'000	WAKALAH RM'000
<b>As at 1 January 2016</b>	461,312	214,793	676,105	82,567
<i>Funding inflows/outflows:</i>				
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
<i>Bank's share of profit:</i>				
Profit distributed to Mudharib	(60,178)	–	(60,178)	–
Wakalah performance incentive fees	–	(15,329)	(15,329)	(5,328)
<b>As at 31 December 2016/1 January 2017</b>	<b>1,516,844</b>	<b>2,295,417</b>	<b>3,812,261</b>	<b>141,343</b>
<i>Funding inflows/outflows:</i>				
Net movement	475,709	–	475,709	–
New placement	–	6,536,170	6,536,170	19,939
Redemption /Principal repayment	–	(6,669,256)	(6,669,256)	(46,150)
Income from investment	94,386	152,660	247,046	11,847
<i>Bank's share of profit:</i>				
Profit distributed to Mudharib	(92,448)	–	(92,448)	–
Wakalah performance incentive fees	–	(49,297)	(49,297)	(2,595)
<b>As at 31 December 2017</b>	<b>1,994,491</b>	<b>2,265,694</b>	<b>4,260,185</b>	<b>124,384</b>
<i>Investment portfolio:</i>				
<b>2017</b>				
House financing	1,994,491	1,133,112	3,127,603	–
Personal financing	–	1,132,582	1,132,582	–
Other term financing	–	–	–	<b>124,384</b>
	<b>1,994,491</b>	<b>2,265,694</b>	<b>4,260,185</b>	<b>124,384</b>
<b>2016</b>				
House financing	1,516,844	1,170,474	2,687,318	–
Personal financing	–	1,124,943	1,124,943	–
Other term financing	–	–	–	141,343
	<b>1,516,844</b>	<b>2,295,417</b>	<b>3,812,261</b>	<b>141,343</b>

**16. INVESTMENT ACCOUNTS OF CUSTOMERS** (cont'd)**(d) By maturity structures, profit sharing ratio and rate of return**

	INVESTMENT ACCOUNT HOLDERS			BANK'S WAKALAH PERFORMANCE INCENTIVE FEE (%)
	TOTAL AMOUNT RM'000	AVERAGE PROFIT SHARING RATIO (%)	AVERAGE RATE OF RETURN (%)	
<b>2017</b>				
Unrestricted investment accounts:				
Less than 3 months				
- Mudharabah	1,994,491	2	0.11	-
- Wakalah	1,228,421	-	3.69	1.45
	<b>3,222,912</b>			
Between 3 to 12 months				
- Wakalah	1,037,273	-	3.72	1.42
	<b>4,260,185</b>			
Restricted investment accounts:				
Less than 2 years	10,000	-	6.30	0.30
Between 2 to 5 years	114,384	-	3.52	1.88
	<b>124,384</b>			
<b>2016</b>				
Unrestricted investment accounts:				
Less than 3 months				
- Mudharabah	1,516,844	2	0.13	-
- Wakalah	2,101,430	-	3.61	1.27
	<b>3,618,274</b>			
Between 3 to 12 months				
- Wakalah	193,987	-	3.72	1.16
	<b>3,812,261</b>			
Restricted investment accounts				
Between 2 to 5 years	141,343	-	3.00	1.18

**17. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
<b>Non-Mudharabah fund</b>		
Licensed Islamic banks	-	30,000

**NOTES TO THE FINANCIAL STATEMENTS**

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(cont'd)

**18. SUBORDINATED SUKUK MURABAHAH**

	Note	GROUP AND BANK	
		31.12.2017 RM'000	31.12.2016 RM'000
<b>Issued under the RM1.0 billion Subordinated Sukuk Murabahah Programme</b>			
First tranche, RM300 million 5.75% due in 2025	(a)	<b>303,355</b>	303,308
Second tranche, RM400 million 5.50% due in 2025	(b)	<b>401,085</b>	401,085
Third tranche, RM300 million 5.08% due in 2027	(c)	<b>302,046</b>	–
		<b>1,006,486</b>	704,393
Finance cost on Subordinated Sukuk Murabahah		<b>41,296</b>	39,465

The Bank issued the following tranches of Subordinated Sukuk Murabahah:

- 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.
- 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 semiannually in arrears.
- On 13 November 2017, the Bank issued the third tranche of RM300 million which are due on 12 November 2027, with optional redemption on 12 December 2022 or any periodic payment date thereafter. The Sukuk bears a profit rate of 5.08% per annum payable semiannually 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.

Reconciliation of movement of Subordinated Sukuk Murabahah to cash flows arising from financing activities is as follows:

GROUP AND BANK	AT	NET CHANGES	FINANCE	AT
	1.1.2017	FROM	COST FOR	31.12.2017
	RM'000	FINANCING	THE YEAR	RM'000
		CASH FLOWS	RM'000	
		RM'000		
Nominal value	<b>700,000</b>	300,000	–	<b>1,000,000</b>
Finance cost payable	<b>4,393</b>	(39,203)	41,296	<b>6,486</b>
	<b>704,393</b>	260,797	41,296	<b>1,006,486</b>

**19. OTHER LIABILITIES**

	GROUP		BANK	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Other payables	<b>651,703</b>	489,031	<b>644,664</b>	486,151
Accruals	<b>130,596</b>	112,719	<b>129,105</b>	112,440
	<b>782,299</b>	601,750	<b>773,769</b>	598,591

Included in other payables is undistributed charity fund amounting to RMNil (2016: RM5,000) 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	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Zakat	<b>13,385</b>	12,878	<b>13,323</b>	12,851
Taxation	<b>33,019</b>	32,168	<b>33,017</b>	32,168
	<b>46,404</b>	45,046	<b>46,340</b>	45,019

**21. SHARE CAPITAL**

GROUP AND BANK	NUMBER OF SHARES		AMOUNT	
	31.12.2017 '000	31.12.2016 '000	31.12.2017 RM'000	31.12.2016 RM'000
<b>Issued and fully paid</b>				
<b>Ordinary shares</b>				
At 1 January	<b>2,404,384</b>	2,363,283	<b>2,404,384</b>	2,363,283
Transfer from share premium	–	–	<b>264,790</b>	–
Allotment of new ordinary shares	<b>61,638</b>	41,101	<b>200,324</b>	41,101
<b>At 31 December</b>	<b>2,466,022</b>	2,404,384	<b>2,869,498</b>	2,404,384

During the financial year, the Bank transferred RM264,790,400 share premium to its share capital pursuant to the transition provisions set out in Section 618(2) of the Companies Act 2016.

The Bank increased its share capital on 15 June 2017 by RM134,166,500 via the issuance of 41,282,000 new ordinary shares at a consideration of RM3.25 each arising from the Dividend Reinvestment Plan of one hundred percent of the final dividend of approximately 5.58 sen in respect of financial year ended 31 December 2016, as disclosed in Note 37.

The Bank further increased its share capital on 20 September 2017 by RM66,157,000 via the issuance of 20,356,000 new ordinary shares at a consideration of RM3.25 each arising from the Dividend Reinvestment Plan of fifty percent of the interim dividend of approximately 5.41 sen in respect of financial year ended 31 December 2017, as disclosed in Note 37.

The increase in its share capital during the financial year ended 31 December 2016 from RM2,363,282,700 to RM2,404,383,700 was via the issuance of 20,927,000 and 20,174,000 new ordinary shares at a consideration of RM3.10 and RM3.25 per share respectively arising from the Dividend Reinvestment Plan of fifty percent of dividends declared and paid, as disclosed in Note 37.

**NOTES TO THE FINANCIAL STATEMENTS**

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(cont'd)

**22. OTHER RESERVES**

	STATUTORY RESERVE (A) RM'000	FAIR VALUE RESERVE (B) RM'000	TRANSLATION RESERVE (C) RM'000	REGULATORY RESERVE (D) RM'000	TOTAL RM'000
<b>Group</b>					
At 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 January 2017	1,392,159	(50,429)	(148,685)	–	1,193,045
Foreign exchange translation differences	–	–	45,908	–	45,908
Fair value reserve					
- Net change in fair value	–	43,480	–	–	43,480
- Net amount reclassified to profit or loss	–	(6,157)	–	–	(6,157)
Income tax expense relating to components of other comprehensive income	–	(8,958)	–	–	(8,958)
Transfer of reserve fund to retained earnings	(1,392,159)	–	–	–	(1,392,159)
Transfer of retained earnings to regulatory reserve	–	–	–	64,645	64,645
<b>At 31 December 2017</b>	<b>–</b>	<b>(22,064)</b>	<b>(102,777)</b>	<b>64,645</b>	<b>(60,196)</b>
<b>Bank</b>					
At 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 January 2017	1,392,159	(50,429)	(148,908)	–	1,192,822
Foreign exchange translation differences	–	–	45,990	–	45,990
Fair value reserve					
- Net change in fair value	–	43,480	–	–	43,480
- Net amount reclassified to profit or loss	–	(6,157)	–	–	(6,157)
Income tax expense relating to components of other comprehensive income	–	(8,958)	–	–	(8,958)
Transfer of reserve fund to retained earnings	(1,392,159)	–	–	–	(1,392,159)
Transfer of retained earnings to regulatory reserve	–	–	–	64,645	64,645
<b>At 31 December 2017</b>	<b>–</b>	<b>(22,064)</b>	<b>(102,918)</b>	<b>64,645</b>	<b>(60,337)</b>

**22. OTHER RESERVES** (cont'd)

- (a) The statutory reserve was previously maintained in compliance with the requirements of Bank Negara Malaysia and was not distributable as cash dividends. During the financial year ended 31 December 2017, the Bank has transferred RM1,392,158,939 from statutory reserve fund to its retained earnings pursuant to the Revised Policy Document issued by BNM on 3 May 2017, as disclosed in Note 2.1 (a).
- (b) 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.
- (c) 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.
- (d) The regulatory reserve represents the Bank's compliance with BNM's Policy on Classification and Impairment Provisions for Financing to maintain, in aggregate, collective impairment allowances and regulatory reserve of no less than 1.2% of total outstanding financing, net of individual impairment allowances.

**23. SOURCES AND USES OF CHARITY FUNDS**

<b>GROUP AND BANK</b>	<b>CHARITY FUNDS RM'000</b>	<b>SHARIAH NON- COMPLIANCE INCOME RM'000</b>	<b>TOTAL RM'000</b>
Undistributed funds as at 1 January 2016	2	9	11
Funds collected/received during the year	1	9	10
Uses of funds during the year	(3)	(13)	(16)
<i>Contribution to Non-profit Organisation</i>	–	(5)	(5)
<i>Contribution for Da'wah activities</i>	(1)	(3)	(4)
<i>Contribution for poor/needly family</i>	(2)	–	(2)
<i>Contribution to school</i>	–	(5)	(5)
Undistributed funds as at 31 December 2016/1 January 2017	–	5	5
Funds collected /received during the year	–	8	8
Uses of funds during the year	–	(11)	(11)
<i>Contribution to Non-profit Organisation</i>	–	(4)	(4)
<i>Contribution for Da'wah activities</i>	–	(5)	(5)
<i>Contribution to Institution</i>	–	(2)	(2)
<b>Undistributed funds as at 31 December 2017</b>	<b>–</b>	<b>2</b>	<b>2</b>



**NOTES TO THE FINANCIAL STATEMENTS**

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(cont'd)

**24. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS**

	GROUP AND BANK	
	2017	2016
	RM'000	RM'000
Income derived from investment of:		
(i) General investment deposits	22,296	55,715
(ii) Term deposit-i	1,370,064	1,339,854
(iii) Saving and demand deposits	739,255	793,868
(iv) Other deposits	192,572	152,767
	<b>2,324,187</b>	2,342,204

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

	GROUP AND BANK	
	2017	2016
	RM'000	RM'000
<b>Finance income and hibah</b>		
Financing, advances and others	19,305	46,815
Financial assets:		
- held-for-trading	142	497
- available-for-sale	2,136	6,207
- held-to-maturity	60	128
Money at call and deposits with financial institutions	296	697
	<b>21,939</b>	54,344
<b>Other dealing income</b>		
Net gain/(loss) from sale of financial assets held-for-trading	(10)	149
Net gain/(loss) on revaluation of financial assets held-for-trading	46	(70)
	<b>36</b>	79
<b>Other operating income</b>		
Net gain from sale of financial assets available-for-sale	51	1,292
Net gain from sale of financial assets held-to-maturity	270	-
	<b>321</b>	1,292
	<b>22,296</b>	55,715
<i>of which</i>		
<i>Financing income earned on impaired financing</i>	<b>322</b>	827

**24. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS** (cont'd)**(ii) Income derived from investment of term deposit-i**

	<b>GROUP AND BANK</b>	
	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Finance income and hibah</b>		
Financing, advances and others	<b>1,170,411</b>	1,137,396
Financial assets:		
- held-for-trading	<b>9,643</b>	11,313
- available-for-sale	<b>144,803</b>	142,503
- held-to-maturity	<b>4,085</b>	2,861
Money at call and deposits with financial institutions	<b>16,156</b>	16,007
	<b>1,345,098</b>	1,310,080
<b>Other dealing income</b>		
Net gain/(loss) from sale of financial assets held-for-trading	<b>(442)</b>	2,995
Net gain/(loss) on revaluation of financial assets held-for-trading	<b>3,084</b>	(2,247)
	<b>2,642</b>	748
<b>Other operating income</b>		
Net gain from sale of financial assets available-for-sale	<b>3,480</b>	29,026
Net gain from sale of financial assets held-to-maturity	<b>18,844</b>	-
	<b>22,324</b>	29,026
	<b>1,370,064</b>	1,339,854
<i>of which</i>		
<i>Financing income earned on impaired financing</i>	<b>18,818</b>	18,818

**NOTES TO THE FINANCIAL STATEMENTS**

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(cont'd)

**24. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS** (cont'd)**(iii) Income derived from investment of saving and demand deposits**

	GROUP AND BANK	
	2017	2016
	RM'000	RM'000
<b>Finance income and hibah</b>		
Financing, advances and others	<b>630,634</b>	673,911
Financial assets:		
- held-for-trading	<b>5,192</b>	6,703
- available-for-sale	<b>78,063</b>	84,433
- held-to-maturity	<b>2,202</b>	1,695
Money at call and deposits with financial institutions	<b>10,077</b>	9,484
	<b>726,168</b>	776,226
<b>Other dealing income</b>		
Net gain/(loss) from sale of financial assets held-for-trading	<b>(275)</b>	1,775
Net gain/(loss) on revaluation of financial assets held-for-trading	<b>1,649</b>	(1,331)
	<b>1,374</b>	444
<b>Other operating income</b>		
Net gain from sale of financial assets available-for-sale	<b>1,866</b>	17,198
Net gain from sale of financial assets held-to-maturity	<b>9,847</b>	-
	<b>11,713</b>	17,198
	<b>739,255</b>	793,868
<i>of which</i>		
<i>Financing income earned on impaired financing</i>	<b>10,288</b>	11,150

**24. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS** (cont'd)**(iv) Income derived from investment of other deposits**

	GROUP AND BANK	
	2017	2016
	RM'000	RM'000
<b>Finance income and hibah</b>		
Financing, advances and others	<b>164,014</b>	129,683
Financial assets:		
- held-for-trading	<b>1,371</b>	1,290
- available-for-sale	<b>20,574</b>	16,248
- held-to-maturity	<b>578</b>	327
Money at call and deposits with financial institutions	<b>2,560</b>	1,825
	<b>189,097</b>	149,373
<b>Other dealing income</b>		
Net gain/(loss) from sale of financial assets held-for-trading	<b>(38)</b>	341
Net gain/(loss) on revaluation of financial assets held-for-trading	<b>435</b>	(256)
	<b>397</b>	85
<b>Other operating income</b>		
Net gain from sale of financial assets available-for-sale	<b>488</b>	3,309
Net gain from sale of financial assets held-to-maturity	<b>2,590</b>	-
	<b>3,078</b>	3,309
	<b>192,572</b>	152,767
<i>of which</i>		
<i>Financing income earned on impaired financing</i>	<b>2,738</b>	2,145

**25. INCOME DERIVED FROM INVESTMENT ACCOUNT FUNDS**

	GROUP AND BANK	
	2017	2016
	RM'000	RM'000
<b>Finance income</b>		
Unrestricted investment accounts		
- <i>Mudharabah</i>	<b>94,386</b>	61,379
- <i>Wakalah</i>	<b>152,660</b>	52,514
	<b>247,046</b>	113,893

**NOTES TO THE FINANCIAL STATEMENTS**

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(cont'd)

**26. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS**

	GROUP		BANK	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<b>Finance income and hibah</b>				
Financing, advances and others	<b>6,951</b>	6,355	<b>6,951</b>	6,355
Financial assets available-for-sale	<b>147,372</b>	125,468	<b>147,372</b>	125,468
Money at call and deposits with financial institutions	<b>4</b>	193	<b>4</b>	193
	<b>154,327</b>	132,016	<b>154,327</b>	132,016
<b>Other dealing income</b>				
Net gain from foreign exchange transactions	<b>66,396</b>	73,114	<b>66,396</b>	73,114
Net derivatives loss	<b>(779)</b>	(4,515)	<b>(779)</b>	(4,515)
Net gain from sale of financial assets held-for-trading	–	345	–	–
Net loss on revaluation of financial assets held-for-trading	–	(170)	–	–
	<b>65,617</b>	68,774	<b>65,617</b>	68,599
<b>Other operating income</b>				
Net gain from sale of financial assets available-for-sale	<b>272</b>	424	<b>272</b>	424
Gain on liquidation of a subsidiary	–	–	–	89
Gross dividend income from securities				
- unquoted in Malaysia	–	1,612	–	1,612
- unit trust in Malaysia	<b>2,600</b>	3,379	<b>2,422</b>	3,379
	<b>2,872</b>	5,415	<b>2,694</b>	5,504
<b>Fees and commission</b>				
Card fees and commission	<b>70,751</b>	67,002	<b>70,751</b>	67,002
Takaful service fees and commission	<b>28,436</b>	33,766	<b>28,436</b>	33,766
Financing fees	<b>22,810</b>	21,078	<b>22,810</b>	21,078
Commission on MEPS	<b>13,184</b>	12,022	<b>13,184</b>	12,022
Ar-Rahnu fees	<b>11,984</b>	10,964	<b>11,984</b>	10,964
Unit trust management fees	<b>10,158</b>	7,877	–	–
Mobile banking fees	<b>6,808</b>	7,000	<b>6,808</b>	7,000
Deposit and payment service fees	<b>6,677</b>	7,510	<b>6,677</b>	7,510
Corporate advisory fees	<b>5,877</b>	4,041	<b>5,877</b>	4,041
Processing fees	<b>4,202</b>	3,172	<b>4,200</b>	3,171
Commission on bills payment system	<b>2,831</b>	2,572	<b>2,831</b>	2,572
Commission from wealth management services	<b>58</b>	24	<b>6,787</b>	4,322
Ta'widh Charges	<b>698</b>	902	<b>698</b>	902
Others	<b>24,292</b>	20,102	<b>14,633</b>	14,567
	<b>208,766</b>	198,032	<b>195,676</b>	188,917

**26. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS** (cont'd)

	GROUP		BANK	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<b>Other income</b>				
Rental income	<b>2,446</b>	2,423	<b>2,788</b>	2,761
Net gain/(loss) on disposal of property and equipment	<b>(71)</b>	527	<b>(71)</b>	527
Other income	<b>396</b>	170	<b>254</b>	68
	<b>2,771</b>	3,120	<b>2,971</b>	3,356
	<b>434,353</b>	407,357	<b>421,285</b>	398,392

**27. NET ALLOWANCE FOR IMPAIRMENT ON FINANCING AND ADVANCES**

	GROUP AND BANK	
	2017 RM'000	2016 RM'000
Allowance for impairment on financing, advances and others:		
- collective assessment allowance	<b>34,706</b>	161,667
- individual assessment allowance	<b>71,735</b>	30,662
Bad debts and financing recovered	<b>(122,054)</b>	(100,224)
	<b>(15,613)</b>	92,105

**28. ALLOWANCE FOR IMPAIRMENT ON INVESTMENTS**

	GROUP		BANK	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Allowance for impairment of financial assets:				
- available-for-sale	-	255	-	255



**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**29. INCOME ATTRIBUTABLE TO DEPOSITORS**

	GROUP		BANK	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Deposits from customers:				
- Mudharabah fund	<b>11,445</b>	18,467	<b>11,445</b>	18,467
- Non-Mudharabah fund	<b>1,088,245</b>	1,020,530	<b>1,088,484</b>	1,020,762
Deposits and placements of banks and other financial institutions:				
- Non-Mudharabah fund	<b>3,346</b>	30,640	<b>3,346</b>	30,640
	<b>1,103,036</b>	1,069,637	<b>1,103,275</b>	1,069,869

**30. INCOME ATTRIBUTABLE TO INVESTMENT ACCOUNT HOLDERS**

	GROUP AND BANK	
	2017 RM'000	2016 RM'000
Unrestricted investment accounts		
- <i>Mudharabah</i>	<b>1,938</b>	1,201
- <i>Wakalah</i>	<b>103,363</b>	37,186
	<b>105,301</b>	38,387

**31. PERSONNEL EXPENSES**

	GROUP		BANK	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Salaries and wages	<b>291,285</b>	261,319	<b>286,154</b>	257,284
Allowances and bonuses	<b>149,181</b>	133,184	<b>147,529</b>	132,458
Employees' Provident Fund	<b>54,226</b>	49,723	<b>53,273</b>	49,009
Directors and Shariah Supervisory Council Members' remuneration	<b>11,875</b>	9,986	<b>11,182</b>	9,325
Medical benefits	<b>28,420</b>	20,803	<b>28,209</b>	20,603
Staff sales commission	<b>14,645</b>	13,310	<b>14,645</b>	13,310
Others	<b>19,711</b>	18,348	<b>19,455</b>	18,188
	<b>569,343</b>	506,673	<b>560,447</b>	500,177

## 32. OTHER OVERHEAD EXPENSES

	GROUP		BANK	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<b>Promotion</b>				
Credit and debit card expenses	<b>31,114</b>	25,513	<b>31,114</b>	25,513
Advertisement and publicity	<b>9,608</b>	10,112	<b>9,454</b>	9,998
Others	<b>13,915</b>	13,005	<b>10,111</b>	11,092
	<b>54,637</b>	48,630	<b>50,679</b>	46,603
<b>Establishment</b>				
Depreciation of property and equipment	<b>54,480</b>	59,582	<b>54,220</b>	59,338
Information technology expenses	<b>59,535</b>	49,956	<b>59,535</b>	49,956
Office rental	<b>54,314</b>	51,684	<b>54,254</b>	51,620
Security services	<b>16,267</b>	18,028	<b>16,267</b>	18,033
Utilities	<b>14,068</b>	15,686	<b>13,992</b>	15,611
Office maintenance	<b>11,522</b>	10,416	<b>11,169</b>	10,312
Takaful	<b>8,069</b>	13,473	<b>8,037</b>	13,227
Rental of equipment	<b>4,504</b>	3,715	<b>4,429</b>	3,641
Others	<b>320</b>	305	<b>320</b>	305
	<b>223,079</b>	222,845	<b>222,223</b>	222,043
<b>General expenses</b>				
Indirect tax expenses	<b>23,318</b>	15,457	<b>23,317</b>	15,455
Outsourcing fees				
- Management of self-service terminal	<b>12,128</b>	11,466	<b>12,128</b>	11,466
- Credit recovery	<b>2,516</b>	5,230	<b>2,516</b>	5,230
- Others	<b>4,169</b>	4,195	<b>4,169</b>	4,195
Office supplies	<b>9,593</b>	8,784	<b>9,462</b>	8,596
Licenses	<b>9,500</b>	7,048	<b>9,500</b>	7,048
Travelling and transportation	<b>7,893</b>	7,198	<b>7,813</b>	7,092
Bank and service charges	<b>7,615</b>	3,956	<b>7,601</b>	3,937
Security services for cash in transit	<b>6,419</b>	6,201	<b>6,419</b>	6,201
Postage and delivery charges	<b>4,979</b>	5,896	<b>4,963</b>	5,870
Management fees	-	-	<b>4,633</b>	2,432
Subscription fees	<b>4,061</b>	3,851	<b>4,061</b>	3,851
Professional fees	<b>4,379</b>	3,453	<b>4,203</b>	3,291
Mobile banking expenses	<b>1,359</b>	2,699	<b>1,359</b>	2,699
Auditors' remuneration				
- statutory audit fees	<b>763</b>	700	<b>700</b>	618
- others	<b>642</b>	355	<b>642</b>	355
Processing charges	<b>655</b>	852	<b>655</b>	852
Property and equipment written off	<b>56</b>	8	<b>56</b>	8
Others	<b>41,340</b>	23,245	<b>38,535</b>	21,497
	<b>141,385</b>	110,594	<b>142,732</b>	110,693
	<b>419,101</b>	382,069	<b>415,634</b>	379,339

**NOTES TO THE FINANCIAL STATEMENTS**

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(cont'd)

**33. CHIEF EXECUTIVE OFFICER, DIRECTORS AND SHARIAH SUPERVISORY COUNCIL MEMBERS' REMUNERATION**

	GROUP		BANK	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<b>Directors of the Bank</b>				
<i>Executive Director:</i>				
Salaries and other remuneration, including meeting allowances	<b>7,366</b>	7,236	<b>7,366</b>	7,233
Benefits-in-kind	<b>113</b>	173	<b>113</b>	173
	<b>7,479</b>	7,409	<b>7,479</b>	7,406
<i>Chief Executive Officer:</i>				
Salaries and other remuneration, including meeting allowances	<b>677</b>	–	<b>671</b>	–
Benefits-in-kind	<b>16</b>	–	<b>16</b>	–
	<b>693</b>	–	<b>687</b>	–
<i>Non-Executive Directors:</i>				
Fees	<b>1,376</b>	1,076	<b>1,356</b>	1,064
Other emoluments	<b>1,234</b>	627	<b>1,217</b>	618
Benefits-in-kind	<b>219</b>	172	<b>219</b>	172
	<b>2,829</b>	1,875	<b>2,792</b>	1,854
<b>Directors of subsidiaries</b>				
<i>Executive Director:</i>				
Salaries and other remuneration, including meeting allowances	<b>502</b>	468	–	–
	<b>502</b>	468	–	–
<i>Non-Executive Directors:</i>				
Fees	<b>72</b>	81	–	–
Other emoluments	<b>67</b>	75	–	–
	<b>139</b>	156	–	–
<b>Total</b>	<b>11,642</b>	9,908	<b>10,958</b>	9,260
<b>Members of Shariah Supervisory Council (SSC)</b>				
- SSC of the Bank	<b>575</b>	416	<b>572</b>	410
- SSC of a subsidiary	<b>6</b>	7	–	–
<b>Total</b>	<b>581</b>	423	<b>572</b>	410
<b>Grand total (excluding benefits-in-kind) (Note 31)</b>	<b>11,875</b>	9,986	<b>11,182</b>	9,325

**33. CHIEF EXECUTIVE OFFICER, DIRECTORS AND SHARIAH SUPERVISORY COUNCIL MEMBERS' REMUNERATION**

(cont'd)

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

	← REMUNERATION RECEIVED FROM THE BANK →				BANK	REMUNERATION RECEIVED FROM SUBSIDIARIES		GROUP
	SALARY AND BONUS RM'000	FEES RM'000	OTHER EMOLUMENTS RM'000	BENEFITS -IN-KIND RM'000	TOTAL RM'000	FEES RM'000	OTHER EMOLUMENTS RM'000	TOTAL RM'000
<b>31 December 2017</b>								
<b>Executive Director:</b>								
Dato' Sri Zukri Samat (retired on 9 June 2017)	5,637	-	1,729	113	7,479	-	-	7,479
<b>Chief executive officer:</b>								
Khairul Kamarudin (appointed on 14 June 2017)	509	-	162	16	687	-	6	693
<b>Non-Executive Directors:</b>								
Datuk Zamani Abdul Ghani	-	240	226	88	554	-	-	554
Tan Sri Dato' Dr. Abdul Shukor Husin	-	156	130	50	336	-	-	336
Datuk Zaiton Mohd Hassan	-	240	215	25	480	-	-	480
Zahari @ Mohd Zin Idris	-	216	239	6	461	12	12	485
Mohamed Ridza Mohamed Abdulla	-	108	94	25	227	-	-	227
Nik Mohd Hasyudeen Yusoff	-	198	148	25	371	8	5	384
Noraini Che Dan	-	198	165	-	363	-	-	363
	-	1,356	1,217	219	2,792	20	17	2,829
	6,146	1,356	3,108	348	10,958	20	23	11,001
<b>31 December 2016</b>								
<b>Executive Director:</b>								
Dato' Sri Zukri Samat	5,639	-	1,594	173	7,406	-	3	7,409
<b>Non-Executive Directors:</b>								
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
Datuk Seri Johan Abdullah (ceased as a director on 17 February 2016)	-	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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(cont'd)

**33. CHIEF EXECUTIVE OFFICER, DIRECTORS AND SHARIAH SUPERVISORY COUNCIL MEMBERS' REMUNERATION**  
(cont'd)

The total remuneration of the members of the Shariah Supervisory Council of the Directors of the Bank is as follows (cont'd):

	← REMUNERATION RECEIVED FROM THE BANK →		BANK TOTAL RM'000	REMUNERATION RECEIVED FROM SUBSIDIARY FEES RM'000	GROUP TOTAL RM'000
	FEES RM'000	OTHER EMOLUMENTS RM'000			
<b>31 December 2017</b>					
Professor Dato' Dr. Ahmad Hidayat Buang	72	75	147	–	147
Ustaz Dr. Ahmad Shahbari @ Sobri Salamon	66	36	102	3	105
Sahibus Samahah Dato' Dr. Haji Anhar Haji Opir (appointed on 1 April 2017)	49	10	59	–	59
Assistant Professor Dr. Uzaimah Ibrahim	66	42	108	–	108
Ustazah Dr. Yasmin Hanani Mohd Safian	66	49	115	–	115
Ustaz Dr. Muhammad Syafii Antonio (resigned on 31 March 2017)	17	24	41	–	41
	<b>336</b>	<b>236</b>	<b>572</b>	<b>3</b>	<b>575</b>
<b>31 December 2016</b>					
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

**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	
	2017 RM'000	2016 RM'000
Other key management personnel: - Short-term employee benefits	21,425	18,525

Number of employees categorised as key management personnel as at 31 December 2017 was 23 (2016: 19).

**35. TAX EXPENSE**

	GROUP		BANK	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Malaysian income tax:				
Current year	<b>191,736</b>	182,542	<b>191,620</b>	182,500
Over provision in prior years	<b>(6,306)</b>	(1,400)	<b>(6,298)</b>	(1,359)
	<b>185,430</b>	181,142	<b>185,322</b>	181,141
Deferred tax expense relating to origination and reversal of temporary differences arising from:				
Current year	<b>2,024</b>	(5,026)	<b>2,024</b>	(5,026)
Under provision in prior years	<b>108</b>	475	<b>108</b>	475
	<b>2,132</b>	(4,551)	<b>2,132</b>	(4,551)
	<b>187,562</b>	176,591	<b>187,454</b>	176,590

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

	GROUP		BANK	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Profit before tax	<b>767,053</b>	720,412	<b>766,109</b>	720,441
Income tax calculated using Malaysian tax rate of 24% (2016: 24%)	<b>184,093</b>	172,899	<b>183,866</b>	172,906
Income not subject to tax	<b>(11,924)</b>	(1,406)	<b>(11,924)</b>	(1,406)
Non-deductible expenses	<b>9,591</b>	6,023	<b>9,702</b>	5,974
	<b>181,760</b>	177,516	<b>181,644</b>	177,474
Derecognition of deferred tax assets	<b>12,000</b>	–	<b>12,000</b>	–
(Over)/Under provision in prior years				
- Income tax	<b>(6,306)</b>	(1,400)	<b>(6,298)</b>	(1,359)
- Deferred tax	<b>108</b>	475	<b>108</b>	475
	<b>187,562</b>	176,591	<b>187,454</b>	176,590

**36. EARNINGS PER SHARE**

Basic earnings per share are calculated based on the net profit attributable to equity holders of the Group of RM566,118,000 (2016: RM530,962,000) and the weighted average number of ordinary shares outstanding during the year of 2,432,579,699 (2016: 2,381,774,336).



**NOTES TO THE FINANCIAL STATEMENTS**

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**37. DIVIDENDS**

Dividends paid by the Bank:

	SEN PER SHARE	TOTAL AMOUNT RM'000	DATE OF PAYMENT
<b>2017</b>			
Final 2016	5.58	<b>134,167</b>	15 June 2017
Interim 2017	5.41	<b>132,310</b>	20 September 2017
		<b>266,477</b>	
<b>2016</b>			
Final 2015	5.49	129,744	18 May 2016
Interim 2016	5.50	131,132	22 September 2016
		260,876	

From the total dividend amount paid of RM134.2 million on 15 June 2017, 100% or RM134.2 million was reinvested to subscribe for 41,282,000 new ordinary shares at RM3.25 each via the Dividend Reinvestment Plan.

From the total dividend amount paid of RM132.3 million on 20 September 2017, approximately 50% or RM66.1 million was distributed as cash dividend whilst the remaining 50% amounting to RM66.2 million was reinvested to subscribe for 20,356,000 new ordinary shares at RM3.25 each via the Dividend Reinvestment Plan.

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.

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.

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 2017 ordinary dividend	6.09	<b>150,180</b>

### 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.

	CONSUMER BANKING RM'000	CORPORATE AND COMMERCIAL BANKING RM'000	TREASURY RM'000	SHAREHOLDERS UNIT RM'000	ELIMINATION RM'000	GROUP TOTAL RM'000
<b>31 December 2017</b>						
<b>Total Revenue</b>	<b>1,839,686</b>	<b>588,196</b>	<b>554,546</b>	<b>37,153</b>	<b>(11,400)</b>	<b>3,008,181</b>
Net fund based income	858,386	360,774	(27,177)	283,355	–	<b>1,475,338</b>
Non-fund based income	155,474	40,997	109,233	29,963	(11,161)	<b>324,506</b>
<b>Net income</b>	<b>1,013,860</b>	<b>401,771</b>	<b>82,056</b>	<b>313,318</b>	<b>(11,161)</b>	<b>1,799,844</b>
Net allowance for impairment	(14,849)	30,219	–	–	–	<b>15,370</b>
<b>Profit before overheads, zakat and tax</b>	<b>999,011</b>	<b>431,990</b>	<b>82,056</b>	<b>313,318</b>	<b>(11,161)</b>	<b>1,815,214</b>
Operating expenses						<b>(1,048,161)</b>
<b>Profit before zakat and tax</b>						<b>767,053</b>
Segment assets	31,693,272	10,420,148	12,961,042	41,366	(33,167)	<b>55,082,661</b>
Unallocated assets						<b>2,660,253</b>
<b>Total assets</b>						<b>57,742,914</b>

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**38. OPERATING SEGMENTS** (cont'd)

	CONSUMER BANKING RM'000	CORPORATE AND COMMERCIAL BANKING RM'000	TREASURY RM'000	SHAREHOLDERS UNIT RM'000	ELIMINATION RM'000	GROUP TOTAL RM'000
<b>31 December 2016</b>						
<b>Total Revenue</b>	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
<b>Net income</b>	1,010,626	434,280	95,402	226,759	(6,309)	1,760,758
Net allowance for impairment	(63,109)	(28,996)	353	–	–	(91,752)
<b>Profit before overheads, zakat and tax</b>	947,517	405,284	95,755	226,759	(6,309)	1,669,006
Operating expenses						(948,594)
<b>Profit before zakat and tax</b>						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
<b>Total assets</b>						55,676,697

**39. FINANCIAL RISK MANAGEMENT****Overview**

The Bank's business activities involve the use financial instruments which expose the Bank to various financial risks, namely credit risk, market risk and liquidity risk.

The Bank's financial risk management is guided by the Bank's Risk Appetite Statement and Risk Management Policies/Guidelines and subject to the oversight by the Board of Directors ("Board") via the Board Risk Committee ("BRC").

The BRC is assisted by the specific Risk Management Committees namely the Management Risk Control Committee ("MRCC") and the Asset & Liability Management Committee ("ALCO").

**(a) Financial instruments by categories**

The table in subsequent pages 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** (cont'd)**(a) Financial instruments by categories** (cont'd)

<b>BANK</b> <b>31 DECEMBER 2017</b> <b>RM'000</b>	<b>CARRYING</b> <b>AMOUNT</b>	<b>F&amp;R/(FL)</b>	<b>FVTPL</b>	<b>AFS</b>	<b>HTM</b>	<b>DERIVATIVES</b>
<b>Financial assets</b>						
Cash and short-term funds and deposits and placements with financial institutions	<b>4,185,561</b>	<b>4,185,561</b>	–	–	–	–
Financial assets held-for-trading	<b>375,664</b>	–	<b>375,664</b>	–	–	–
Derivative financial assets	<b>68,319</b>	–	–	–	–	<b>68,319</b>
Financial assets available-for-sale	<b>9,253,140</b>	–	–	<b>9,253,140</b>	–	–
Financial assets held-to-maturity	–	–	–	–	–	–
Financing, advances and others	<b>42,113,420</b>	<b>42,113,420</b>	–	–	–	–
Other assets	<b>121,062</b>	<b>121,062</b>	–	–	–	–
Statutory deposits with Bank Negara Malaysia	<b>1,407,284</b>	<b>1,407,284</b>	–	–	–	–
	<b>57,524,450</b>	<b>47,827,327</b>	<b>375,664</b>	<b>9,253,140</b>	–	<b>68,319</b>
<b>Financial liabilities</b>						
Deposits from customers	<b>(46,209,028)</b>	<b>(46,209,028)</b>	–	–	–	–
Investment accounts of customers	<b>(4,260,185)</b>	<b>(4,260,185)</b>	–	–	–	–
Deposits and placements of banks and other financial institutions	–	–	–	–	–	–
Derivative financial liabilities	<b>(74,668)</b>	–	–	–	–	<b>(74,668)</b>
Bills and acceptance payable	<b>(420,258)</b>	<b>(420,258)</b>	–	–	–	–
Subordinated Sukuk Murabahah	<b>(1,006,486)</b>	<b>(1,006,486)</b>	–	–	–	–
Other liabilities	<b>(773,769)</b>	<b>(773,769)</b>	–	–	–	–
	<b>(52,744,394)</b>	<b>(52,669,726)</b>	–	–	–	<b>(74,668)</b>

There is no disclosure for the Group as the Group's financial instruments are not materially different from the Bank's financial instruments.

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**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(a) Financial instruments by categories** (cont'd)

<b>BANK</b> <b>31 DECEMBER 2016</b> <b>RM'000</b>	<b>CARRYING</b> <b>AMOUNT</b>	<b>F&amp;R/(FL)</b>	<b>FVTPL</b>	<b>AFS</b>	<b>HTM</b>	<b>DERIVATIVES</b>
<b>Financial assets</b>						
Cash and short-term funds and deposits and placements with financial institutions	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	-	-	-	-
	<b>55,433,114</b>	<b>44,723,346</b>	<b>569,750</b>	<b>9,957,743</b>	<b>57,703</b>	<b>124,572</b>
<b>Financial liabilities</b>						
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)	-	-	-	-
	<b>(51,252,327)</b>	<b>(51,141,238)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(111,089)</b>

There is no disclosure for the Group as the Group's financial instruments are not materially different from the Bank's financial instruments.

## 39. FINANCIAL RISK MANAGEMENT (cont'd)

### (b) Credit risk

#### Overview

Credit risk is the risk of a customer or counterparty failing to perform its obligations. It 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 include: 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 MRCC and/or BRC, guided by the Board of Directors' approved Risk Appetite Statement.

The Bank has instituted several levels of Financing Committees, which assess and approve credits at their specified authority levels. The 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 detailed 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.

A detailed 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.

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**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(b) Credit risk** (cont'd)**Maximum exposure to credit risk**

The following table presents 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.

	<b>BANK</b>	
	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Cash and short-term funds	<b>4,185,561</b>	3,963,268
Deposits and placements with banks and other financial institutions	–	100,000
Financial assets held-for-trading	<b>375,664</b>	569,750
Derivative financial assets	<b>68,319</b>	124,572
Financial assets available-for-sale	<b>9,253,140</b>	9,957,743
Financial assets held-to-maturity	–	57,703
Financing, advances and others	<b>42,113,420</b>	39,189,274
Sub-total	<b>55,996,104</b>	53,962,310
Credit related obligation:		
Credit commitments	<b>9,941,346</b>	9,750,962
Sub-total	<b>9,941,346</b>	9,750,962
Total credit exposures	<b>65,937,450</b>	63,713,272

There is no disclosure for the Group as the Group's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments are not materially different from the Bank.



## 39. FINANCIAL RISK MANAGEMENT (cont'd)

## (b) Credit risk (cont'd)

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

GROUP AS AT 31 DECEMBER 2017	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	COMMIT- MENTS AND CONTIN- GENCIES* RM'000
Primary agriculture	-	-	-	-	-	481,879	481,879	111,992
Mining and quarrying	-	-	-	-	-	7,906	7,906	383,585
Manufacturing (including agro-based)	-	-	22	-	-	800,040	800,062	1,094,810
Electricity, gas and water	-	-	-	2,129,021	-	330,767	2,459,788	442,008
Wholesale & retail trade, and hotels & restaurants	-	-	-	81,146	-	1,187,262	1,268,408	611,688
Construction	-	1	65	702,282	-	2,089,099	2,791,447	1,615,417
Real estate	-	-	1,535	508,410	-	1,569,501	2,079,446	7,910
Transport, storage and communications	-	15,041	1	925,993	-	637,669	1,578,704	486,025
Finance, insurance and business activities	3,263,920	365,883	66,696	4,905,831	-	2,112,629	10,714,959	1,680,118
Education, health and others	-	-	-	-	-	1,197,840	1,197,840	1,787,146
Household sectors	-	-	-	-	-	31,698,828	31,698,828	479,715
Other sectors	921,777	-	-	-	-	-	921,777	1,240,932
	<b>4,185,697</b>	<b>380,925</b>	<b>68,319</b>	<b>9,252,683</b>	<b>-</b>	<b>42,113,420</b>	<b>56,001,044</b>	<b>9,941,346</b>

\*Commitments and contingencies excluding derivative financial assets

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(b) Credit risk** (cont'd)**(i) Concentration of credit risk for Group and Bank** (cont'd)

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	COMMIT- MENTS AND CONTIN- GENCIES* 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

## 39. FINANCIAL RISK MANAGEMENT (cont'd)

## (b) Credit risk (cont'd)

## (i) Concentration of credit risk for Group and Bank (cont'd)

BANK AS AT 31 DECEMBER 2017	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	COMMIT- MENTS AND CONTIN- GENCIES* RM'000
Primary agriculture	-	-	-	-	-	481,879	481,879	111,992
Mining and quarrying	-	-	-	-	-	7,906	7,906	383,585
Manufacturing (including agro-based)	-	-	22	-	-	800,040	800,062	1,094,810
Electricity, gas and water	-	-	-	2,129,021	-	330,767	2,459,788	442,008
Wholesale & retail trade, and hotels & restaurants	-	-	-	81,146	-	1,187,262	1,268,408	611,688
Construction	-	1	65	702,282	-	2,089,099	2,791,447	1,615,417
Real estate	-	-	1,535	508,410	-	1,569,501	2,079,446	7,910
Transport, storage and communications	-	15,041	1	925,993	-	637,669	1,578,704	486,025
Finance, insurance and business activities	3,263,920	360,622	66,696	4,906,288	-	2,112,629	10,710,155	1,680,118
Education, health and others	-	-	-	-	-	1,197,840	1,197,840	1,787,146
Household sectors	-	-	-	-	-	31,698,828	31,698,828	479,715
Other sectors	921,641	-	-	-	-	-	921,641	1,240,932
	<b>4,185,561</b>	<b>375,664</b>	<b>68,319</b>	<b>9,253,140</b>	<b>-</b>	<b>42,113,420</b>	<b>55,996,104</b>	<b>9,941,346</b>

\*Commitments and contingencies excluding derivative financial assets

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(cont'd)

**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(b) Credit risk** (cont'd)**(i) Concentration of credit risk for Group and Bank** (cont'd)

<b>BANK AS AT 31 DECEMBER 2016</b>	<b>CASH AND SHORT-TERM FUNDS AND DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS RM'000</b>	<b>FINANCIAL ASSETS HELD-FOR- TRADING RM'000</b>	<b>DERIVATIVE FINANCIAL ASSETS RM'000</b>	<b>FINANCIAL ASSETS AVAILABLE- FOR-SALE RM'000</b>	<b>FINANCIAL ASSETS HELD-TO- MATURITY RM'000</b>	<b>FINANCING, ADVANCES AND OTHERS RM'000</b>	<b>ON- BALANCE SHEETS TOTAL RM'000</b>	<b>COMMIT- MENTS AND CONTIN- GENCIES* RM'000</b>
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
	<b>4,063,268</b>	<b>569,750</b>	<b>124,572</b>	<b>9,957,743</b>	<b>57,703</b>	<b>39,189,274</b>	<b>53,962,310</b>	<b>9,750,962</b>

\*Commitments and contingencies excluding derivative financial assets

**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(b) Credit risk** (cont'd)**(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").

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

	<b>GROUP AND BANK</b>	
	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Neither past due nor impaired	<b>41,736,562</b>	38,788,825
Past due but not impaired	<b>551,097</b>	694,173
Impaired	<b>398,277</b>	389,445
	<b>42,685,936</b>	39,872,443
Allowance for impairment on financing, advances and others		
- collective assessment allowance	<b>(446,069)</b>	(554,971)
- individual assessment allowance	<b>(126,447)</b>	(128,198)
	<b>42,113,420</b>	39,189,274

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(b) Credit risk** (cont'd)**(iii) Credit quality of gross financing and advances** (cont'd)**Neither past due nor impaired financing**

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
Excellent to good	<b>35,144,157</b>	31,981,235
Satisfactory	<b>6,092,349</b>	6,352,707
Fair	<b>500,056</b>	454,883
	<b>41,736,562</b>	38,788,825

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:** Higher risks on payment obligations. Financial performance may continue to deteriorate.**Past due but not impaired financing**

	GROUP AND BANK			
	31.12.2017		31.12.2016	
	RM'000	% TO GROSS FINANCING	RM'000	% TO GROSS FINANCING
By ageing				
<i>Month-in-arrears 1</i>	<b>362,240</b>	<b>0.85%</b>	439,600	1.10%
<i>Month-in-arrears 2</i>	<b>188,857</b>	<b>0.44%</b>	254,573	0.64%
	<b>551,097</b>	<b>1.29%</b>	694,173	1.74%

**Impaired financing**

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
Individually assessed	<b>217,209</b>	203,374
<i>of which:</i>		
<i>Month-in-arrears 0</i>	<b>20,060</b>	15,614
<i>Month-in-arrears 1</i>	<b>69,204</b>	240
<i>Month-in-arrears 2</i>	<b>3,317</b>	7,623
<i>Month-in-arrears 3 and above</i>	<b>124,628</b>	179,897
Collectively assessed	<b>181,068</b>	186,071
	<b>398,277</b>	389,445

**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(b) Credit risk** (cont'd)**(iii) Credit quality of gross financing and advances** (cont'd)**Impaired financing of which rescheduled and restructured financing**

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
Consumer	21,264	25,950
Business	8,117	73,093
	<b>29,381</b>	99,043

Rescheduled or 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.

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 2017	CONSUMER RM'000	BUSINESS RM'000	TOTAL RM'000
Excellent to good	26,212,600	8,931,557	35,144,157
Satisfactory	4,564,174	1,528,175	6,092,349
Fair	499,291	765	500,056
Past due but not impaired	362,240	188,857	551,097
Impaired	216,461	181,816	398,277
Total	<b>31,854,766</b>	<b>10,831,170</b>	<b>42,685,936</b>

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



**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(b) Credit risk** (cont'd)**(iv) Credit quality of other financial assets**

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

<b>BANK AS AT 31 DECEMBER 2017</b>	<b>FINANCIAL ASSETS HELD-FOR -TRADING RM'000</b>	<b>DERIVATIVE FINANCIAL ASSETS RM'000</b>	<b>FINANCIAL ASSETS AVAILABLE -FOR-SALE RM'000</b>	<b>FINANCIAL ASSETS HELD-TO- MATURITY RM'000</b>	<b>TOTAL RM'000</b>
Government bonds and treasury bills	<b>355,681</b>	–	<b>1,757,129</b>	–	<b>2,112,810</b>
Sukuk					
Rated AAA	<b>1</b>	–	<b>2,004,390</b>	–	<b>2,004,391</b>
Rated AA1 to AA3	–	–	<b>1,046,033</b>	–	<b>1,046,033</b>
Rated A1 to A3	<b>9</b>	–	–	–	<b>9</b>
Lower than A	–	–	<b>20,000</b>	–	<b>20,000</b>
Unrated – Government guaranteed bonds	<b>19,973</b>	–	<b>4,388,282</b>	–	<b>4,408,255</b>
Other unrated financial assets	–	–	<b>37,306</b>	–	<b>37,306</b>
Derivative financial assets					
Bank and financial institution counterparties	–	<b>66,694</b>	–	–	<b>66,694</b>
Corporate	–	<b>1,625</b>	–	–	<b>1,625</b>
	<b>375,664</b>	<b>68,319</b>	<b>9,253,140</b>	–	<b>9,697,123</b>

There is no disclosure for Group as the Group's financial assets are not materially different from the Bank's financial assets.

**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(b) Credit risk** (cont'd)**(iv) Credit quality of other financial assets** (cont'd)

Credit quality of other financial assets by external rating is as follows (cont'd):

<b>BANK AS AT 31 DECEMBER 2016</b>	<b>FINANCIAL ASSETS HELD-FOR -TRADING RM'000</b>	<b>DERIVATIVE FINANCIAL ASSETS RM'000</b>	<b>FINANCIAL ASSETS AVAILABLE -FOR-SALE RM'000</b>	<b>FINANCIAL ASSETS HELD-TO- MATURITY RM'000</b>	<b>TOTAL RM'000</b>
Government bonds and treasury bills	324,500	–	2,359,521	–	2,684,021
Sukuk					
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
Other unrated financial assets	–	–	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

There is no disclosure for Group as the Group's financial assets are not materially different from the Bank's financial assets.

**(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. The following are the main market risk factors that the Bank is exposed to:

- **Profit Rate Risk:** also known as the Rate of Return Risk, is 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;

The Bank separates the market risk exposures 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 Board-approved Trading Book Policy Statements. Non-trading portfolios primarily arise from the Bank's profit rate management of the Bank's assets and liabilities and investment portfolio mainly for liquidity management.

**Market risk governance**

The management of market risk is principally carried out by using sets of policies and guidelines approved by the ALCO and/or BRC, guided by the Board-approved Risk Appetite Statement.

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

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2017  
(cont'd)

### 39. FINANCIAL RISK MANAGEMENT (cont'd)

#### (c) Market risk (cont'd)

##### Management of market risk

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

All market risk exposures are managed by Treasury, who has the necessary skills, tools, management and governance to manage such risks. The management of market risk is guided by detailed limits, policies and guidelines which are periodically reviewed.

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, monitoring tools, behavioural assumptions and limit setting methodologies. Escalation procedures are documented and approved by the ALCO and/or 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 regularly 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.

GROUP AS AT 31 DECEMBER 2017	NON TRADING BOOK					NON PROFIT SENSITIVE RM'000	TRADING BOOK RM'000	TOTAL RM'000	EFFECTIVE PROFIT RATE %
	UP TO 1 MONTH RM'000	>1-3 MONTHS RM'000	>3-12 MONTHS RM'000	1-5 YEARS RM'000	OVER 5 YEARS RM'000				
<b>Assets</b>									
Cash and short-term funds and deposits and placements with financial institutions	3,263,920	-	-	-	-	921,777	-	4,185,697	1.57%
Financial assets held-for-trading	-	-	-	-	-	-	380,925	380,925	4.40%
Derivative financial assets	-	-	-	-	-	-	68,319	68,319	1.79%
Financial assets available-for-sale	209,960	147,227	732,806	5,140,778	3,021,912	-	-	9,252,683	4.08%
Financial assets held-to-maturity	-	-	-	-	-	-	-	-	-
Financing, advances and others									
- non-impaired	37,200,376	559,077	73,727	1,474,789	2,979,690	-	-	42,287,659	5.56%
- impaired net of allowances*	-	-	-	-	-	(174,239)	-	(174,239)	
Other assets	-	-	-	-	-	1,741,870	-	1,741,870	
<b>Total assets</b>	<b>40,674,256</b>	<b>706,304</b>	<b>806,533</b>	<b>6,615,567</b>	<b>6,001,602</b>	<b>2,489,408</b>	<b>449,244</b>	<b>57,742,914</b>	

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

## 39. FINANCIAL RISK MANAGEMENT (cont'd)

## (c) Market risk (cont'd)

## (i) Profit rate risk (cont'd)

GROUP AS AT 31 DECEMBER 2017	NON TRADING BOOK						TRADING BOOK RM'000	TOTAL RM'000	EFFECTIVE PROFIT RATE %
	UP TO 1 MONTH RM'000	>1-3 MONTHS RM'000	>3-12 MONTHS RM'000	1-5 YEARS RM'000	OVER 5 YEARS RM'000	NON PROFIT SENSITIVE RM'000			
<b>Liabilities</b>									
Deposits from customers	8,164,490	13,367,794	7,370,928	1,714,677	-	15,575,021	-	46,192,910	2.54%
Investment accounts of customers	711,299	1,171,831	382,564	-	-	1,994,491	-	4,260,185	1.01%
Derivative financial liabilities	-	-	-	-	-	-	74,668	74,668	1.95%
Bills and acceptance payable	130,846	35,636	-	-	-	253,776	-	420,258	
Subordinated Sukuk Murabahah	-	-	-	1,000,000	-	6,486	-	1,006,486	5.43%
Other liabilities	-	-	-	-	-	828,703	-	828,703	
<b>Total liabilities</b>	<b>9,006,635</b>	<b>14,575,261</b>	<b>7,753,492</b>	<b>2,714,677</b>	<b>-</b>	<b>18,658,477</b>	<b>74,668</b>	<b>52,783,210</b>	
<b>Equity</b>									
Equity attributable to equity holders of the Bank	-	-	-	-	-	4,959,704	-	4,959,704	
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,959,704</b>	<b>-</b>	<b>4,959,704</b>	
<b>Total liabilities and shareholders' equity</b>	<b>9,006,635</b>	<b>14,575,261</b>	<b>7,753,492</b>	<b>2,714,677</b>	<b>-</b>	<b>23,618,181</b>	<b>74,668</b>	<b>57,742,914</b>	
On-balance sheet profit sensitivity gap	31,667,621	(13,868,957)	(6,946,959)	3,900,890	6,001,602	(21,128,773)	374,576	-	
Off-balance sheet profit sensitivity gap (profit rate swaps)	100,000	300,000	-	(400,000)	-	-	-	-	
<b>Total profit sensitivity gap</b>	<b>31,767,621</b>	<b>(13,568,957)</b>	<b>(6,946,959)</b>	<b>3,500,890</b>	<b>6,001,602</b>	<b>(21,128,773)</b>	<b>374,576</b>	<b>-</b>	

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(c) Market risk** (cont'd)**(i) Profit rate risk** (cont'd)

GROUP As at 31 December 2016	NON TRADING BOOK					NON PROFIT SENSITIVE RM'000	TRADING BOOK RM'000	TOTAL RM'000	EFFECTIVE PROFIT RATE %
	UP TO 1 MONTH RM'000	>1-3 MONTHS RM'000	>3-12 MONTHS RM'000	1-5 YEARS RM'000	OVER 5 YEARS RM'000				
<b>Assets</b>									
Cash and short-term funds and deposits and placements with financial institutions	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	33,880,805	583,532	73,579	1,471,045	3,474,037	-	-	39,482,998	5.77%
- impaired net of allowances*	-	-	-	-	-	(293,724)	-	(293,724)	
Other assets	-	-	-	-	-	1,709,610	-	1,709,610	
<b>Total assets</b>	<b>36,947,267</b>	<b>897,849</b>	<b>1,549,093</b>	<b>6,246,077</b>	<b>6,988,444</b>	<b>2,348,560</b>	<b>699,407</b>	<b>55,676,697</b>	

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

## 39. FINANCIAL RISK MANAGEMENT (cont'd)

## (c) Market risk (cont'd)

## (i) Profit rate risk (cont'd)

GROUP As at 31 December 2016	NON TRADING BOOK						NON PROFIT SENSITIVE RM'000	TRADING BOOK RM'000	TOTAL RM'000	EFFECTIVE PROFIT RATE %
	UP TO 1 MONTH RM'000	>1-3 MONTHS RM'000	>3-12 MONTHS RM'000	1-5 YEARS RM'000	OVER 5 YEARS RM'000					
<b>Liabilities</b>										
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		
<b>Total liabilities</b>	<b>17,858,996</b>	<b>11,125,732</b>	<b>4,630,927</b>	<b>1,110,072</b>	<b>-</b>	<b>16,454,415</b>	<b>111,089</b>	<b>51,291,231</b>		
<b>Equity</b>										
Equity attributable to equity holder of the Bank	-	-	-	-	-	4,385,466	-	4,385,466		
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,385,466</b>	<b>-</b>	<b>4,385,466</b>		
<b>Total liabilities and shareholders' equity</b>	<b>17,858,996</b>	<b>11,125,732</b>	<b>4,630,927</b>	<b>1,110,072</b>	<b>-</b>	<b>20,839,881</b>	<b>111,089</b>	<b>55,676,697</b>		
On-balance sheet profit sensitivity gap	19,088,271	(10,227,883)	(3,081,834)	5,136,005	6,988,444	(18,491,321)	588,318	-		
Off-balance sheet profit sensitivity gap (profit rate swaps)	300,000	300,000	(200,000)	(400,000)	-	-	-	-		
<b>Total profit sensitivity gap</b>	<b>19,388,271</b>	<b>(9,927,883)</b>	<b>(3,281,834)</b>	<b>4,736,005</b>	<b>6,988,444</b>	<b>(18,491,321)</b>	<b>588,318</b>	<b>-</b>		

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(c) Market risk** (cont'd)**(i) Profit rate risk** (cont'd)

BANK As at 31 December 2017	NON TRADING BOOK					NON PROFIT SENSITIVE RM'000	TRADING BOOK RM'000	TOTAL RM'000	EFFECTIVE PROFIT RATE %
	UP TO 1 MONTH RM'000	>1-3 MONTHS RM'000	>3-12 MONTHS RM'000	1-5 YEARS RM'000	OVER 5 YEARS RM'000				
<b>Assets</b>									
Cash, balances and placements with banks	3,263,920	-	-	-	-	921,641	-	4,185,561	1.56%
Financial assets held-for-trading	-	-	-	-	-	-	375,664	375,664	4.41%
Derivative financial assets	-	-	-	-	-	-	68,319	68,319	1.79%
Financial assets available-for-sale	210,417	147,227	732,806	5,140,778	3,021,912	-	-	9,253,140	4.08%
Financial assets held-to-maturity	-	-	-	-	-	-	-	-	-
Financing, advances and others									
- non-impaired	37,200,376	559,077	73,727	1,474,789	2,979,690	-	-	42,287,659	5.56%
- impaired net of allowances*	-	-	-	-	-	(174,239)	-	(174,239)	
Other assets	-	-	-	-	-	1,754,136	-	1,754,136	
<b>Total assets</b>	<b>40,674,713</b>	<b>706,304</b>	<b>806,533</b>	<b>6,615,567</b>	<b>6,001,602</b>	<b>2,501,538</b>	<b>443,983</b>	<b>57,750,240</b>	

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



## 39. FINANCIAL RISK MANAGEMENT (cont'd)

## (c) Market risk (cont'd)

## (i) Profit rate risk (cont'd)

BANK As at 31 December 2017	NON TRADING BOOK						NON PROFIT SENSITIVE RM'000	TRADING BOOK RM'000	TOTAL RM'000	EFFECTIVE PROFIT RATE %
	UP TO 1 MONTH RM'000	>1-3 MONTHS RM'000	>3-12 MONTHS RM'000	1-5 YEARS RM'000	OVER 5 YEARS RM'000					
<b>Liabilities</b>										
Deposits from customers	8,166,979	13,370,765	7,372,170	1,714,677	-	15,584,437	-	46,209,028	2.54%	
Investment accounts of customers	711,299	1,171,831	382,564	-	-	1,994,491	-	4,260,185	1.01%	
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-	-	8.03%	
Derivative financial liabilities	-	-	-	-	-	-	74,668	74,668	1.95%	
Bills and acceptance payable	130,846	35,636	-	-	-	253,776	-	420,258		
Subordinated Sukuk Murabahah	-	-	-	1,000,000	-	6,486	-	1,006,486	5.43%	
Other liabilities	-	-	-	-	-	820,109	-	820,109		
<b>Total liabilities</b>	<b>9,009,124</b>	<b>14,578,232</b>	<b>7,754,734</b>	<b>2,714,677</b>	<b>-</b>	<b>18,659,299</b>	<b>74,668</b>	<b>52,790,734</b>		
<b>Equity</b>										
Equity attributable to equity holder of the Bank	-	-	-	-	-	4,959,506	-	4,959,506		
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,959,506</b>	<b>-</b>	<b>4,959,506</b>		
<b>Total liabilities and shareholders' equity</b>	<b>9,009,124</b>	<b>14,578,232</b>	<b>7,754,734</b>	<b>2,714,677</b>	<b>-</b>	<b>23,618,805</b>	<b>74,668</b>	<b>57,750,240</b>		
On-balance sheet profit sensitivity gap	31,665,589	(13,871,928)	(6,948,201)	3,900,890	6,001,602	(21,117,267)	369,315	-		
Off-balance sheet profit sensitivity gap (profit rate swaps)	100,000	300,000	-	(400,000)	-	-	-	-		
<b>Total profit sensitivity gap</b>	<b>31,765,589</b>	<b>(13,571,928)</b>	<b>(6,948,201)</b>	<b>3,500,890</b>	<b>6,001,602</b>	<b>(21,117,267)</b>	<b>369,315</b>	<b>-</b>		

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(c) Market risk** (cont'd)**(i) Profit rate risk** (cont'd)

BANK As at 31 December 2016	NON TRADING BOOK					NON PROFIT SENSITIVE RM'000	TRADING BOOK RM'000	TOTAL RM'000	EFFECTIVE PROFIT RATE %
	UP TO 1 MONTH RM'000	>1-3 MONTHS RM'000	>3-12 MONTHS RM'000	1-5 YEARS RM'000	OVER 5 YEARS RM'000				
<b>Assets</b>									
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	33,880,805	583,532	73,579	1,471,045	3,474,037	-	-	39,482,998	5.77%
- impaired net of allowances*	-	-	-	-	-	(293,724)	-	(293,724)	
Other assets	-	-	-	-	-	1,720,991	-	1,720,991	
<b>Total assets</b>	<b>36,947,724</b>	<b>897,849</b>	<b>1,549,093</b>	<b>6,246,077</b>	<b>6,988,444</b>	<b>2,359,792</b>	<b>694,322</b>	<b>55,683,301</b>	

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

## 39. FINANCIAL RISK MANAGEMENT (cont'd)

## (c) Market risk (cont'd)

## (i) Profit rate risk (cont'd)

BANK As at 31 December 2016	NON TRADING BOOK						NON PROFIT SENSITIVE RM'000	TRADING BOOK RM'000	TOTAL RM'000	EFFECTIVE PROFIT RATE %
	UP TO 1 MONTH RM'000	>1-3 MONTHS RM'000	>3-12 MONTHS RM'000	1-5 YEARS RM'000	OVER 5 YEARS RM'000					
<b>Liabilities</b>										
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	-	
<b>Total liabilities</b>	<b>17,861,007</b>	<b>11,128,672</b>	<b>4,632,648</b>	<b>1,110,072</b>	<b>-</b>	<b>16,453,858</b>	<b>111,089</b>	<b>51,297,346</b>		
<b>Equity</b>										
Equity attributable to equity holder of the Bank	-	-	-	-	-	4,385,955	-	4,385,955		
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,385,955</b>	<b>-</b>	<b>4,385,955</b>		
<b>Total liabilities and shareholders' equity</b>	<b>17,861,007</b>	<b>11,128,672</b>	<b>4,632,648</b>	<b>1,110,072</b>	<b>-</b>	<b>20,839,813</b>	<b>111,089</b>	<b>55,683,301</b>		
On-balance sheet profit sensitivity gap	19,086,717	(10,230,823)	(3,083,555)	5,136,005	6,988,444	(18,480,021)	583,233	-		
Off-balance sheet profit sensitivity gap (profit rate swaps)	300,000	300,000	(200,000)	(400,000)	-	-	-	-		
<b>Total profit sensitivity gap</b>	<b>19,386,717</b>	<b>(9,930,823)</b>	<b>(3,283,555)</b>	<b>4,736,005</b>	<b>6,988,444</b>	<b>(18,480,021)</b>	<b>583,233</b>	<b>-</b>		

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2017  
(cont'd)

### 39. FINANCIAL RISK MANAGEMENT (cont'd)

#### (c) Market risk (cont'd)

##### (i) Profit rate risk (cont'd)

##### 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 earnings-at-risk ("EaR").

The Bank monitors the sensitivity of EaR under varying profit rate scenarios (i.e. simulation modeling). The model is a combination of standard and non-standard scenarios relevant to the local market. The standard scenarios include the parallel fall or rise in the profit rate curve and historical simulation. These scenarios assume no management action. Hence, it does 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 Bank's profit rate sensitivity to a 100 basis points parallel shift as at reporting date.

	2017		2016	
	-100BPS	+100BPS	-100BPS	+100BPS
	INCREASE/(DECREASE)			
	RM MILLION	RM MILLION	RM MILLION	RM MILLION
<b>Bank</b>				
Impact on EaR	<b>(85.41)</b>	<b>85.41</b>	(28.46)	28.46
Impact on EVE	<b>168.00</b>	<b>(168.00)</b>	266.25	(266.25)

Other control to manage the profit rate risk in the non-trading portfolio includes present value of a 1 basis point change ("PV01") which measures the portfolio's sensitivity to market rates movement.

**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(c) Market risk** (cont'd)**(ii) Market risk in the Trading Portfolio**

Market risk in the trading portfolio is monitored and controlled using Value-at-Risk ("VaR"). It is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates over a specified time horizon and to a given level of confidence. The VaR model used by the Bank is based on historical simulation. This model derives plausible future scenarios from past series of recorded market rates and prices, taking into account interrelationship between different markets and rates such as profit rates and foreign exchange rates. The historical simulation model used by the Bank incorporates the following features:

- Potential market movements are calculated with reference to data from the past two years;
- Historical market rates and prices are calculated with reference to foreign exchange rates and profit rates; and
- VaR is calculated using a 99 per cent confidence level and for a one-day holding period.

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

	AS AT	1.1.2017 TO 31.12.2017		
	31.12.2017	AVERAGE	MAXIMUM	MINIMUM
	RM MILLION	RM MILLION	RM MILLION	RM MILLION
<b>Bank</b>				
Profit rate risk	<b>1.74</b>	<b>1.88</b>	<b>3.29</b>	<b>0.59</b>
Foreign exchange risk	<b>0.43</b>	<b>0.29</b>	<b>0.86</b>	<b>0.01</b>
Overall	<b>2.17</b>	<b>2.17</b>	<b>3.67</b>	<b>0.62</b>

	AS AT	1.1.2016 TO 31.12.2016		
	31.12.2016	AVERAGE	MAXIMUM	MINIMUM
	RM MILLION	RM MILLION	RM MILLION	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

In addition to VaR, the Bank has put in place the maximum loss limits, position limits, tenor limits and PV01 limits in monitoring the trading portfolio.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2017  
(cont'd)

### 39. FINANCIAL RISK MANAGEMENT (cont'd)

#### (c) Market risk (cont'd)

##### (iii) Foreign exchange risk

The Bank manages and controls the trading portfolio's foreign exchange risk by limiting the net open exposure to individual currencies and on an aggregate basis. The Bank also has in place the sensitivity limit. For the Bank-wide (trading and non-trading portfolios) foreign exchange risk, the Bank manages and controls by limiting the net open exposure on an aggregate basis.

##### Sensitivity Analysis

Assuming that other risk variables remain constant, the foreign currency revaluation sensitivity for the Bank as at reporting date is summarised as follows (only net open position for major currencies are shown in its specific currency in the table below. For other currencies, these exposures are grouped as 'Others'):

	2017		2016	
	-1% DEPRECIATION RM'000	+1% APPRECIATION RM'000	-1% DEPRECIATION RM'000	+1% APPRECIATION RM'000
<b>Group and Bank</b>				
US Dollar	9,331	(9,331)	11,503	(11,503)
Euro	5,197	(5,197)	8,098	(8,098)
Others	826	(826)	(96)	96

#### (d) Liquidity risk

##### Overview

Liquidity risk is the potential inability of the Bank to meet its funding needs and regulatory obligation when they fall due, or will have to do it at excessive cost. This risk can arise from mismatches in the timing of cash flows.

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 management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due and that wholesale market access remains accessible and cost effective.

Current accounts and savings deposits payable on demand form a critical 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.

The Bank's liquidity management is primarily carried out in accordance with the Bank Negara Malaysia's requirements and limits approved by the ALCO and/or BRC. 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.

**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(d) Liquidity risk** (cont'd)**Overview** (cont'd)

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 risk governance**

The management of liquidity risk is principally carried out by using sets of policies and guidelines approved by the ALCO and/or BRC, guided by the Board's approved Risk Appetite Statement.

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

**Management of liquidity risk**

All liquidity risk exposures are managed by Treasury, who 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.

MRMD is the independent risk control function and is responsible for ensuring efficient implementation of liquidity risk management. It is also responsible for developing the Bank's liquidity risk management guidelines, monitoring tools, behavioural assumptions and limit setting methodologies. Escalation procedures are documented and approved by the ALCO and/or BRC, with proper authorities to ratify or approve any excess. In addition, the liquidity risk exposures and limits are reported to the ALCO and the BRC.

Stress testing and scenario analysis are important tools used by the Bank to manage the liquidity risk. Stress test results are produced regularly 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.

Another key control feature of the Bank's liquidity risk management is the approved and documented liquidity contingency management 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.



**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(d) Liquidity risk** (cont'd)**Maturity analysis**

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

<b>GROUP AS AT 31 DECEMBER 2017</b>	<b>ON DEMAND RM'000</b>	<b>UP TO 1 MONTH RM'000</b>	<b>&gt;1 TO 3 MONTHS RM'000</b>	<b>&gt;3 TO 6 MONTHS RM'000</b>	<b>&gt;6 TO 12 MONTHS RM'000</b>	<b>OVER 1 YEAR RM'000</b>	<b>TOTAL RM'000</b>
<b>Assets</b>							
Cash and short-term funds and deposits and placements with financial institutions	921,777	3,263,920	–	–	–	–	4,185,697
Securities portfolio	–	215,221	147,227	351,798	381,008	8,538,354	9,633,608
Derivatives financial assets	–	1,658	31,572	15,940	14,657	4,492	68,319
Financing and advances	–	1,275,604	2,132,544	430,257	453,015	37,822,000	42,113,420
Other assets	–	–	–	–	–	1,741,870	1,741,870
<b>Total assets</b>	<b>921,777</b>	<b>4,756,403</b>	<b>2,311,343</b>	<b>797,995</b>	<b>848,680</b>	<b>48,106,716</b>	<b>57,742,914</b>
<b>Liabilities</b>							
Deposits from customers	15,575,021	8,164,490	13,367,794	5,377,330	1,993,598	1,714,677	46,192,910
Investment accounts of customers	1,994,491	711,299	1,171,831	379,555	3,009	–	4,260,185
Deposits and placements of banks and other financial institutions	–	–	–	–	–	–	–
Derivative financial liabilities	–	3,958	29,334	27,218	12,257	1,901	74,668
Subordinated Sukuk Murabahah	–	–	–	–	6,486	1,000,000	1,006,486
Other liabilities	–	130,846	35,636	–	–	1,082,479	1,248,961
<b>Total liabilities</b>	<b>17,569,512</b>	<b>9,010,593</b>	<b>14,604,595</b>	<b>5,784,103</b>	<b>2,015,350</b>	<b>3,799,057</b>	<b>52,783,210</b>
<b>Equity</b>							
Equity attributable to equity holders of the Bank	–	–	–	–	–	4,959,704	4,959,704
Net liquidity gap on statement of financial position	(16,647,735)	(4,254,190)	(12,293,252)	(4,986,108)	(1,166,670)	39,347,955	–
Commitments and contingencies	–	3,187,616	1,941,359	1,526,040	3,270,632	3,842,515	13,768,162
<b>Net liquidity gap</b>	<b>(16,647,735)</b>	<b>7,441,806</b>	<b>(14,234,611)</b>	<b>(6,512,148)</b>	<b>(4,437,302)</b>	<b>35,505,440</b>	<b>(13,768,162)</b>

**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(d) Liquidity risk** (cont'd)**Maturity analysis**

<b>GROUP AS AT 31 DECEMBER 2016</b>	<b>ON DEMAND RM'000</b>	<b>UP TO 1 MONTH RM'000</b>	<b>&gt;1 TO 3 MONTHS RM'000</b>	<b>&gt;3 TO 6 MONTHS RM'000</b>	<b>&gt;6 TO 12 MONTHS RM'000</b>	<b>OVER 1 YEAR RM'000</b>	<b>TOTAL RM'000</b>
<b>Assets</b>							
Cash and short-term funds and deposits and placements with financial institutions	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
<b>Total assets</b>	<b>932,674</b>	<b>4,957,948</b>	<b>2,198,708</b>	<b>963,519</b>	<b>1,297,691</b>	<b>45,326,157</b>	<b>55,676,697</b>
<b>Liabilities</b>							
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
<b>Total liabilities</b>	<b>15,756,948</b>	<b>17,861,444</b>	<b>11,142,350</b>	<b>3,149,053</b>	<b>1,576,207</b>	<b>1,805,229</b>	<b>51,291,231</b>
<b>Equity</b>							
Equity attributable to equity holders of the Bank	–	–	–	–	–	4,385,466	4,385,466
Net liquidity gap on statement of financial position	(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
<b>Net liquidity gap</b>	<b>(14,827,888)</b>	<b>(14,979,222)</b>	<b>(11,913,399)</b>	<b>(4,601,239)</b>	<b>(2,149,285)</b>	<b>34,766,474</b>	<b>(13,704,559)</b>

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(d) Liquidity risk** (cont'd)**Maturity analysis** (cont'd)

<b>BANK AS AT 31 DECEMBER 2017</b>	<b>ON DEMAND RM'000</b>	<b>UP TO 1 MONTH RM'000</b>	<b>&gt;1 TO 3 MONTHS RM'000</b>	<b>&gt;3 TO 6 MONTHS RM'000</b>	<b>&gt;6 TO 12 MONTHS RM'000</b>	<b>OVER 1 YEAR RM'000</b>	<b>TOTAL RM'000</b>
<b>Assets</b>							
Cash and short-term funds and deposits and placements with financial institutions	921,641	3,263,920	–	–	–	–	4,185,561
Securities portfolio	–	210,417	147,227	351,798	381,008	8,538,354	9,628,804
Derivatives financial assets	–	1,658	31,572	15,940	14,657	4,492	68,319
Financing and advances	–	1,275,604	2,132,544	430,257	453,015	37,822,000	42,113,420
Other assets	–	–	–	–	–	1,754,136	1,754,136
<b>Total assets</b>	<b>921,641</b>	<b>4,751,599</b>	<b>2,311,343</b>	<b>797,995</b>	<b>848,680</b>	<b>48,118,982</b>	<b>57,750,240</b>
<b>Liabilities</b>							
Deposits from customers	15,584,437	8,166,979	13,370,765	5,377,859	1,994,311	1,714,677	46,209,028
Investment accounts of customers	1,994,491	711,299	1,171,831	379,555	3,009	–	4,260,185
Deposits and placements of banks and other financial institutions	–	–	–	–	–	–	–
Derivative financial liabilities	–	3,958	29,334	27,218	12,257	1,901	74,668
Subordinated Sukuk Murabahah	–	–	–	–	6,486	1,000,000	1,006,486
Other liabilities	–	130,846	35,636	–	–	1,073,885	1,240,367
<b>Total liabilities</b>	<b>17,578,928</b>	<b>9,013,082</b>	<b>14,607,566</b>	<b>5,784,632</b>	<b>2,016,063</b>	<b>3,790,463</b>	<b>52,790,734</b>
<b>Equity</b>							
Equity attributable to equity holders of the Bank	–	–	–	–	–	4,959,506	4,959,506
Net liquidity gap on statement of financial position	(16,657,287)	(4,261,483)	(12,296,223)	(4,986,637)	(1,167,383)	39,369,013	–
Commitments and contingencies	–	3,187,616	1,941,359	1,526,040	3,270,632	3,842,515	13,768,162
<b>Net liquidity gap</b>	<b>(16,657,287)</b>	<b>(7,449,099)</b>	<b>(14,237,582)</b>	<b>(6,512,677)</b>	<b>(4,438,015)</b>	<b>35,526,498</b>	<b>(13,768,162)</b>

**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(d) Liquidity risk** (cont'd)**Maturity analysis** (cont'd)

<b>BANK AS AT 31 DECEMBER 2016</b>	<b>ON DEMAND RM'000</b>	<b>UP TO 1 MONTH RM'000</b>	<b>&gt;1 TO 3 MONTHS RM'000</b>	<b>&gt;3 TO 6 MONTHS RM'000</b>	<b>&gt;6 TO 12 MONTHS RM'000</b>	<b>OVER 1 YEAR RM'000</b>	<b>TOTAL RM'000</b>
<b>Assets</b>							
Cash and short-term funds and deposits and placements with financial institutions	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
<b>Total assets</b>	<b>932,525</b>	<b>4,953,320</b>	<b>2,198,708</b>	<b>963,519</b>	<b>1,297,691</b>	<b>45,337,538</b>	<b>55,683,301</b>
<b>Liabilities</b>							
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	689,887
<b>Total liabilities</b>	<b>15,759,577</b>	<b>17,863,455</b>	<b>11,145,290</b>	<b>3,150,774</b>	<b>1,576,207</b>	<b>1,802,043</b>	<b>51,297,346</b>
<b>Equity</b>							
Equity attributable to equity holders of the Bank	–	–	–	–	–	4,385,955	4,385,955
Net liquidity gap on statement of financial position	(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
<b>Net liquidity gap</b>	<b>(14,830,666)</b>	<b>(14,985,861)</b>	<b>(11,916,339)</b>	<b>(4,602,960)</b>	<b>(2,149,285)</b>	<b>34,780,552</b>	<b>(13,704,559)</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2017  
(cont'd)

### 39. FINANCIAL RISK MANAGEMENT (cont'd)

#### (d) Liquidity risk (cont'd)

##### 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 2017	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
<b>Financial Liabilities</b>						
Deposit from customer	23,584,211	13,441,816	5,408,437	1,919,920	1,924,218	46,278,602
Investment accounts of customers	2,805,598	1,172,136	360,269	24,049	523	4,362,575
Deposit from placements of banks and other financial institutions	–	–	–	–	–	–
Derivatives financial liabilities	5,347	29,846	27,218	12,257	–	74,668
<i>Forward contract</i>	3,958	29,334	27,218	12,257	–	72,767
<i>Islamic Profit Rate Swap</i>	1,389	512	–	–	–	1,901
Bills and acceptance payable	420,258	–	–	–	–	420,258
Subordinated Sukuk Murabahah	–	–	10,970	28,353	966,196	1,005,519
Other liabilities	817,113	–	–	–	–	817,113
	<b>27,632,527</b>	<b>14,643,798</b>	<b>5,806,894</b>	<b>1,984,579</b>	<b>2,890,937</b>	<b>52,958,735</b>
<b>Commitment and Contingencies</b>						
Direct credit substitutes	32,823	66,569	27,583	96,056	214,424	437,455
Transaction related contingent items	105,664	111,197	102,293	271,506	476,445	1,067,105
Short term self liquidating trade related contingencies	210,585	57,984	21,956	27,528	42,684	360,737
	<b>349,072</b>	<b>235,750</b>	<b>151,832</b>	<b>395,090</b>	<b>733,553</b>	<b>1,865,297</b>

There is no disclosure for Group as the Group's figures are not materially different from the Bank's figures.

**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(d) Liquidity risk** (cont'd)**Contractual maturity of financial liabilities on an undiscounted basis** (cont'd)

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:

<b>BANK AS AT 31 DECEMBER 2016</b>	<b>UP TO 1 MONTH RM'000</b>	<b>&gt;1 TO 3 MONTHS RM'000</b>	<b>&gt;3 TO 6 MONTHS RM'000</b>	<b>&gt;6 TO 12 MONTHS RM'000</b>	<b>OVER 1 YEAR RM'000</b>	<b>TOTAL RM'000</b>
<b>Financial Liabilities</b>						
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
<i>Forward contract</i>	2,448	16,618	65,069	23,334	–	107,469
<i>Islamic Profit Rate Swap</i>	3,080	540	–	–	–	3,620
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
<b>Commitment and Contingencies</b>						
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

There is no disclosure for Group as the Group's figures are not materially different from the Bank's figures.

**39. FINANCIAL RISK MANAGEMENT** (cont'd)**(e) Operational Risk****Overview**

Operational risk 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 operational risk**

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 guidelines, procedures and limits.

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

- **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 operational risk. 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.
- **2nd line of defence** – Operational Risk Management Department ("ORMD") is responsible for establishing and maintaining the ORM Framework, developing various ORM tools to facilitate the management of operational risk, monitoring the effectiveness of ORM, assessing operational risk issues from the risk owner and escalating the 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.

Shariah Risk Management Department ("SRM"), Compliance Division and Information Security & Governance Division ("ISG") complement the role of ORMD 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.

ISG is responsible in managing IT risk by establishing, maintaining and enforcing IT risk policies/guidelines and it works closely with Information Technology Division in identifying, assessing, mitigating and monitoring of IT risk in the Bank.

- **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 Islamic 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.

##### **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.

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**40. FAIR VALUE OF FINANCIAL INSTRUMENTS****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.

GROUP 31 DECEMBER 2017 RM'000	FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE				FAIR VALUE OF FINANCIAL INSTRUMENTS NOT CARRIED AT FAIR VALUE LEVEL 3	TOTAL FAIR VALUE	CARRYING AMOUNT
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL			
<b>Financial assets</b>							
Financial assets held-for-trading	–	380,925	–	380,925	–	380,925	380,925
Derivative financial assets	–	68,319	–	68,319	–	68,319	68,319
Financial assets available-for-sale	17,612	9,229,771	–	9,247,383	5,300	9,252,683	9,252,683
Financial assets held-to-maturity	–	–	–	–	–	–	–
Financing, advances and others	–	–	–	–	42,299,796	42,299,796	42,113,420
<b>Financial liabilities</b>							
Derivative financial liabilities	–	74,668	–	74,668	–	74,668	74,668
Subordinated Sukuk Murabahah	–	–	–	–	1,050,750	1,050,750	1,006,486

**40. FAIR VALUE OF FINANCIAL INSTRUMENTS** (cont'd)**Fair value hierarchy** (cont'd)

GROUP 31 DECEMBER 2016 RM'000	FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE				FAIR VALUE OF FINANCIAL INSTRUMENTS NOT CARRIED AT FAIR VALUE LEVEL 3	TOTAL FAIR VALUE	CARRYING AMOUNT
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL			
<b>Financial assets</b>							
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
<b>Financial liabilities</b>							
Derivative financial liabilities	–	111,089	–	111,089	–	111,089	111,089
Subordinated Sukuk Murabahah	–	–	–	–	740,110	740,110	704,393
<b>BANK 31 DECEMBER 2017 RM'000</b>							
<b>Financial assets</b>							
Financial assets							
held-for-trading	–	375,664	–	375,664	–	375,664	375,664
Derivative financial assets	–	68,319	–	68,319	–	68,319	68,319
Financial assets							
available-for-sale	17,612	9,230,228	–	9,247,840	5,300	9,253,140	9,253,140
Financial assets							
held-to-maturity	–	–	–	–	–	–	–
Financing, advances and others	–	–	–	–	42,299,796	42,299,796	42,113,420
<b>Financial liabilities</b>							
Derivative financial liabilities	–	74,668	–	74,668	–	74,668	74,668
Subordinated Sukuk Murabahah	–	–	–	–	1,050,750	1,050,750	1,006,486

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**40. FAIR VALUE OF FINANCIAL INSTRUMENTS** (cont'd)**Fair value hierarchy** (cont'd)

BANK 31 DECEMBER 2016 RM'000	FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE				FAIR VALUE OF FINANCIAL INSTRUMENTS NOT CARRIED AT FAIR VALUE LEVEL 3	TOTAL FAIR VALUE	CARRYING AMOUNT
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL			
<b>Financial assets</b>							
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
<b>Financial liabilities</b>							
Derivative financial liabilities	–	111,089	–	111,089	–	111,089	111,089
Subordinated Sukuk Murabahah	–	–	–	–	740,110	740,110	704,393

**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

**40. FAIR VALUE OF FINANCIAL INSTRUMENTS** (cont'd)**Unobservable inputs used in measuring fair value** (cont'd)**(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.

**(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	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Within one year	<b>47,177</b>	47,378	<b>46,775</b>	46,916
Between one and five years	<b>119,198</b>	123,950	<b>118,678</b>	123,851
More than five years	<b>245,014</b>	264,744	<b>245,014</b>	264,744
	<b>411,389</b>	436,072	<b>410,467</b>	435,511

Included in the above are lease rentals with the ultimate holding entity amounting to RM384,811,000 (2016: RM404,184,000).

**42. CAPITAL COMMITMENTS**

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
Property and equipment		
Contracted but not provided for in the financial statements	<b>88,459</b>	85,773

**NOTES TO THE FINANCIAL STATEMENTS**

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(cont'd)

**43. COMMITMENTS AND CONTINGENCIES**

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

**31 December 2017**

	PRINCIPAL AMOUNT RM'000		CREDIT EQUIVALENT AMOUNT RM'000	RISK WEIGHTED ASSET RM'000
<b>Nature of item</b>				
<b>Credit related exposures</b>				
Direct credit substitutes	2,871,511		2,871,511	2,167,427
Transaction related contingent items	1,066,956		533,478	499,771
Short term self-liquidating trade related contingencies	373,328		74,666	71,836
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- not exceeding one year	318		64	32
- exceeding one year	1,226,538		613,269	445,326
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	4,402,695		–	–
	<b>9,941,346</b>		<b>4,092,988</b>	<b>3,184,392</b>

	PRINCIPAL AMOUNT RM'000	POSITIVE FAIR VALUE OF DERIVATIVE CONTRACTS RM'000	CREDIT EQUIVALENT AMOUNT RM'000	RISK WEIGHTED ASSET RM'000
<b>Derivative Financial Instruments</b>				
Foreign exchange related contracts				
- less than one year	3,218,824	63,827	112,875	41,796
Profit rate related contracts				
- less than one year	–	–	–	–
- one year to less than five years	400,000	2,132	4,921	984
- five years and above	207,992	2,360	14,351	8,895
	<b>3,826,816</b>	<b>68,319</b>	<b>132,147</b>	<b>51,675</b>
<b>Total</b>	<b>13,768,162</b>	<b>68,319</b>	<b>4,225,135</b>	<b>3,236,067</b>

**43. COMMITMENTS AND CONTINGENCIES** (cont'd)

The off-Balance Sheet and counterparties credit risk for the Group and the Bank are as follow: (cont'd)

**31 December 2016**

	PRINCIPAL AMOUNT RM'000	CREDIT EQUIVALENT AMOUNT RM'000	RISK WEIGHTED ASSET RM'000	
<b>Nature of item</b>				
<b>Credit related exposures</b>				
Direct credit substitutes	294,460	294,460	293,848	
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	
	PRINCIPAL AMOUNT RM'000	POSITIVE FAIR VALUE OF DERIVATIVE CONTRACTS RM'000	CREDIT EQUIVALENT AMOUNT RM'000	RISK WEIGHTED ASSET RM'000
<b>Derivative Financial Instruments</b>				
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
<b>Total</b>	13,704,559	124,572	2,273,588	1,874,016



**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**44. CAPITAL ADEQUACY**

Total capital and capital adequacy ratios of the Bank have been computed based on Bank Negara Malaysia (“BNM”)’s Capital Adequacy Framework for Islamic Banks (Capital Components) issued on 4 August 2017 and Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets) issued on 2 March 2017. The Bank is required to meet minimum Common Equity Tier I (“CET I”), Tier I and Total Capital adequacy ratios of 4.5%, 6.0% and 8.0% respectively in 2017. To ensure that banks build up adequate capital buffer outside period of stress, a Capital Conservation Buffer (“CCB”) of 2.5% above the minimum capital adequacy was introduced by BNM. The CCB is maintained in the form of CET I capital at 1.25% on 1 January 2017 and progressively increases by 0.625% each year to reach 2.5% on 1 January 2019.

As a result, the minimum regulatory capital adequacy ratios requirement for CET I capital ratio, Tier I capital ratio and Total Capital ratio are 5.750, 7.250 and 9.250 respectively for year 2017 (2016: 5.125%, 6.625% and 8.625%). 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	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Common Equity Tier I (“CET I”) Capital Ratio	<b>12.729%</b>	12.397%	<b>12.701%</b>	12.362%
Total Capital Ratio	<b>16.435%</b>	15.518%	<b>16.411%</b>	15.484%

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

	GROUP		BANK	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Paid-up share capital	<b>2,869,498</b>	2,404,384	<b>2,869,498</b>	2,404,384
Share premium	–	264,790	–	264,790
Retained earnings	<b>2,150,402</b>	523,247	<b>2,150,345</b>	523,959
Other reserves*	<b>(124,841)</b>	1,193,045	<b>(124,982)</b>	1,192,822
Less: Deferred tax assets	<b>(37,288)</b>	(48,378)	<b>(37,288)</b>	(48,378)
Less: Investment in subsidiaries	–	–	<b>(15,525)</b>	(15,525)
<b>Total CET I and Tier I Capital</b>	<b>4,857,771</b>	4,337,088	<b>4,842,048</b>	4,322,052
Sukuk Murabahah	<b>1,000,000</b>	700,000	<b>1,000,000</b>	700,000
Collective assessment allowance and regulatory reserve <sup>^</sup>	<b>414,193</b>	391,782	<b>414,193</b>	391,727
<b>Total Tier II Capital</b>	<b>1,414,193</b>	1,091,782	<b>1,414,193</b>	1,091,727
<b>Total Capital</b>	<b>6,271,964</b>	5,428,870	<b>6,256,241</b>	5,413,779

\* Other reserves exclude regulatory reserve amounting to RM64,645,000 (2016: RMNil).

<sup>^</sup> Collective assessment allowance on non-impaired financing and regulatory reserve, subject to maximum of 1.25% of total credit risk-weighted assets less credit absorbed by unrestricted investment accounts.

**44. CAPITAL ADEQUACY (cont'd)**

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

	GROUP		BANK	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Credit risk	<b>37,442,256</b>	33,908,778	<b>37,437,855</b>	33,904,311
Less: Credit risk absorbed by unrestricted investment accounts	<b>(3,034,004)</b>	(2,566,180)	<b>(3,034,004)</b>	(2,566,180)
	<b>34,408,252</b>	31,342,598	<b>34,403,851</b>	31,338,131
Market risk	<b>602,089</b>	609,931	<b>586,043</b>	609,931
Operational risk	<b>3,152,951</b>	3,031,801	<b>3,132,745</b>	3,014,802
	<b>38,163,292</b>	34,984,330	<b>38,122,639</b>	34,962,864

**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), holding company and substantial shareholders of the holding company.

(a) The 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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<b>Ultimate holding entity</b>				
<i>Income</i>				
Wakalah performance incentive fee	<b>2,595</b>	5,328	<b>2,595</b>	5,328
Office rental	<b>78</b>	73	<b>78</b>	73
Fees and commission	<b>156</b>	1	<b>156</b>	1
<i>Expenses</i>				
Income attributable to depositors	<b>21,170</b>	27,196	<b>21,170</b>	27,196
Finance cost on Subordinated Sukuk				
Murabahah	<b>5,750</b>	5,782	<b>5,750</b>	5,782
Office rental	<b>23,947</b>	22,942	<b>23,947</b>	22,942
Other rental	<b>415</b>	412	<b>415</b>	412
<b>Holding company</b>				
<i>Income</i>				
Office rental	<b>1,009</b>	986	<b>1,009</b>	986
Others	<b>200</b>	82	<b>200</b>	82
<i>Expenses</i>				
Income attributable to depositors	<b>7</b>	3	<b>7</b>	3
Income attributable to investment account holders	<b>8,294</b>	10,382	<b>8,294</b>	10,382

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2017  
(cont'd)

### 45. RELATED PARTY TRANSACTIONS (cont'd)

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

	GROUP TRANSACTIONS AMOUNT FOR		BANK TRANSACTIONS AMOUNT FOR	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<b>Subsidiaries</b>				
<i>Income</i>				
Fees and commission	–	–	<b>6,725</b>	4,296
Office rental	–	–	<b>363</b>	358
Others	–	–	<b>168</b>	72
<i>Expenses</i>				
Fees and commission	–	–	<b>4,140</b>	2,458
Income attributable to depositors	–	–	<b>239</b>	232
<b>Other related companies</b>				
<i>Income</i>				
Income from financing, advances and others	<b>101</b>	547	<b>101</b>	547
Fees and commission income	<b>204</b>	49	<b>204</b>	49
Bancatakaful service fee	<b>24,592</b>	29,059	<b>24,592</b>	29,059
Others	<b>81</b>	61	<b>81</b>	61
<i>Expenses</i>				
Income attributable to depositors	<b>13,787</b>	11,243	<b>13,787</b>	11,243
Income attributable to investment account holders	<b>1,559</b>	1,230	<b>1,559</b>	1,230
Finance cost on Subordinated Sukuk Murabahah	<b>2,750</b>	2,765	<b>2,750</b>	2,765
Office rental	<b>3,272</b>	3,119	<b>3,272</b>	3,119
Other rental	<b>42</b>	42	<b>42</b>	42
Takaful fee	<b>6,093</b>	6,243	<b>6,063</b>	5,999
<b>Co-operative society in which the employees have interest</b>				
<i>Income</i>				
Income from financing, advances and others	<b>2,379</b>	2,389	<b>2,379</b>	2,389
<i>Expenses</i>				
Income attributable to depositors	<b>6</b>	4	<b>6</b>	4
Other rental	<b>463</b>	2,130	<b>463</b>	2,130
Others	<b>193</b>	173	<b>193</b>	173

**45. RELATED PARTY TRANSACTIONS** (cont'd)

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

	GROUP NET BALANCE OUTSTANDING AS AT		BANK NET BALANCE OUTSTANDING AS AT	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
<b>Ultimate holding entity</b>				
<b>Amount due from</b>				
Other receivables	17	30	17	30
<b>Amount due to</b>				
Deposits from customers	1,505,971	2,309,846	1,505,971	2,309,846
Income payable to depositors	873	1,438	873	1,438
Subordinated Sukuk Murabahah	100,000	100,000	100,000	100,000
Finance cost payable on Subordinated Sukuk Murabahah	1,118	1,103	1,118	1,103
Commitment and contingencies	2,380	60	2,380	60
Other payables	14	27	14	27
<b>Holding company</b>				
<b>Amount due from</b>				
Other receivables	161	175	161	175
<b>Amount due to</b>				
Deposits from customers	414	640	414	640
Investment account of customers	240,656	204,735	240,656	204,735
Income payable to investment account holders	1,160	1,242	1,160	1,242
Other payables	219	–	219	–
<b>Subsidiaries</b>				
<b>Amount due from</b>				
Redeemable non-cumulative preference shares	–	–	2,011	2,011
Others	–	–	843	70
<b>Amount due to</b>				
Deposits from customers	–	–	12,247	8,853
Income payable to depositors	–	–	47	48
Other payables	–	–	10	–

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2017

(cont'd)

**45. RELATED PARTY TRANSACTIONS** (cont'd)

(b) The outstanding balances of the Group and the Bank with related parties, are as follows (cont'd):

	GROUP NET BALANCE OUTSTANDING AS AT		BANK NET BALANCE OUTSTANDING AS AT	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
<b>Other related companies</b>				
<b>Amount due from</b>				
Financing, advances and others	782	3,590	782	3,590
Other receivables	76	–	76	–
<b>Amount due to</b>				
Deposits from customers	552,419	709,037	552,419	709,037
Investment account of customers	50,185	33,655	50,185	33,655
Income payable to depositors	1,722	2,381	1,722	2,381
Income payable to investment account holders	19	7	19	7
Subordinated Sukuk Murabahah	50,000	50,000	50,000	50,000
Finance cost payable on Subordinated Sukuk Murabahah	136	136	136	136
Commitment and contingencies	8,152	6,772	8,152	6,772
<b>Co-operative society in which the employees have interest</b>				
<b>Amount due from</b>				
Financing, advances and others	39,351	38,357	39,351	38,357
Amount due to Deposits from customers	87	2,138	87	2,138

**46. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES**

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
Outstanding credit exposures with connected parties	1,228,469	2,235,730
Percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	2.88%	5.61%
Percentage 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.

## PILLAR 3 DISCLOSURE

as at 31 December 2017

INTEGRATED  
ANNUAL  
REPORT  
2017

### OVERVIEW

The Pillar 3 Disclosure for financial year ended 31 December 2017 for Bank Islam (“the Bank”) and its subsidiaries (“the Group”) is governed by Bank Negara Malaysia’s (“BNM”) “Capital Adequacy Framework for Islamic Banks (“CAFIB”) – Disclosure Requirements (“Pillar 3”)”.

The Group has adopted the Standardised Approach in determining the capital requirements for credit and market risk and has applied the Basic Indicator Approach for operational risk for the Pillar 1 since January 2008. Under the Standardised Approach, standard risk weights are used to assess the capital requirements for exposures in credit and market risk whilst the capital required for operational risk under the Basic Indicator Approach is computed based on a fixed percentage over the Group’s average gross income for a fixed number of quarterly periods.

As required under Pillar 2, the Group has also developed an Internal Capital Adequacy Assessment Process (“ICAAP”) framework which closely integrates the risk and capital assessment processes, and ensures that adequate levels of capital are maintained to support the Group’s current and projected demand for capital under expected and stressed conditions. The ICAAP was adopted in 2012 and has been fully implemented in year 2013. The ICAAP is updated and approved on an annual basis by the Management Committee, Board Risk Committee and Board.

In compliance with the Pillar 3 Disclosure Policy, the Pillar 3 Disclosure for the Group is being regularly prepared for two periods: 30 June and 31 December. The Group’s Pillar 3 Disclosure will be made available under the Corporate Info section of the Bank’s website at [www.bankislam.com.my](http://www.bankislam.com.my), attached to its annual and the halfy-early financial reports after the notes to the financial statements.

The Group’s main activity is Islamic banking business which focuses on retail banking and financing operations. The following tables show the minimum regulatory capital requirement to support the Group’s and the Bank’s risk weighted assets.

GROUP	31.12.2017		31.12.2016	
	RISK WEIGHTED ASSETS RM’000	MINIMUM CAPITAL REQUIREMENT AT 8% RM’000	RISK WEIGHTED ASSETS RM’000	MINIMUM CAPITAL REQUIREMENT AT 8% RM’000
Credit Risk	37,442,256	2,995,380	33,908,778	2,712,702
Less: Credit Risk absorbed by Investment Account	(3,034,004)	(242,720)	(2,566,180)	(205,294)
Market Risk	602,089	48,167	609,931	48,795
Operational Risk	3,152,951	252,236	3,031,801	242,544
<b>Total</b>	<b>38,163,292</b>	<b>3,053,063</b>	34,984,330	2,798,747

BANK	31.12.2017		31.12.2016	
	RISK WEIGHTED ASSETS RM’000	MINIMUM CAPITAL REQUIREMENT AT 8% RM’000	RISK WEIGHTED ASSETS RM’000	MINIMUM CAPITAL REQUIREMENT AT 8% RM’000
Credit Risk	37,437,855	2,995,028	33,904,311	2,712,345
Less: Credit Risk absorbed by Investment Account	(3,034,004)	(242,720)	(2,566,180)	(205,294)
Market Risk	586,043	46,883	609,931	48,795
Operational Risk	3,132,745	250,620	3,014,802	241,184
<b>Total</b>	<b>38,122,639</b>	<b>3,049,811</b>	34,962,864	2,797,030

The Group does not have any capital requirement for Large Exposure Risk as there is no amount in excess of the lowest threshold arising from equity holdings as specified in the BNM’s CAFIB.

**PILLAR 3 DISCLOSURE**

as at 31 December 2017

(cont'd)

**1. SCOPE OF APPLICATION**

The Pillar 3 Disclosure is prepared on a consolidated basis and comprises information on the Bank (including the offshore banking operations in the Federal Territory of Labuan) and its subsidiaries.

There are no significant restrictions or impediments on the transfer of funds or regulatory capital within the Group. There were no capital deficiencies in any of the subsidiary companies of the Group as at the financial year end.

**2. CAPITAL ADEQUACY****2.1 Capital Management**

The Group's primary objective when managing capital is to maintain a strong capital position to support business growth and to maintain investor, depositor, customer and market confidence. In line with this, the Group manages its capital actively and ensures that the capital adequacy ratios which take into account the risk profile of the Group, are above the regulatory minimum requirement.

To ensure that the Group has sufficient capital to support all its business and risk taking activities, the Group has implemented a sound capital management process in its management systems and processes. A comprehensive capital management framework has been adopted by the Group as a key enabler for value creation which is important to the long-term survival of the Group. This comprehensive capital management process includes thorough risk assessment and risk management techniques that are embedded within the Group's risk governance.

The assessment is based on the approved business plan, its estimation of current risks inherent in the Group and the impact of capital stress tests on the Group's capital plan. The Group aims to achieve the following capital management objectives:

- Meeting regulatory capital requirements;
- Sustainable returns to shareholders;
- Maintaining adequate levels and an optimum mix of different sources of capital to support the underlying risks of its business;
- Ensuring adequate capital to withstand shocks and stress;
- Ensuring sufficient capital to expand its business ventures and inorganic growth; and
- Allocating an appropriate amount of capital to business units to optimise return on capital.

The Group's capital management is guided by the Capital Management Plan, approved by the Board, to ensure management of capital is consistent and aligned with the Risk Appetite Statement and ICAAP Document Policy of the Group.

The Group's capital management processes comprise:

- Capital Structuring – ensuring that the amount of regulatory and statutory capital available is consistent with the Group's growth plan, risk appetite, and desired level of capital adequacy. Capital structuring focuses on selecting the appropriate, most cost-effective mix of capital instruments;
- Capital Allocation – ensuring that the capital is employed efficiently across the Group based on risk-adjusted return on capital; and
- Capital Optimisation – seeking an optimal level of capital by facilitating the optimisation of the risk profile of the balance sheet. This will be done through:
  - reshaping of the balance sheet;
  - capital planning, allocation and optimisation; and
  - a sound management of the capital buffer.



## 2. CAPITAL ADEQUACY (cont'd)

### 2.1 Capital Management (cont'd)

As such, the four fundamental components of a sound capital planning process include:

- Internal control and governance;
- Capital policy and risk capture;
- Forward-looking view; and
- Management framework for preserving capital.

The Group's Capital Management Plan is updated annually and approved by the Board for implementation at the beginning of each financial year. The capital plan is drawn up to cover at least a three year horizon and takes into account, amongst others, the Group's strategic objectives and business plans, regulatory capital requirements, capital benchmarking against industry, available supply of capital and capital raising options, performance of business sectors based on a Risk Adjusted Return on Capital ("RAROC") approach as well as ICAAP and stress testing results.

The Group has fully issued its Subordinated Sukuk Murabahah Programme of RM1.0 Billion in Nominal Value ("Subordinated Sukuk Murabahah Programme"). The purpose of the Subordinated Sukuk Murabahah Programme is to enhance the capital adequacy of the Group in line with the requirements under the Basel III capital framework. The Subordinated Sukuk Murabahah qualifies as Tier 2 regulatory capital of the Group in compliance with CAFIB.

CAPITAL INSTRUMENT	CAPITAL COMPONENT	MAIN FEATURES
1) Tranche 1 : RM300 million at 5.75% <ul style="list-style-type: none"> <li>• Issued on 22 April 2015</li> <li>• Mature on 22 April 2025</li> </ul>	Tier II Capital	<ul style="list-style-type: none"> <li>• The tenure of the Subordinated Sukuk Murabahah Programme shall be up to thirty (30) years from the date of the first issue under the Subordinated Sukuk Murabahah Programme.</li> <li>• The tenure of each issuance of the Subordinated Sukuk Murabahah shall be not less than five (5) years and up to thirty (30) years from the issue date.</li> <li>• Each of the Subordinated Sukuk Murabahah may have a call option to allow Bank Islam, to redeem the relevant tranche of the Subordinated Sukuk Murabahah (in whole or in part) on any periodic profit payment date after a minimum period of five (5) years from the issue date of that tranche, subject to the relevant early redemption conditions being satisfied.</li> </ul>
2) Tranche 2 : RM400 million at 5.5% <ul style="list-style-type: none"> <li>• Issued on 15 December 2015</li> <li>• Mature on 15 December 2025</li> </ul>		<ul style="list-style-type: none"> <li>• Unsecured.</li> <li>• Subordinated Sukuk Murabahah shall be utilised to finance its Islamic banking activities, working capital requirements and other corporate purposes and/or, if required, to redeem any outstanding Subordinated Sukuk Murabahah issued under the Subordinated Sukuk Murabahah Programme. All utilisation shall be Shariah Compliant.</li> </ul>
3) Tranche 3 : RM300 million at 5.08% <ul style="list-style-type: none"> <li>• Issued on 13 November 2017</li> <li>• Mature on 12 November 2027</li> </ul>		<ul style="list-style-type: none"> <li>• Upon the occurrence of a Non-Viability Event, BNM, jointly with PIDM, shall have the option to require the entire or part of the nominal value of the outstanding Subordinated Sukuk Murabahah, and all other amounts owing under the Subordinated Sukuk Murabahah, to be written off.</li> <li>• No Conversion into Equity.</li> </ul>

**PILLAR 3 DISCLOSURE**

as at 31 December 2017

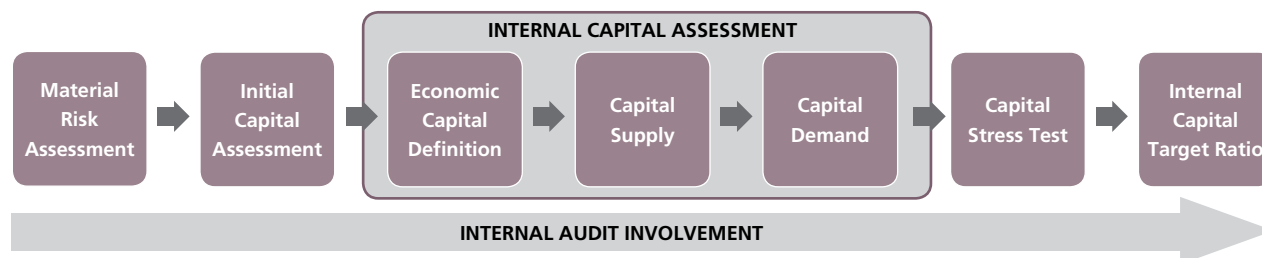
(cont'd)

**2. CAPITAL ADEQUACY (cont'd)****2.2 Internal Capital Adequacy Assessment Process ("ICAAP")**

The Group has carried out the internal assessment process on capital as prescribed in BNM's CAFIB - ICAAP ("Pillar 2") to complement its current capital management practices. The ICAAP Framework has been formalised and approved by the Board in March 2013. The Group's ICAAP helps to suggest the minimum internal capital requirement for its current and future business strategies and financial plans for the next 3 years via a comprehensive risk assessment process on its portfolio risk exposures, its risk management practices towards its material risks and potential capital planning buffer required in the event of stress.

The Group's ICAAP is conducted on a consolidated basis covering all the Bank's legal entities as suggested by BNM's Pillar 2 Guideline.

The Group's ICAAP methodology can be summarized as follows:



Under ICAAP, the following risk types are identified and measured:

- Risks captured under Pillar 1 (i.e. Credit Risk, Market Risk, and Operational Risk);
- Risk not fully captured under Pillar 1 (e.g. Migration and Residual Risk);
- Risk not covered under Pillar 1 (e.g. Credit Concentration Risk, Profit Rate Risk in the Banking Book, Shariah Compliance Risk, Compliance Risk, IT Risk, Business & Strategy Risk, and Reputational Risk)

**2.3 Stress Testing**

Regular stress testing is performed to assess the Group's ability to maintain adequate capital under both a normal business cycle and unfavorable economic conditions. The stress testing is embedded within the risk and capital management process of the Group, and is a key function of capital planning and business planning processes.

Stress Testing also plays an important role in:-

- Identifying the possible events or future changes in the financial and economic conditions of the country and globally that could potentially have unfavourable effects on the Group's exposures;
- Identifying the different portfolios response to changes in key economic variables (profit rate, foreign exchange rate, GDP, etc);
- Evaluating the Group's ability to withstand such changes, i.e. its capacity in terms of its capital and earnings, to absorb potentially significant losses;
- Analysing the Group's ability to meet the minimum regulatory capital requirement at all times throughout a reasonably severe economic crisis.

In line with the revised Stress Testing Policy Document issued by BNM on 15 June 2017, enhancement to the Group's current stress testing programme has been conducted accordingly. The revised Stress Testing has taken into account all risks deemed material to the Group, namely credit risk, market risk, liquidity risk and operational risk including Shariah non-compliance risk, and regulatory compliance risk.

## 2. CAPITAL ADEQUACY (cont'd)

### 2.4 Capital Adequacy Ratios

The Group is required to comply with the Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio as prescribed by BNM. The Group has been in compliance with all prescribed capital adequacy ratios throughout the period.

Effective 1 January 2016, total capital and capital adequacy ratios of the Group have been computed based on the updated BNM's CAFIB - Capital Components issued on 13 October 2015 and its subsequent updates. The minimum regulatory capital adequacy ratios requirement for Common Equity Tier 1 ("CET 1") capital ratio, Tier 1 capital ratio and total capital ratio are 5.75%, 7.25% and 9.25% respectively for year 2017.

The Group's capital adequacy ratios remained strong. The table below shows the composition of the regulatory capital and capital adequacy ratios as of 31 December 2017 determined by the requirements of the CAFIB.

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

#### (a) The capital adequacy ratios of the Group and of the Bank:

	GROUP		BANK	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Common Equity Tier 1 (CET 1) Capital Ratio	<b>12.73%</b>	12.40%	<b>12.70%</b>	12.36%
Tier 1 Capital Ratio	<b>12.73%</b>	12.40%	<b>12.70%</b>	12.36%
Total Capital Ratio	<b>16.44%</b>	15.52%	<b>16.41%</b>	15.48%

#### (b) CET I, Tier I and Tier II capital components of the Group and of the Bank:

	31.12.2017	
	GROUP RM'000	BANK RM'000
<b>Tier I Capital</b>		
Paid-up share capital	<b>2,869,498</b>	2,869,498
Share Premium	–	–
Retained earnings	<b>2,150,402</b>	2,150,345
Other reserves	<b>(124,841)</b>	(124,982)
Less: Deferred tax assets	<b>(37,288)</b>	(37,288)
Less: 55% of fair value	–	–
Less: Investment in subsidiaries	–	(15,525)
<b>Total Common Equity Tier I Capital</b>	<b>4,857,771</b>	4,842,048
<b>Total Additional Tier I Capital</b>	–	–
<b>Total Tier I Capital</b>	<b>4,857,771</b>	4,842,048
Subordinated Sukuk	<b>1,000,000</b>	1,000,000
Collective assessment allowance <sup>^</sup>	<b>414,193</b>	414,193
<b>Total Tier II Capital</b>	<b>1,414,193</b>	1,414,193
<b>Total Capital</b>	<b>6,271,964</b>	6,256,241

<sup>^</sup> Collective assessment allowance on non-impaired financing and regulatory reserve, subject to maximum of 1.25% of total credit risk-weighted assets. Includes the regulatory reserve attributable to financing for both Group and Bank of RM64.645 million (2016: NIL).

**PILLAR 3 DISCLOSURE**

as at 31 December 2017

(cont'd)

**2. CAPITAL ADEQUACY** (cont'd)**2.4 Capital Adequacy Ratios** (cont'd)**(b) CET I, Tier I and Tier II capital components of the Group and of the Bank:** (cont'd)

	31.12.2016	
	GROUP RM'000	BANK RM'000
<b>Tier I Capital</b>		
Paid-up share capital	2,404,384	2,404,384
Share Premium	264,790	264,790
Retained earnings	523,247	523,959
Other reserves	1,193,045	1,192,822
Less: Deferred tax assets	(48,378)	(48,378)
Less: Investment in subsidiaries	–	(15,525)
<b>Total Common Equity Tier I Capital</b>	<b>4,337,088</b>	<b>4,322,052</b>
<b>Total Additional Tier I Capital</b>	<b>–</b>	<b>–</b>
<b>Total Tier I Capital</b>	<b>4,337,088</b>	<b>4,322,052</b>
Subordinated Sukuk	700,000	700,000
Collective assessment allowance <sup>^</sup>	391,782	391,727
<b>Total Tier II Capital</b>	<b>1,091,782</b>	<b>1,091,727</b>
<b>Total Capital</b>	<b>5,428,870</b>	<b>5,413,779</b>

<sup>^</sup> Collective assessment allowance on non-impaired financing and regulatory reserve subject to maximum of 1.25% of total credit risk-weighted assets.

**(c) The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category is as follows:****(i) Group**

31 DECEMBER 2017 EXPOSURE CLASS	GROSS EXPOSURE RM'000	NET EXPOSURE RM'000	RISK- WEIGHTED ASSET RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
<b>Credit Risk</b>				
<b>On-Balance Sheet Exposures</b>				
Sovereign/Central Banks	5,741,745	5,741,745	–	–
Public Sector Entities	650,704	644,727	325,612	26,049
Banks, Developments Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	98,586	98,586	21,139	1,691
Corporate	16,047,139	15,882,596	7,990,055	639,204
Regulatory Retail	15,629,546	15,519,309	14,941,072	1,195,286
Residential Mortgages	16,165,970	16,160,844	10,172,572	813,806
Higher Risk Assets	9,756	9,756	14,634	1,171
Other Assets	2,679,847	2,679,847	400,362	32,029
Defaulted Exposures	335,133	320,999	323,317	25,865
<b>Total for On-Balance Sheet Exposures</b>	<b>57,358,426</b>	<b>57,058,409</b>	<b>34,188,763</b>	<b>2,735,101</b>

## 2. CAPITAL ADEQUACY (cont'd)

### 2.4 Capital Adequacy Ratios (cont'd)

(c) The breakdown of risk-weighted assets by exposures in each major risk category is as follows: (cont'd)

(i) Group (cont'd)

31 DECEMBER 2017 EXPOSURE CLASS	GROSS EXPOSURE RM'000	NET EXPOSURE RM'000	RISK- WEIGHTED ASSET RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
<b>Off-Balance Sheet Exposures</b>				
Credit-related Exposures	4,068,803	3,997,869	3,170,037	253,603
Derivative Financial Instruments	132,147	132,147	51,675	4,134
Defaulted Exposures	24,185	22,400	31,781	2,542
Total for Off-Balance Sheet Exposures	4,225,135	4,152,416	3,253,493	260,279
<b>Total On and Off-Balance Sheet Exposures</b>	<b>61,583,561</b>	<b>61,210,825</b>	<b>37,442,256</b>	<b>2,995,380</b>
Less: Credit Risk absorbed by IA			(3,034,004)	(242,720)
	<b>Long Position</b>	<b>Short Position</b>		
<b>Market Risk</b>				
Benchmark Rate Risk	3,599,755	(3,218,620)	381,135	18,806
Foreign Exchange Risk	23,190	(366,771)	(343,581)	29,342
Inventory Risk	–	–	240	19
Total Market Risk	3,622,945	(3,585,391)	37,794	48,167
Operational Risk			3,152,951	252,236
<b>Total RWA and Capital Requirements</b>			<b>38,163,292</b>	<b>3,053,063</b>

Note: As at 31 December 2017, the Group did not have any exposures under securitisation.

	BEFORE EFFECT OF IA	AFTER EFFECT OF IA
CET1 Capital Ratio	11.79%	12.73%
Tier 1 Capital Ratio	11.79%	12.73%
Total Capital Ratio	15.22%	16.44%

**PILLAR 3 DISCLOSURE**

as at 31 December 2017

(cont'd)

**2. CAPITAL ADEQUACY** (cont'd)**2.4 Capital Adequacy Ratios** (cont'd)(c) **The breakdown of risk-weighted assets by exposures in each major risk category is as follows:** (cont'd)(i) **Group** (cont'd)

31 DECEMBER 2016 EXPOSURE CLASS	GROSS EXPOSURE RM'000	NET EXPOSURE RM'000	RISK- WEIGHTED ASSET RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
<b>Credit Risk</b>				
<b>On-Balance Sheet Exposures</b>				
Sovereign/Central Banks	5,390,134	5,390,134	–	–
Public Sector Entities	2,718,672	2,705,677	237,542	19,003
Banks, DFIs and MDBs	1,102,730	1,102,730	181,393	14,511
Corporate	14,148,639	14,022,573	8,245,107	659,609
Regulatory Retail	14,629,753	14,519,386	13,877,865	1,110,229
Residential Mortgages	14,005,484	14,001,390	8,741,181	699,295
Higher Risk Assets	68,091	68,091	102,137	8,171
Other Assets	2,542,621	2,542,622	312,100	24,968
Defaulted Exposures	322,788	312,972	337,438	26,994
Total for On-Balance Sheet Exposures	54,928,912	54,665,575	32,034,763	2,562,780
<b>Off-Balance Sheet Exposures</b>				
Credit-related Exposures	2,071,862	2,037,639	1,767,436	141,396
Derivative Financial Instruments	192,491	192,491	93,278	7,462
Defaulted Exposures	9,235	8,955	13,301	1,064
Total for Off-Balance Sheet Exposures	2,273,588	2,239,085	1,874,015	149,922
<b>Total On and Off-Balance Sheet Exposures</b>	57,202,500	56,904,660	33,908,778	2,712,702
Less: Credit Risk absorbed by IA			(2,566,180)	(205,294)

## 2. CAPITAL ADEQUACY (cont'd)

### 2.4 Capital Adequacy Ratios (cont'd)

(c) The breakdown of risk-weighted assets by exposures in each major risk category is as follows: (cont'd)

(i) Group (cont'd)

31 DECEMBER 2016 EXPOSURE CLASS	GROSS EXPOSURE RM'000		NET EXPOSURE RM'000	RISK- WEIGHTED ASSET RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
	Long Position	Short Position			
<b>Market Risk</b>					
Benchmark Rate Risk	3,687,320	(3,117,954)	569,366	174,282	13,943
Foreign Exchange Risk	27,707	(434,963)	(407,256)	434,963	34,797
Inventory Risk	–	–	686	686	55
Total Market Risk	3,715,027	(3,552,917)	162,796	609,931	48,795
Operational Risk				3,031,801	242,544
<b>Total RWA and Capital Requirements</b>				34,984,330	2,798,747

Note: As at 31 December 2016, the Group did not have any exposures under securitisation.

	BEFORE EFFECT OF IA	AFTER EFFECT OF IA
CET1 Capital Ratio	11.55%	12.40%
Tier 1 Capital Ratio	11.55%	12.40%
Total Capital Ratio	14.54%	15.52%



**PILLAR 3 DISCLOSURE**

as at 31 December 2017

(cont'd)

**2. CAPITAL ADEQUACY** (cont'd)**2.4 Capital Adequacy Ratios** (cont'd)

(c) The breakdown of risk-weighted assets by exposures in each major risk category is as follows: (cont'd)

**(ii) Bank**

31 DECEMBER 2017 EXPOSURE CLASS	GROSS EXPOSURE RM'000	NET EXPOSURE RM'000	RISK- WEIGHTED ASSET RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
<b>Credit Risk</b>				
<b>On-Balance Sheet Exposures</b>				
Sovereign/Central Banks	5,741,745	5,741,745	–	–
Public Sector Entities	650,704	644,727	325,612	26,049
Banks, DFIs and MDBs	98,450	98,450	21,111	1,689
Corporate	16,047,139	15,882,596	7,990,055	639,204
Regulatory Retail	15,629,546	15,519,309	14,941,072	1,195,286
Residential Mortgages	16,165,970	16,160,844	10,172,572	813,806
Higher Risk Assets	9,756	9,756	14,634	1,171
Other Assets	2,677,045	2,677,045	395,989	31,679
Defaulted Exposures	335,133	320,999	323,317	25,865
Total for On-Balance Sheet Exposures	57,355,488	57,055,471	34,184,362	2,734,749
<b>Off-Balance Sheet Exposures</b>				
Credit-related Exposures	4,068,802	3,997,869	3,170,037	253,603
Derivative Financial Instruments	132,147	132,147	51,675	4,134
Defaulted Exposures	24,185	22,400	31,781	2,542
Total for Off-Balance Sheet Exposures	4,225,135	4,152,416	3,253,493	260,279
<b>Total On and Off-Balance Sheet Exposures</b>	<b>61,580,623</b>	<b>61,207,887</b>	<b>37,437,855</b>	<b>2,995,028</b>
Less: Credit Risk absorbed by IA			(3,034,004)	(242,720)

## 2. CAPITAL ADEQUACY (cont'd)

### 2.4 Capital Adequacy Ratios (cont'd)

(c) The breakdown of risk-weighted assets by exposures in each major risk category is as follows: (cont'd)

(ii) Bank (cont'd)

31 DECEMBER 2017 EXPOSURE CLASS	GROSS EXPOSURE RM'000		NET EXPOSURE RM'000	RISK- WEIGHTED ASSET RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
	Long Position	Short Position			
<b>Market Risk</b>					
Benchmark Rate Risk	3,594,494	(3,218,620)	375,874	219,033	17,523
Foreign Exchange Risk	23,190	(366,771)	(343,581)	366,770	29,342
Inventory Risk	–	–	240	240	19
Total Market Risk	3,617,684	(3,585,391)	32,533	586,043	46,884
Operational Risk				3,132,745	250,620
<b>Total RWA and Capital Requirements</b>				<b>38,122,639</b>	<b>3,049,812</b>

Note: As at 31 December 2017, the Bank did not have any exposures under securitisation.

	BEFORE EFFECT OF IA	AFTER EFFECT OF IA
CET1 Capital Ratio	11.77%	12.70%
Tier 1 Capital Ratio	11.77%	12.70%
Total Capital Ratio	15.20%	16.41%

**PILLAR 3 DISCLOSURE**

as at 31 December 2017

(cont'd)

**2. CAPITAL ADEQUACY** (cont'd)**2.4 Capital Adequacy Ratios** (cont'd)(c) **The breakdown of risk-weighted assets by exposures in each major risk category is as follows:** (cont'd)(ii) **Bank** (cont'd)

31 DECEMBER 2016 EXPOSURE CLASS	GROSS EXPOSURE RM'000	NET EXPOSURE RM'000	RISK- WEIGHTED ASSET RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
<b>Credit Risk</b>				
<b>On-Balance Sheet Exposures</b>				
Sovereign/Central Banks	5,390,134	5,390,134	–	–
Public Sector Entities	2,718,672	2,705,677	237,542	19,003
Banks, DFIs and MDBs	1,102,582	1,102,582	181,363	14,509
Corporate	14,148,639	14,022,573	8,245,107	659,609
Regulatory Retail	14,629,753	14,519,386	13,877,865	1,110,229
Residential Mortgages	14,005,484	14,001,390	8,741,181	699,295
Higher Risk Assets	68,091	68,091	102,137	8,171
Other Assets	2,538,932	2,538,933	307,662	24,613
Defaulted Exposures	322,788	312,972	337,438	26,995
Total for On-Balance Sheet Exposures	54,925,075	54,661,738	32,030,295	2,562,424
<b>Off-Balance Sheet Exposures</b>				
Credit-related Exposures	2,071,862	2,037,640	1,767,437	141,395
Derivative Financial Instruments	192,491	192,491	93,278	7,462
Defaulted Exposures	9,235	8,955	13,301	1,064
Total for Off-Balance Sheet Exposures	2,273,588	2,239,086	1,874,016	149,921
<b>Total On and Off-Balance Sheet Exposures</b>	57,198,663	56,900,824	33,904,311	2,712,345
Less: Credit Risk absorbed by IA			(2,566,180)	(205,294)

## 2. CAPITAL ADEQUACY (cont'd)

### 2.4 Capital Adequacy Ratios (cont'd)

(c) The breakdown of risk-weighted assets by exposures in each major risk category is as follows: (cont'd)

(ii) Bank (cont'd)

31 DECEMBER 2016 EXPOSURE CLASS	GROSS EXPOSURE RM'000		NET EXPOSURE RM'000	RISK- WEIGHTED ASSET RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
	Long Position	Short Position			
<b>Market Risk</b>					
Benchmark Rate Risk	3,687,320	(3,117,954)	569,366	174,282	13,943
Foreign Exchange Risk	27,707	(434,963)	(407,256)	434,963	34,797
Inventory Risk	–	–	686	686	55
Total Market Risk	3,715,027	(3,552,917)	162,796	609,931	48,795
Operational Risk				3,014,802	241,184
<b>Total RWA and Capital Requirements</b>				34,962,864	2,797,030

Note: As at 31 December 2016, the Bank did not have any exposures under securitisation.

	BEFORE EFFECT OF IA	AFTER EFFECT OF IA
CET1 Capital Ratio	11.52%	12.36%
Tier 1 Capital Ratio	11.52%	12.36%
Total Capital Ratio	14.51%	15.48%

**PILLAR 3 DISCLOSURE**as at 31 December 2017  
(cont'd)**3. RISK MANAGEMENT****3.1 Overview**

The Group'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 Group;
- Establish a standard approach and methodology in managing credit, market, liquidity, operational and business risks across the Group;
- 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; and
- Ensure that the Group's capital can support current and planned business needs in terms of risk exposures.

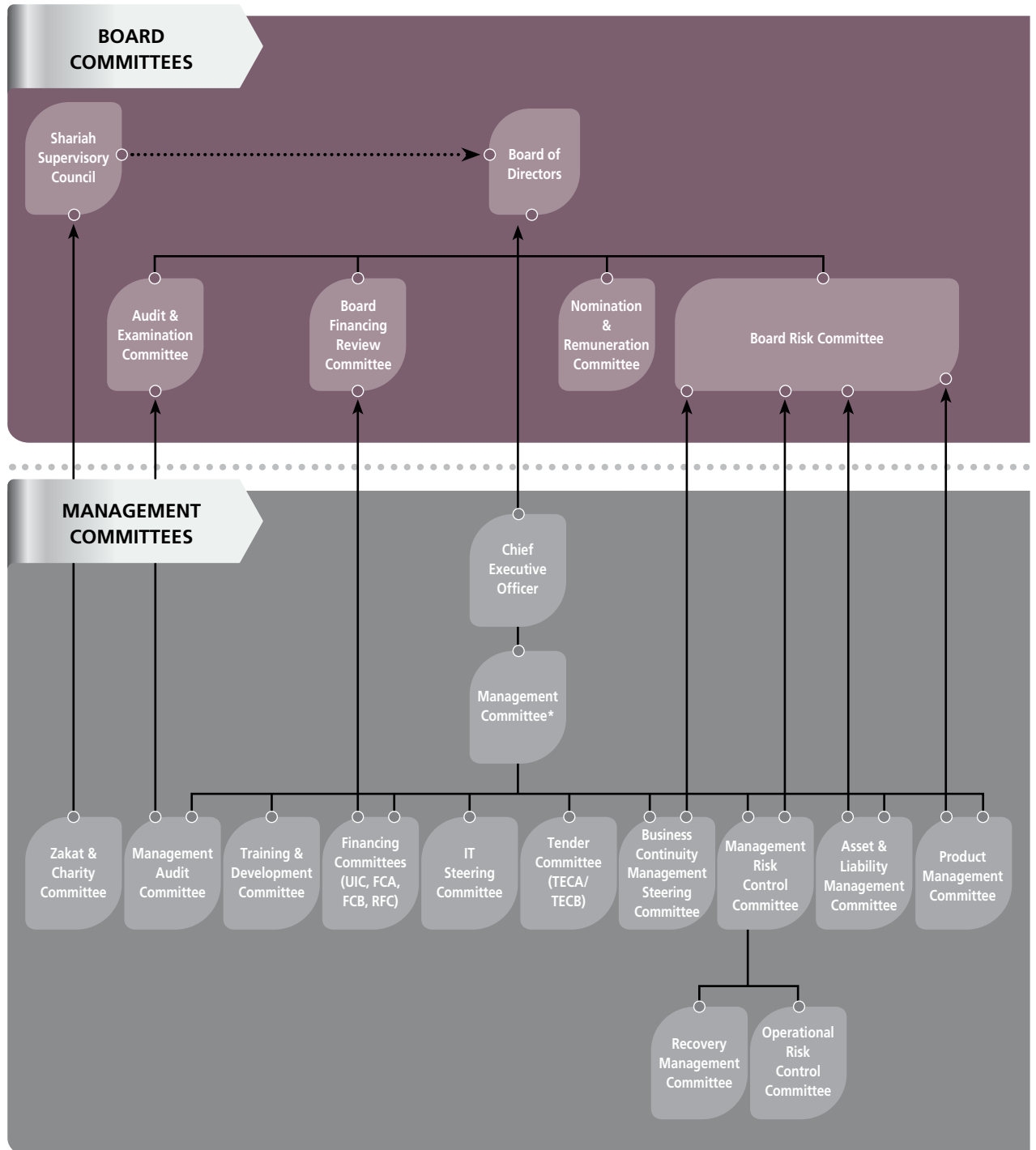
**3.2 Risk Management Functional and Governance Structure**

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

### 3. RISK MANAGEMENT (cont'd)

#### 3.2 Risk Management Functional and Governance Structure (cont'd)

The following illustrates the Group's governance structure:



\* Capital Management is part of Management Committee

**PILLAR 3 DISCLOSURE**

as at 31 December 2017

(cont'd)

**3. RISK MANAGEMENT** (cont'd)**3.2 Risk Management Functional and Governance Structure** (cont'd)

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

- Recognises that it has to manage risks effectively to achieve its business targets;
- Reach an optimum level of risk-return in order to maximise stakeholders' value; and
- Ensure effective and integrated risk management processes that are commensurate with the size and complexity of the current and future operations of the Group within its risk appetite and tolerance.

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

**4. CREDIT RISK****4.1 Overview**

Credit risk is the risk of a customer or counterparty failing to perform its obligations. It 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 Group considers to be material include: Default Risk, Counterparty Risk, Credit Concentration Risk, Residual/Credit Mitigation Risk and Migration Risk.

**4.2 Credit Risk Governance**

The management of credit risk is principally carried out by using sets of policies and guidelines approved by the Management Risk Control Committee ("MRCC") and/or BRC, guided by the Board of Directors' approved Risk Appetite Statement Policy.

The Bank has several levels of Financing Committees, which assess and approve credits at their specified authority levels.

The MRCC is responsible under the authority delegated by the BRC for managing credit risk at strategic level. The MRCC reviews the Group'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 Group's credit risk management governance includes the establishment of detailed credit risk policies, guidelines and procedures which document the Group'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.

**4.3 Management of Credit Risk**

The management of credit risk is being performed by the 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 Group's overall strategy and risk appetite;
- To ensure that the Group 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.



**4. CREDIT RISK** (cont'd)**4.3 Management of Credit Risk** (cont'd)

The Group monitors its credit exposures either on a portfolio basis or individual basis through annual reviews. Credit risk is proactively monitored through a set of early warning signals that could trigger immediate reviews of (a certain part 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.

A detailed 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 contagion 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 entities' instruments, subject to a specified minimum rating threshold. Furthermore, the dealing and investing activities are monitored by an independent middle office unit.

**4.4 Capital Treatment for Credit Risk**

The Group adopts the Standardised Approach to compute the credit risk capital requirement under BNM's CAFIB.

**4.5 Credit Quality of Gross Financing and Advances**

The table below presents the Group's and the Bank's gross financing and advances analysed by credit quality:

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
Neither past due nor impaired	<b>41,736,562</b>	38,788,825
Past due but not impaired	<b>551,097</b>	694,173
Impaired	<b>398,277</b>	389,445
	<b>42,685,936</b>	39,872,443
Gross Impaired Financing as a percentage of Gross Financing and Advances	<b>0.93%</b>	0.98%

**PILLAR 3 DISCLOSURE**

as at 31 December 2017

(cont'd)

**4. CREDIT RISK** (cont'd)**4.5 Credit Quality of Gross Financing and Advances** (cont'd)**(a) Neither Past Due Nor Impaired**

Financings classified as neither past due nor impaired are financings of which the customer has not missed a contractual payment (profit or principal) when contractually due and is not impaired as there is no objective evidence of impairment of the financing.

The credit quality of gross financing and advances which are neither past due nor impaired is as follows:

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
Excellent to Good	<b>35,144,157</b>	31,981,235
Satisfactory	<b>6,092,349</b>	6,352,707
Fair	<b>500,056</b>	454,883
	<b>41,736,562</b>	38,788,825

Internal rating definition:-

- **Excellent to Good:** Sound financial position of the customer with no difficulty in meeting its obligations.
- **Satisfactory:** Adequate safety of the customer meeting its current obligations but more time is required to meet the entire obligations in full.
- **Fair:** High risks on payment obligations. Financial performance may continue to deteriorate.

**(b) Past Due But Not Impaired**

Financings classified as past due but not impaired are financings of 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.

Analysis of the past due but not impaired financing and advances by aging analysis:

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
By ageing		
Month-in-arrears 1	<b>362,240</b>	439,600
Month-in-arrears 2	<b>188,857</b>	254,573
	<b>551,097</b>	694,173

**4. CREDIT RISK** (cont'd)**4.5 Credit Quality of Gross Financing and Advances** (cont'd)**(b) Past Due But Not Impaired** (cont'd)

Analysis of the past due but not impaired financing and advances by sector:

	<b>GROUP AND BANK</b>	
	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Primary agriculture	<b>13</b>	7,817
Mining and quarrying	–	–
Manufacturing (including Agro-based)	<b>3,892</b>	6,989
Electricity, gas and water	–	–
Wholesale & retail trade, and hotels & restaurants	<b>3,444</b>	5,829
Construction	<b>9,317</b>	49,483
Real estate	<b>2,861</b>	55,855
Transport, storage and communications	<b>4,681</b>	3,903
Finance, insurance and business activities	<b>321</b>	1,277
Education, health and others	<b>6,597</b>	3,335
Household sectors	<b>519,971</b>	559,685
Other sectors	–	–
	<b>551,097</b>	694,173

**(c) Impaired Financing and Advances**

A 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.

The financing or group of financings is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the financing (a 'loss event') and that the loss event has an impact on the estimated future cash flows of the financing or group of financings that can be reliably estimated.

The Group and the Bank first assess individually whether the objective evidence of impairment exists individually for financings which are individually significant, and collectively for financings which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financing, the financing is included in a group of financings with similar credit risk characteristic and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financing's carrying amount and the present value of the estimated future cash flows. The carrying amount of the financing is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.

**PILLAR 3 DISCLOSURE**

as at 31 December 2017

(cont'd)

**4. CREDIT RISK** (cont'd)**4.5 Credit Quality of Gross Financing and Advances** (cont'd)**(c) Impaired Financing and Advances** (cont'd)

Impaired financing by assessment type:

	GROUP AND BANK	
	31.12.2017 RM'000	31.12.2016 RM'000
Individually Assessed	<b>217,209</b>	203,374
<i>of which:</i>		
<i>Month-in-Arrears 0</i>	<b>20,060</b>	15,614
<i>Month-in-Arrears 1</i>	<b>69,204</b>	240
<i>Month-in-Arrears 2</i>	<b>3,317</b>	7,623
<i>Month-in-Arrears 3 and above</i>	<b>124,628</b>	179,897
Collectively Assessed	<b>181,068</b>	186,071
	<b>398,277</b>	389,445

31 DECEMBER 2017 RM'000	← INDIVIDUAL ASSESSMENT ALLOWANCE →				INDIVIDUAL ASSESSMENT AS AT 31.12.2017	COLLECTIVE ASSESSMENT ALLOWANCE AT 31.12.2017	TOTAL IMPAIRMENT ALLOWANCES FOR FINANCING AT 31.12.2017
	IMPAIRED FINANCING AT 31.12.2017	INDIVIDUAL ASSESSMENT AS AT 1.01.2017	NET CHARGE FOR THE FINANCIAL YEAR	AMOUNTS WRITTEN OFF/OTHER MOVEMENTS			
Primary Agriculture	–	1,059	(1,059)	–	–	4,800	4,800
Mining and Quarrying	–	–	–	–	–	174	174
Manufacturing (including Agro-based)	35,448	24,794	1,962	–	26,756	8,473	35,229
Electricity, Gas and Water	–	–	–	–	–	6,621	6,621
Wholesale & Retail Trade and Restaurants & Hotels	38,433	10,200	2,578	(3,065)	9,713	31,706	41,419
Construction	86,357	3,089	68,853	–	71,942	15,411	87,353
Real Estate	–	–	–	–	–	13,030	13,030
Transport, Storage and Communication	12,604	8,531	(4,617)	–	3,914	14,050	17,964
Finance, Insurance and Business Services	3,799	69,709	2,460	(70,421)	1,748	32,740	34,488
Education, Health and Others	5,106	632	414	–	1,046	11,171	12,217
Household Sectors	216,530	10,184	1,144	–	11,328	307,893	319,221
Other Sectors	–	–	–	–	–	–	–
<b>Total</b>	<b>398,277</b>	<b>128,198</b>	<b>71,735</b>	<b>(73,486)</b>	<b>126,447</b>	<b>446,069</b>	<b>572,516</b>

## 4. CREDIT RISK (cont'd)

## 4.5 Credit Quality of Gross Financing and Advances (cont'd)

## (c) Impaired Financing and Advances (cont'd)

31 DECEMBER 2016 RM'000	← INDIVIDUAL ASSESSMENT ALLOWANCE →					TOTAL IMPAIRMENT ALLOWANCES FOR FINANCING	
	IMPAIRED FINANCING AT 31.12.2016	INDIVIDUAL ASSESSMENT AS AT 1.01.2016	NET CHARGE FOR THE FINANCIAL YEAR	AMOUNTS WRITTEN OFF/OTHER MOVEMENTS	INDIVIDUAL ASSESSMENT AS AT 31.12.2016	COLLECTIVE ASSESSMENT ALLOWANCE AT 31.12.2016	AT 31.12.2016
Primary Agriculture	1,311	963	96	–	1,059	6,161	7,220
Mining and Quarrying	–	–	–	–	–	368	368
Manufacturing (including Agro-based)	36,739	1,667	24,880	(1,753)	24,794	10,389	35,183
Electricity, Gas and Water	–	–	–	–	–	16,291	16,291
Wholesale & Retail Trade and Restaurants & Hotels	25,651	11,641	(1,441)	–	10,200	44,010	54,210
Construction	13,714	18,377	12,886	(28,174)	3,089	31,281	34,370
Real Estate	–	–	–	–	–	21,891	21,891
Transport, Storage and Communication	15,579	16,693	(8,162)	–	8,531	18,629	27,160
Finance, Insurance and Business Services	70,948	66,504	213	2,992	69,709	32,536	102,245
Education, Health and Others	3,076	2,092	(1,460)	–	632	15,238	15,870
Household Sectors	222,427	6,534	3,650	–	10,184	358,177	368,361
Other Sectors	–	–	–	–	–	–	–
<b>Total</b>	<b>389,445</b>	<b>124,471</b>	<b>30,662</b>	<b>(26,935)</b>	<b>128,198</b>	<b>554,971</b>	<b>683,169</b>

**PILLAR 3 DISCLOSURE**

as at 31 December 2017

(cont'd)

**4. CREDIT RISK** (cont'd)**4.5 Credit Quality of Gross Financing and Advances** (cont'd)**(d) Gross Financing and Advances – Exposures by Geographical Areas**

31 DECEMBER 2017 RM '000	GROSS FINANCING	← OF WHICH: →		INDIVIDUAL ALLOWANCES	COLLECTIVE ALLOWANCES
		PAST DUE BUT NOT IMPAIRED FINANCING	IMPAIRED FINANCING		
Central Region	20,673,380	288,837	223,305	89,877	225,342
Eastern Region	6,860,968	80,312	107,422	35,318	63,540
Northern Region	6,121,471	71,614	28,710	–	70,406
Southern Region	5,908,526	73,970	22,915	1,252	50,833
East Malaysia Region	3,121,591	36,364	15,925	–	35,948
<b>Grand Total</b>	<b>42,685,936</b>	<b>551,097</b>	<b>398,277</b>	<b>126,447</b>	<b>446,069</b>

31 DECEMBER 2016 RM '000	GROSS FINANCING	← OF WHICH: →		INDIVIDUAL ALLOWANCES	COLLECTIVE ALLOWANCES
		PAST DUE BUT NOT IMPAIRED FINANCING	IMPAIRED FINANCING		
Central Region	18,853,925	334,621	142,841	24,400	283,895
Eastern Region	6,534,376	110,505	92,848	32,750	72,174
Northern Region	5,864,200	89,741	36,299	1,433	79,118
Southern Region	5,499,121	89,657	31,329	758	64,112
East Malaysia Region	3,120,821	69,649	86,128	68,857	55,672
<b>Grand Total</b>	<b>39,872,443</b>	<b>694,173</b>	<b>389,445</b>	<b>128,198</b>	<b>554,971</b>

## 4. CREDIT RISK (cont'd)

## 4.6 Gross Credit Exposures

## (a) Geographic Distribution of Credit Exposures

## (i) Group

31 DECEMBER 2017 EXPOSURE CLASS	CENTRAL REGION RM'000	EASTERN REGION RM'000	NORTHERN REGION RM'000	SOUTHERN REGION RM'000	EAST MALAYSIA REGION RM'000	TOTAL RM'000
<b>Credit Risk</b>						
<b>On-Balance Sheet</b>						
<b>Exposures</b>						
Sovereign/Central Banks	5,741,745	–	–	–	–	5,741,745
Public Sector Entities	244,295	170,601	15,687	220,121	–	650,704
Banks, DFIs and MDBs	93,662	392	–	122	4,410	98,586
Corporate	13,487,402	797,774	912,213	555,285	519,377	16,272,051
Regulatory Retail	6,643,074	2,895,645	2,356,204	2,248,838	1,543,257	15,687,018
Residential Mortgages	6,489,429	2,963,336	2,829,307	2,880,801	1,055,845	16,218,718
Higher Risk Assets	2,605	2,292	2,812	295	1,753	9,757
Other Assets	2,679,544	–	–	–	303	2,679,847
Total for On-Balance Sheet Exposures	35,381,756	6,830,040	6,116,223	5,905,462	3,124,945	57,358,426
<b>Off-Balance Sheet</b>						
<b>Exposures</b>						
Credit-related Exposures	4,092,988	–	–	–	–	4,092,988
Derivative Financial Instruments	132,147	–	–	–	–	132,147
Total for Off-Balance Sheet Exposures	4,225,135	–	–	–	–	4,225,135
<b>Total On and Off-Balance Sheet Exposures</b>	<b>39,606,891</b>	<b>6,830,040</b>	<b>6,116,223</b>	<b>5,905,462</b>	<b>3,124,945</b>	<b>61,583,561</b>



**PILLAR 3 DISCLOSURE**

as at 31 December 2017

(cont'd)

**4. CREDIT RISK** (cont'd)**4.6 Gross Credit Exposures** (cont'd)**(a) Geographic Distribution of Credit Exposures** (cont'd)**(i) Group** (cont'd)

31 DECEMBER 2016 EXPOSURE CLASS	CENTRAL REGION RM'000	EASTERN REGION RM'000	NORTHERN REGION RM'000	SOUTHERN REGION RM'000	EAST MALAYSIA REGION RM'000	TOTAL RM'000
<b>Credit Risk</b>						
<b>On-Balance Sheet</b>						
<b>Exposures</b>						
Sovereign/Central Banks	5,390,134	–	–	–	–	5,390,134
Public Sector Entities	2,375,452	189,345	18,236	135,639	–	2,718,672
Banks, DFIs and MDBs	1,098,655	695	–	134	3,246	1,102,730
Corporate	11,751,561	714,642	844,319	473,739	535,717	14,319,978
Regulatory Retail	5,108,528	3,054,404	2,493,729	2,475,656	1,574,608	14,706,925
Residential Mortgages	5,682,036	2,559,410	2,497,322	2,413,949	927,042	14,079,759
Higher Risk Assets	59,894	2,429	3,807	407	1,555	68,092
Other Assets	2,542,068	–	–	–	554	2,542,622
Total for On-Balance Sheet Exposures	34,008,328	6,520,925	5,857,413	5,499,524	3,042,722	54,928,912
<b>Off-Balance Sheet</b>						
<b>Exposures</b>						
Credit-related Exposures	2,077,388	–	–	–	3,709	2,081,097
Derivative Financial Instruments	192,491	–	–	–	–	192,491
Total for Off-Balance Sheet Exposures	2,269,879	–	–	–	3,709	2,273,588
<b>Total On and Off-Balance Sheet Exposures</b>	<b>36,278,207</b>	<b>6,520,925</b>	<b>5,857,413</b>	<b>5,499,524</b>	<b>3,046,431</b>	<b>57,202,500</b>

## 4. CREDIT RISK (cont'd)

## 4.6 Gross Credit Exposures (cont'd)

## (a) Geographic Distribution of Credit Exposures (cont'd)

## (ii) Bank

31 DECEMBER 2017 EXPOSURE CLASS	CENTRAL REGION RM'000	EASTERN REGION RM'000	NORTHERN REGION RM'000	SOUTHERN REGION RM'000	EAST MALAYSIA REGION RM'000	TOTAL RM'000
<b>Credit Risk</b>						
<b>On-Balance Sheet</b>						
<b>Exposures</b>						
Sovereign/Central Banks	5,741,745	–	–	–	–	5,741,745
Public Sector Entities	244,295	170,601	15,687	220,121	–	650,704
Banks, DFIs and MDBs	93,526	392	–	122	4,410	98,450
Corporate	13,487,402	797,774	912,213	555,285	519,377	16,272,051
Regulatory Retail	6,643,074	2,895,645	2,356,204	2,248,838	1,543,257	15,687,018
Residential Mortgages	6,489,429	2,963,336	2,829,307	2,880,801	1,055,845	16,218,718
Higher Risk Assets	2,605	2,292	2,812	295	1,753	9,757
Other Assets	2,676,742	–	–	–	303	2,677,045
Total for On-Balance Sheet Exposures	35,378,818	6,830,040	6,116,223	5,905,462	3,124,945	57,355,488
<b>Off-Balance Sheet</b>						
<b>Exposures</b>						
Credit-related Exposures	4,092,988	–	–	–	–	4,092,988
Derivative Financial Instruments	132,147	–	–	–	–	132,147
Total for Off-Balance Sheet Exposures	4,225,135	–	–	–	–	4,225,135
<b>Total On and Off-Balance Sheet Exposures</b>	<b>39,603,953</b>	<b>6,830,040</b>	<b>6,116,223</b>	<b>5,905,462</b>	<b>3,124,945</b>	<b>61,580,623</b>

**PILLAR 3 DISCLOSURE**

as at 31 December 2017

(cont'd)

**4. CREDIT RISK** (cont'd)**4.6 Gross Credit Exposures** (cont'd)**(a) Geographic Distribution of Credit Exposures** (cont'd)**(ii) Bank** (cont'd)

31 DECEMBER 2016 EXPOSURE CLASS	CENTRAL REGION RM'000	EASTERN REGION RM'000	NORTHERN REGION RM'000	SOUTHERN REGION RM'000	EAST MALAYSIA REGION RM'000	TOTAL RM'000
<b>Credit Risk</b>						
<b>On-Balance Sheet</b>						
<b>Exposures</b>						
Sovereign/Central Banks	5,390,134	–	–	–	–	5,390,134
Public Sector Entities	2,375,452	189,345	18,236	135,639	–	2,718,672
Banks, DFIs and MDBs	1,098,507	695	–	134	3,246	1,102,582
Corporate	11,751,561	714,642	844,319	473,739	535,717	14,319,978
Regulatory Retail	5,108,528	3,054,404	2,493,729	2,475,656	1,574,608	14,706,925
Residential Mortgages	5,682,036	2,559,410	2,497,322	2,413,949	927,042	14,079,759
Higher Risk Assets	59,894	2,429	3,807	407	1,555	68,092
Other Assets	2,538,379	–	–	–	554	2,538,933
Total for On-Balance Sheet Exposures	34,004,491	6,520,925	5,857,413	5,499,524	3,042,722	54,925,075
<b>Off-Balance Sheet</b>						
<b>Exposures</b>						
Credit-related Exposures	2,077,388	–	–	–	3,709	2,081,097
Derivative Financial Instruments	192,491	–	–	–	–	192,491
Total for Off-Balance Sheet Exposures	2,269,879	–	–	–	3,709	2,273,588
<b>Total On and Off-Balance Sheet Exposures</b>	<b>36,274,370</b>	<b>6,520,925</b>	<b>5,857,413</b>	<b>5,499,524</b>	<b>3,046,431</b>	<b>57,198,663</b>

## 4. CREDIT RISK (cont'd)

## 4.6 Gross Credit Exposures (cont'd)

## (b) Distribution of Credit Exposures by Sector

## (i) Group

31 DECEMBER 2017 EXPOSURE CLASS	PRIMARY AGRI- CULTURE	MINING AND QUARRYING	MANU- FACTURING	ELEC- TRICITY, GAS AND WATER	WHOLESALE & RETAIL TRADE AND RESTAURANT & HOTELS	CON- STRUCTION	REAL ESTATE	TRANSPORT, STORAGE & COMMUNI- CATION	FINANCE, INSURANCE AND BUSINESS SERVICES	EDU- CATION, HEALTH, AND OTHERS	HOUSE- HOLD SECTOR	OTHER SECTORS	TOTAL
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Credit Risk</b>													
<b>On-Balance Sheet Exposures</b>													
Sovereign/Central Banks	-	-	-	-	-	-	-	-	4,216,651	-	-	1,525,094	5,741,745
Public Sector Entities	510	-	-	-	-	-	185,977	-	89,647	372,683	1,887	-	650,704
Banks, DFIs and MDBs	-	-	-	-	-	-	-	-	49,937	-	514	48,135	98,586
Corporate	479,966	8,247	988,481	2,302,964	1,114,519	2,681,748	2,079,447	1,627,597	4,246,712	355,718	107,884	298,768	16,272,051
Regulatory Retail	9,563	-	31,574	196	74,731	77,126	28,002	15,132	54,408	41,306	15,353,903	1,077	15,687,018
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	16,218,718	-	16,218,718
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	9,757	-	9,757
Other Assets	-	-	-	-	-	-	-	-	-	-	-	2,679,847	2,679,847
<b>Total for On-Balance Sheet Exposures</b>	<b>490,039</b>	<b>8,247</b>	<b>1,000,055</b>	<b>2,303,160</b>	<b>1,189,250</b>	<b>2,758,874</b>	<b>2,293,426</b>	<b>1,642,729</b>	<b>8,657,355</b>	<b>769,707</b>	<b>31,692,663</b>	<b>4,552,921</b>	<b>57,358,426</b>
<b>Off-Balance Sheet Exposures</b>													
Credit-related Exposures	50,900	17,942	205,372	114,774	198,186	867,113	247,216	141,133	621,835	217,200	1,402,445	8,872	4,092,988
Derivative Financial Instruments	-	-	92	-	59,469	78	-	1	21,553	22,701	-	28,253	132,147
<b>Total for Off-Balance Sheet Exposures</b>	<b>50,900</b>	<b>17,942</b>	<b>205,464</b>	<b>114,774</b>	<b>257,655</b>	<b>867,191</b>	<b>247,216</b>	<b>141,134</b>	<b>643,388</b>	<b>239,901</b>	<b>1,402,445</b>	<b>37,125</b>	<b>4,225,135</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>540,939</b>	<b>26,189</b>	<b>1,205,519</b>	<b>2,417,934</b>	<b>1,446,905</b>	<b>3,626,065</b>	<b>2,540,642</b>	<b>1,783,863</b>	<b>9,300,743</b>	<b>1,009,608</b>	<b>33,095,108</b>	<b>4,590,046</b>	<b>61,583,561</b>

**PILLAR 3 DISCLOSURE**

as at 31 December 2017

(cont'd)

**4. CREDIT RISK (cont'd)****4.6 Gross Credit Exposures (cont'd)****(b) Distribution of Credit Exposures by Sector (cont'd)****(i) Group (cont'd)**

31 DECEMBER 2016 EXPOSURE CLASS	PRIMARY AGRI- CULTURE RM'000	MINING AND QUARRYING RM'000	MANU- FACTURING RM'000	ELEC- TRICITY, GAS AND WATER RM'000	WHOLESALE & RETAIL TRADE AND RESTAURANT & HOTELS RM'000	CON- STRUCTION RM'000	REAL ESTATE RM'000	TRANSPORT, STORAGE & COMMUNI- CATION RM'000	FINANCE, INSURANCE AND BUSINESS SERVICES RM'000	EDU- CATION, HEALTH, AND OTHERS RM'000	HOUSE- HOLD SECTOR RM'000	OTHER SECTORS RM'000	TOTAL RM'000
<b>Credit Risk</b>													
<b>On-Balance Sheet Exposures</b>													
Sovereign/Central Banks	-	-	-	-	-	-	-	-	3,332,810	-	-	2,057,324	5,390,134
Public Sector Entities	-	-	-	-	-	-	200,118	644,887	1,717,950	154,813	904	-	2,718,672
Banks, DFIs and MDBs	-	-	-	-	-	-	-	-	582,553	-	880	519,347	1,102,730
Corporate	390,477	12,886	936,484	2,793,398	1,118,175	2,687,613	1,890,896	1,209,267	2,596,791	407,759	104,974	171,258	14,319,978
Regulatory Retail	11,379	-	17,991	-	65,988	66,504	28,449	9,586	47,052	34,423	14,425,236	317	14,706,925
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	14,079,759	-	14,079,759
Higher Risk Assets	-	-	-	-	-	56,627	-	-	-	-	11,465	-	68,092
Other Assets	-	-	-	-	-	-	-	-	-	-	-	2,542,622	2,542,622
<b>Total For On-Balance Sheet Exposures</b>	401,856	12,886	954,475	2,793,398	1,184,163	2,810,744	2,119,463	1,863,740	8,277,156	596,995	28,623,168	5,290,868	54,928,912
<b>Off-Balance Sheet Exposures</b>													
Credit-related Exposures	27,187	10,824	144,431	149,406	143,111	430,738	232,943	79,774	219,651	99,482	539,791	3,759	2,081,097
Derivative Financial Instruments	-	1	3,867	-	33,721	176	9,764	-	8,309	131,027	-	5,626	192,491
<b>Total For Off-Balance Sheet Exposures</b>	27,187	10,825	148,298	149,406	176,832	430,914	242,707	79,774	227,960	230,509	539,791	9,385	2,273,588
<b>Total On and Off-Balance Sheet Exposures</b>	429,043	23,711	1,102,773	2,942,804	1,360,995	3,241,658	2,362,170	1,943,514	8,505,116	827,504	291,622,959	5,300,253	57,202,500

## 4. CREDIT RISK (cont'd)

## 4.6 Gross Credit Exposures (cont'd)

## (b) Distribution of Credit Exposures by Sector (cont'd)

## (ii) Bank

31 DECEMBER 2017 EXPOSURE CLASS	PRIMARY AGRI- CULTURE RM'000	MINING AND QUARRYING RM'000	MANU- FACTURING RM'000	ELEC- TRICITY, GAS AND WATER RM'000	WHOLESALE & RETAIL TRADE AND RESTAURANT & HOTELS RM'000	CON- STRUCTION RM'000	REAL ESTATE RM'000	TRANSPORT, STORAGE & COMMUNI- CATION RM'000	FINANCE, INSURANCE AND BUSINESS SERVICES RM'000	EDU- CATION, HEALTH, AND OTHERS RM'000	HOUSE- HOLD SECTOR RM'000	OTHER SECTORS RM'000	TOTAL RM'000
<b>Credit Risk</b>													
<b>On-Balance Sheet Exposures</b>													
Sovereign/Central Banks	-	-	-	-	-	-	-	-	4,216,651	-	-	1,525,094	5,741,745
Public Sector Entities	510	-	-	-	-	-	185,977	-	89,647	372,683	1,887	-	650,704
Banks, DFIs and MDBs	-	-	-	-	-	-	-	-	49,937	-	514	47,999	98,450
Corporate	479,966	8,247	988,481	2,302,964	1,114,519	2,681,748	2,079,447	1,627,597	4,246,712	355,718	107,884	298,768	16,272,051
Regulatory Retail	9,563	-	31,574	196	74,731	77,126	28,002	15,132	54,408	41,306	15,353,903	1,077	15,687,018
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	16,218,718	-	16,218,718
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	9,757	-	9,757
Other Assets	-	-	-	-	-	-	-	-	-	-	-	2,677,045	2,677,045
<b>Total for On-Balance Sheet Exposures</b>	<b>490,039</b>	<b>8,247</b>	<b>1,000,055</b>	<b>2,303,160</b>	<b>1,189,250</b>	<b>2,758,874</b>	<b>2,293,426</b>	<b>1,642,729</b>	<b>8,657,355</b>	<b>769,707</b>	<b>31,692,663</b>	<b>4,549,983</b>	<b>57,355,488</b>
<b>Off-Balance Sheet Exposures</b>													
Credit-related Exposures	50,900	17,942	205,372	114,774	198,186	867,113	247,216	141,133	621,835	217,200	1,402,445	8,872	4,092,988
Derivative Financial Instruments	-	-	92	-	59,469	78	-	1	21,553	22,701	-	28,253	132,147
<b>Total for Off-Balance Sheet Exposures</b>	<b>50,900</b>	<b>17,942</b>	<b>205,464</b>	<b>114,774</b>	<b>257,655</b>	<b>867,191</b>	<b>247,216</b>	<b>141,133</b>	<b>643,388</b>	<b>239,901</b>	<b>1,402,445</b>	<b>37,126</b>	<b>4,225,135</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>540,939</b>	<b>26,189</b>	<b>1,205,519</b>	<b>2,417,934</b>	<b>1,446,905</b>	<b>3,626,065</b>	<b>2,540,642</b>	<b>1,783,863</b>	<b>9,300,743</b>	<b>1,009,608</b>	<b>33,095,108</b>	<b>4,587,108</b>	<b>61,580,623</b>

**PILLAR 3 DISCLOSURE**

as at 31 December 2017

(cont'd)

**4. CREDIT RISK (cont'd)****4.6 Gross Credit Exposures (cont'd)****(b) Distribution of Credit Exposures by Sector (cont'd)****(ii) Bank (cont'd)**

31 DECEMBER 2016 EXPOSURE CLASS	PRIMARY AGRI- CULTURE RM'000	MINING AND QUARRYING RM'000	MANU- FACTURING RM'000	ELEC- TRICITY, GAS AND WATER RM'000	WHOLESALE & RETAIL TRADE AND RESTAURANT & HOTELS RM'000	CON- STRUCTION RM'000	REAL ESTATE RM'000	TRANSPORT, STORAGE & COMMUNI- CATION RM'000	FINANCE, INSURANCE AND BUSINESS SERVICES RM'000	EDU- CATION, HEALTH, AND OTHERS RM'000	HOUSE- HOLD SECTOR RM'000	OTHER SECTORS RM'000	TOTAL RM'000
<b>Credit Risk</b>													
<b>On-Balance Sheet Exposures</b>													
Sovereign/Central Banks	-	-	-	-	-	-	-	-	3,332,810	-	-	2,057,324	5,390,134
Public Sector Entities	-	-	-	-	-	-	200,118	644,887	1,717,950	154,813	904	-	2,718,672
Banks, DFIs and MDBs	-	-	-	-	-	-	-	-	582,553	-	880	519,199	1,102,582
Corporate	390,477	12,886	936,484	2,793,398	1,118,175	2,687,613	1,890,896	1,209,267	2,596,791	407,759	104,974	171,258	14,319,978
Regulatory Retail	11,379	-	17,991	-	65,988	66,504	28,449	9,586	47,052	34,423	14,425,236	317	14,706,925
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	14,079,759	-	14,079,759
Higher Risk Assets	-	-	-	-	-	56,627	-	-	-	-	11,465	-	68,092
Other Assets	-	-	-	-	-	-	-	-	-	-	-	2,538,933	2,538,933
<b>Total For On-Balance Sheet Exposures</b>	401,856	12,886	954,475	2,793,398	1,184,163	2,810,744	2,119,463	1,863,740	8,277,156	596,995	28,623,168	5,287,031	54,925,075
<b>Off-Balance Sheet Exposures</b>													
Credit-related Exposures	27,187	10,824	144,431	149,406	143,111	430,738	232,943	79,774	219,651	99,482	539,791	3,759	2,081,097
Derivative Financial Instruments	-	1	3,867	-	33,721	176	9,764	-	8,309	131,027	-	5,626	192,491
<b>Total For Off-Balance Sheet Exposures</b>	27,187	10,825	148,298	149,406	176,832	430,914	242,707	79,774	227,960	230,509	539,791	9,385	2,273,588
<b>Total On and Off-Balance Sheet Exposures</b>	429,043	23,711	1,102,773	2,942,804	1,360,995	3,241,658	2,362,170	1,943,514	8,505,116	827,504	291,622,959	5,296,416	57,198,663



## 4. CREDIT RISK (cont'd)

## 4.6 Gross Credit Exposures (cont'd)

## (c) Residual Contractual Maturity Breakdown

## (i) Group

31 DECEMBER 2017 EXPOSURE CLASS	UP TO 1 YEAR RM'000	> 1 – 5 YEARS RM'000	OVER 5 YEARS RM'000	TOTAL RM'000
<b>Credit Risk</b>				
<b>On-Balance Sheet Exposures</b>				
Sovereign/Central Banks	3,514,011	1,578,434	649,300	5,741,745
Public Sector Entities	35,689	108,949	506,066	650,704
Banks, DFIs and MDBs	48,140	46,781	3,665	98,586
Corporate	4,021,994	4,635,595	7,614,462	16,272,051
Regulatory Retail	244,950	2,701,312	12,740,756	15,687,018
Residential Mortgages	11,033	107,138	16,100,547	16,218,718
Higher Risk Assets	66	31	9,660	9,757
Other Assets	2,503,401	–	176,446	2,679,847
Total for On-Balance Sheet Exposures	10,379,284	9,178,240	37,800,902	57,358,426
<b>Off-Balance Sheet Exposures</b>				
Credit-related Exposures	2,099,737	1,363,471	629,780	4,092,988
Derivative Financial Instruments	115,614	4,000	12,533	132,147
Total for Off-Balance Sheet Exposures	2,215,351	1,367,471	642,313	4,225,135
<b>Total On and Off-Balance Sheet Exposures</b>	<b>12,594,635</b>	<b>10,545,711</b>	<b>38,443,215</b>	<b>61,583,561</b>

**PILLAR 3 DISCLOSURE**

as at 31 December 2017

(cont'd)

**4. CREDIT RISK** (cont'd)**4.6 Gross Credit Exposures** (cont'd)**(c) Residual Contractual Maturity Breakdown** (cont'd)**(i) Group** (cont'd)

31 DECEMBER 2016 EXPOSURE CLASS	UP TO 1 YEAR RM'000	> 1 – 5 YEARS RM'000	OVER 5 YEARS RM'000	TOTAL RM'000
<b>Credit Risk</b>				
<b>On-Balance Sheet Exposures</b>				
Sovereign/Central Banks	3,035,639	1,899,789	454,706	5,390,134
Public Sector Entities	488,347	658,915	1,571,410	2,718,672
Banks, DFIs and MDBs	1,056,260	45,640	830	1,102,730
Corporate	3,591,596	3,343,479	7,384,903	14,319,978
Regulatory Retail	236,144	2,608,421	11,862,360	14,706,925
Residential Mortgages	6,960	87,388	13,985,411	14,079,759
Higher Risk Assets	–	184	67,908	68,092
Other Assets	2,208,692	–	333,930	2,542,622
Total for On-Balance Sheet Exposures	10,623,638	8,643,816	35,661,458	54,928,912
<b>Off-Balance Sheet Exposures</b>				
Credit-related Exposures	742,597	749,930	588,570	2,081,097
Derivative Financial Instruments	164,023	9,497	18,971	192,491
Total for Off-Balance Sheet Exposures	906,620	759,427	607,541	2,273,588
<b>Total On and Off-Balance Sheet Exposures</b>	<b>11,530,258</b>	<b>9,403,243</b>	<b>36,268,999</b>	<b>57,202,500</b>

**4. CREDIT RISK** (cont'd)**4.6 Gross Credit Exposures** (cont'd)**(c) Residual Contractual Maturity Breakdown** (cont'd)**(ii) Bank**

<b>31 DECEMBER 2017 EXPOSURE CLASS</b>	<b>UP TO 1 YEAR RM'000</b>	<b>&gt; 1 – 5 YEARS RM'000</b>	<b>OVER 5 YEARS RM'000</b>	<b>TOTAL RM'000</b>
<b>Credit Risk</b>				
<b>On-Balance Sheet Exposures</b>				
Sovereign/Central Banks	3,514,011	1,578,434	649,300	5,741,745
Public Sector Entities	35,689	108,949	506,066	650,704
Banks, DFIs and MDBs	48,004	46,781	3,665	98,450
Corporate	4,021,994	4,635,595	7,614,462	16,272,051
Regulatory Retail	244,950	2,701,312	12,740,756	15,687,018
Residential Mortgages	11,033	107,138	16,100,547	16,218,718
Higher Risk Assets	66	31	9,660	9,757
Other Assets	2,500,599	–	176,446	2,677,045
<b>Total for On-Balance Sheet Exposures</b>	<b>10,376,346</b>	<b>9,178,240</b>	<b>37,800,902</b>	<b>57,355,488</b>
<b>Off-Balance Sheet Exposures</b>				
Credit-related Exposures	2,099,737	1,363,471	629,780	4,092,988
Derivative Financial Instruments	115,614	4,000	12,533	132,147
<b>Total for Off-Balance Sheet Exposures</b>	<b>2,215,351</b>	<b>1,367,471</b>	<b>642,313</b>	<b>4,225,135</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>12,591,697</b>	<b>10,545,711</b>	<b>38,443,215</b>	<b>61,580,623</b>

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(cont'd)

**4. CREDIT RISK** (cont'd)**4.6 Gross Credit Exposures** (cont'd)**(c) Residual Contractual Maturity Breakdown** (cont'd)**(ii) Bank** (cont'd)

31 DECEMBER 2016 EXPOSURE CLASS	UP TO 1 YEAR RM'000	> 1 – 5 YEARS RM'000	OVER 5 YEARS RM'000	TOTAL RM'000
<b>Credit Risk</b>				
<b>On-Balance Sheet Exposures</b>				
Sovereign/Central Banks	3,035,639	1,899,789	454,706	5,390,134
Public Sector Entities	488,347	658,915	1,571,410	2,718,672
Banks, DFIs and MDBs	1,056,112	45,640	830	1,102,582
Corporate	3,591,596	3,343,479	7,384,903	14,319,978
Regulatory Retail	236,144	2,608,421	11,862,360	14,706,925
Residential Mortgages	6,960	87,388	13,985,411	14,079,759
Higher Risk Assets	–	184	67,908	68,092
Other Assets	2,205,003	–	333,930	2,538,933
Total for On-Balance Sheet Exposures	10,619,801	8,643,816	35,661,458	54,925,075
<b>Off-Balance Sheet Exposures</b>				
Credit-related Exposures	742,597	749,930	588,570	2,081,097
Derivative Financial Instruments	164,023	9,497	18,971	192,491
Total for Off-Balance Sheet Exposures	906,620	759,427	607,541	2,273,588
<b>Total On and Off-Balance Sheet Exposures</b>	<b>11,526,421</b>	<b>9,403,243</b>	<b>36,268,999</b>	<b>57,198,663</b>

**4. CREDIT RISK** (cont'd)**4.7 Assignment of Risk Weights for Portfolios Under the Standardised Approach**

Under the Standardised Approach, the Group makes use of credit ratings assigned by credit rating agencies in the calculation of credit risk-weighted assets. The following are the rating agencies or Eligible Credit Assessment Institutions ("ECAI") ratings used by the Group and are recognised by BNM as per the CAFIB Guideline:

- (a) Standard & Poor's ("S&P")
- (b) Moody's Investors Services ("MOODY'S")
- (c) Fitch Ratings ("FITCH")
- (d) RAM Rating Services Berhad ("RAM")
- (e) Malaysian Rating Corporation Berhad ("MARC")

The ECAI ratings accorded to the following counterparty exposure classes are used in the calculation of risk-weighted assets for capital adequacy purposes:

- (a) Sovereigns and central banks
- (b) Banking institutions
- (c) Corporates

**Unrated and Rated Counterparties**

As a general rule, the rating specific to the credit exposure is used, i.e. the issue rating. Where no specific rating exists, the credit rating assigned to the issuer or counterparty of that particular credit exposure is used. In cases where an exposure has neither an issue nor an issuer rating, it is deemed as unrated or the rating of another rated obligation of the same counterparty may be used if the exposure is ranked at least *pari passu* with the obligation that is rated, as stipulated in the CAFIB Guideline.

Where a counterparty or an exposure is rated by more than one ECAI, the second highest rating is used to determine the risk weight. In cases where the credit exposures are secured by guarantees issued by eligible or rated guarantors, the risk weights similar to that of the guarantor are assigned.

The below table summarises the rules governing the assignment of risk weights under the Standardised Approach:

RATING CATEGORY	S & P	MOODY'S	FITCH	RAM	MARC
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBB1 to BBB3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	BB1 to BB3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below	C1 and below	C+ and below



**4. CREDIT RISK** (cont'd)**4.7 Assignment of Risk Weights for Portfolios Under the Standardised Approach** (cont'd)

The following presents the credit exposures by risk weights after the effect of credit risk mitigation of the Group (cont'd):

(ii) As at 31 December 2016

RISK WEIGHTS	← EXPOSURES AFTER NETTING & CREDIT RISK MITIGATION (CRM) →									TOTAL EXPOSURES AFTER NETTING & CRM	TOTAL RISK ASSET
	SOVEREIGNS/ CENTRAL BANKS RM'000	PUBLIC SECTOR ENTITIES RM'000	BANKS, DFIs & MDBs RM'000	CORPORATE RM'000	REGULATORY RETAIL RM'000	RESIDENTIAL MORTGAGES RM'000	HIGHER RISK ASSETS RM'000	OTHER ASSETS RM'000	RM'000	RM'000	
0%	5,390,725	2,341,996	197,011	1,979,280	7,162	–	–	2,230,523	12,146,697	–	
20%	–	30,166	948,268	2,827,830	2,121	–	–	–	3,808,385	761,677	
35%	–	–	–	–	–	4,475,145	–	–	4,475,145	1,566,301	
50%	–	209,012	208,267	3,102,440	408,591	2,808,070	–	–	6,736,380	3,368,190	
75%	–	–	–	556,065	1,994,360	4,044,612	–	–	6,595,037	4,946,279	
100%	–	140,655	3,222	7,113,800	12,373,084	2,953,518	–	312,105	22,896,384	22,896,384	
150%	–	–	–	59,656	57,840	53,216	75,920	–	246,632	369,947	
Total Exposures	5,390,725	2,721,829	1,356,768	15,639,071	14,843,158	14,334,561	75,920	2,542,628	56,904,660	33,908,778	
RWA by Exposures	–	251,194	297,009	9,737,119	14,160,333	9,037,137	113,880	312,105	33,908,778		
Average Risk Weight	0.0%	9.2%	21.9%	62.3%	95.4%	63.0%	150.0%	12.3%	59.6%		
Deduction from Capital Base											





**4. CREDIT RISK** (cont'd)**4.7 Assignment of Risk Weights for Portfolios Under the Standardised Approach** (cont'd)

The following presents the credit exposures by risk weights after the effect of credit risk mitigation of the Bank (cont'd):

(ii) As at 31 December 2016

RISK WEIGHTS	← EXPOSURES AFTER NETTING & CREDIT RISK MITIGATION (CRM) →									TOTAL EXPOSURES AFTER NETTING & CRM	TOTAL RISK ASSET
	SOVEREIGNS/ CENTRAL BANKS RM'000	PUBLIC SECTOR ENTITIES RM'000	BANKS, DFIs & MDBs RM'000	CORPORATE RM'000	REGULATORY RETAIL RM'000	RESIDENTIAL MORTGAGES RM'000	HIGHER RISK ASSETS RM'000	OTHER ASSETS RM'000	RM'000	RM'000	
0%	5,390,725	2,341,996	197,011	1,979,280	7,162	–	–	2,231,271	12,147,445	–	
20%	–	30,166	948,120	2,827,830	2,121	–	–	–	3,808,237	761,647	
35%	–	–	–	–	–	4,475,145	–	–	4,475,145	1,566,301	
50%	–	209,012	208,267	3,102,440	408,591	2,808,070	–	–	6,736,380	3,368,190	
75%	–	–	–	556,065	1,994,360	4,044,613	–	–	6,595,038	4,946,279	
100%	–	140,655	3,222	7,113,800	12,373,084	2,953,518	–	307,668	22,891,947	22,891,947	
150%	–	–	–	59,656	57,840	53,216	75,920	–	246,632	369,947	
Total Exposures	5,390,725	2,721,829	1,356,620	15,639,071	14,843,158	14,334,562	75,920	2,538,939	56,900,824	33,904,311	
RWA by Exposures	–	251,194	296,979	9,737,119	14,160,333	9,037,138	113,880	307,668	33,904,311		
Average Risk Weight	0.0%	9.2%	21.9%	62.3%	95.4%	63.0%	150.0%	12.1%	59.6%		
Deduction from Capital Base											

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as at 31 December 2017

(cont'd)

**4. CREDIT RISK** (cont'd)**4.8 Disclosures of Rated and Unrated Exposures According to Ratings by ECAI**

## (a) Ratings of Sovereigns and Central Banks by Approved ECAIs

31 DECEMBER 2017 EXPOSURE CLASS	RATINGS OF SOVEREIGNS AND CENTRAL BANKS BY APPROVED ECAIs						
	MOODY'S	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	UNRATED
	S&P FITCH	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	UNRATED
<b>On and Off Balance-Sheet Credit Exposures</b>							
Sovereign and Central Banks*		-	5,741,857	-	-	-	-
<b>Total</b>		-	5,741,857	-	-	-	-

31 DECEMBER 2016 EXPOSURE CLASS	RATINGS OF SOVEREIGNS AND CENTRAL BANKS BY APPROVED ECAIs						
	MOODY'S	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	UNRATED
	S&P FITCH	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	UNRATED
<b>On and Off Balance-Sheet Credit Exposures</b>							
Sovereign and Central Banks*		-	5,390,725	-	-	-	-
<b>Total</b>		-	5,390,725	-	-	-	-

\* These exposures refer to exposures to Federal Government of Malaysia and Bank Negara Malaysia which are accorded a preferential sovereign risk weight of 0%.

## (b) Ratings of Corporate by Approved ECAIs

31 DECEMBER 2017 EXPOSURE CLASS	RATINGS OF CORPORATE BY APPROVED ECAIs					UNRATED
	MOODY'S	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	
	S&P FITCH	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B1 to D	UNRATED
	MARC	AAA to AA- <th>A+ to A-</th> <th>BBB+ to BB-</th> <th>B+ to D</th> <td>UNRATED</td>	A+ to A-	BBB+ to BB-	B+ to D	UNRATED
<b>On and Off Balance-Sheet Credit Exposures</b>						
Public Sector Entities		20,181	-	-	-	764,957
Insurance Cos, Securities Firms & Fund Manager		-	-	-	-	-
Corporate		3,184,977	46,059	64,231	-	14,959,477
<b>Total</b>		3,205,158	46,059	64,231	-	15,724,434

## 4. CREDIT RISK (cont'd)

## 4.8 Disclosures of Rated and Unrated Exposures According to Ratings by ECAI (cont'd)

## (b) Ratings of Corporate by Approved ECAIs (cont'd)

31 DECEMBER 2016 EXPOSURE CLASS	RATINGS OF CORPORATE BY APPROVED ECAIs						UNRATED
	MOODY'S	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	UNRATED	
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	UNRATED	
	FITCH	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	UNRATED	
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	B1 to D	UNRATED	
MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	UNRATED		
<b>On and Off Balance-Sheet</b>							
<b>Credit Exposures</b>							
Public Sector Entities		30,166	–	–	–	–	2,691,663
Insurance Cos, Securities Firms & Fund Manager		–	–	–	–	–	–
Corporate		2,943,007	48,497	90,565	–	–	12,557,002
<b>Total</b>		<b>2,973,173</b>	<b>48,497</b>	<b>90,565</b>	<b>–</b>	<b>–</b>	<b>15,248,665</b>

## (c) Ratings of Banking Institutions by Approved ECAIs

31 DECEMBER 2017 EXPOSURE CLASS	RATINGS OF BANKING INSTITUTIONS BY APPROVED ECAIs						UNRATED	
	MOODY'S	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1+ to B3	Caa1 to C		UNRATED
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D		UNRATED
	FITCH	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D		UNRATED
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D		UNRATED
MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	UNRATED		
<b>On and Off Balance-Sheet</b>								
<b>Credit Exposures</b>								
Banks, DFIs, and MDBs		<b>143,657</b>	<b>144</b>	–	–	–	<b>394,115</b>	
<b>Total</b>		<b>143,657</b>	<b>144</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>394,115</b>	

31 DECEMBER 2016 EXPOSURE CLASS	RATINGS OF BANKING INSTITUTIONS BY APPROVED ECAIs						UNRATED	
	MOODY'S	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1+ to B3	Caa1 to C		UNRATED
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D		UNRATED
	FITCH	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D		UNRATED
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D		UNRATED
MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	UNRATED		
<b>On and Off Balance-Sheet</b>								
<b>Credit Exposures</b>								
Banks, DFIs, and MDBs		770,509	96	–	–	–	586,014	
<b>Total</b>		<b>770,509</b>	<b>96</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>586,014</b>	

Note: There are no exposures under Short-term ratings for the period under review.

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(cont'd)

**4. CREDIT RISK** (cont'd)**4.9 Credit Risk Mitigation (CRM)**

As a first way out, the assessment of credit when granting a financing facility is based on a particular customer's cash flows as the main source of payment and not on the collateral offered. However the acceptance of tangible security as collateral would offer a second way out in the event of business failure thereby improving recovery rates.

The type of collaterals accepted by the Group has an impact on the calculation of the Group's capital adequacy as the quality and type of collateral determine whether the Group is able to obtain capital relief and the extent of such relief.

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

- (a) Cash on lien
- (b) Landed property
- (c) Shariah compliant quoted shares and unit trusts
- (d) Malaysian Federal Government Securities
- (e) Rate / Unrated Islamic Securities / Sukuk
- (f) Guarantee

The reliance that can be placed on CRM is carefully assessed in light of issues such as compliance with Shariah rules and principles, legal enforceability, market value and counterparty credit risk of the guarantor. Policies and procedures are in place to govern the protection of the Group's position from the onset of a customer relationship, for instance in requiring standard terms and conditions or specifically agreed upon documentation to ensure the legal enforceability of the credit risk mitigants.

**4. CREDIT RISK** (cont'd)**4.9 Credit Risk Mitigation (CRM)** (cont'd)

Disclosure of Credit Risk Mitigation (CRM):

31 DECEMBER 2017 EXPOSURE CLASS	EXPOSURES BEFORE CRM RM'000	EXPOSURES COVERED BY GUARANTEES RM'000	EXPOSURES COVERED BY ELIGIBLE FINANCIAL AND NON-FINANCIAL COLLATERAL RM'000
<b>On-Balance Sheet Exposures</b>			
Sovereign/Central Banks	5,741,745	-	-
Public Sector Entities	650,704	-	6,201
Banks, DFIs and MDBs	98,450	-	-
Corporates	16,047,139	604,534	705,962
Regulatory Retail	15,629,546	6,286	185,180
Residential Mortgages	16,165,970	466	70,725
Higher Risk Assets	9,756	-	-
Other Assets	2,677,045	-	-
Defaulted Exposures	335,133	2,386	60,324
<b>Total for On-Balance Sheet Exposures</b>	<b>57,355,488</b>	<b>613,672</b>	<b>1,028,392</b>
<b>Off-Balance Sheet Exposures</b>			
Credit-related Exposures	4,068,803	27,127	190,925
Derivative Financial Instruments	132,147	-	-
Defaulted Exposures	24,185	-	6,362
<b>Total for Off-Balance Sheet Exposures</b>	<b>4,225,135</b>	<b>27,127</b>	<b>197,287</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>61,580,623</b>	<b>640,799</b>	<b>1,225,679</b>

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as at 31 December 2017

(cont'd)

**4. CREDIT RISK** (cont'd)**4.9 Credit Risk Mitigation (CRM)** (cont'd)

Disclosure of Credit Risk Mitigation (CRM): (cont'd)

31 DECEMBER 2016 EXPOSURE CLASS	EXPOSURES BEFORE CRM RM'000	EXPOSURES COVERED BY GUARANTEES RM'000	EXPOSURES COVERED BY ELIGIBLE FINANCIAL AND NON-FINANCIAL COLLATERAL RM'000
<b>On-Balance Sheet Exposures</b>			
Sovereign/Central Banks	5,390,134	–	–
Public Sector Entities	2,718,672	–	41,284
Banks, DFIs and MDBs	1,102,582	–	–
Corporates	14,148,639	618,755	639,026
Regulatory Retail	14,629,753	8,901	125,817
Residential Mortgages	14,005,484	397	48,132
Higher Risk Assets	68,091	–	–
Other Assets	2,538,932	–	–
Defaulted Exposures	322,788	2,451	20,027
<b>Total for On-Balance Sheet Exposures</b>	<b>54,925,075</b>	<b>630,504</b>	<b>874,286</b>
<b>Off-Balance Sheet Exposures</b>			
Credit-related Exposures	2,071,862	11,910	78,247
Derivative Financial Instruments	192,491	–	–
Defaulted Exposures	9,235	–	281
<b>Total for Off-Balance Sheet Exposures</b>	<b>2,273,588</b>	<b>11,910</b>	<b>78,528</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>57,198,663</b>	<b>642,414</b>	<b>952,814</b>

## 4. CREDIT RISK (cont'd)

## 4.10 Off-Balance Sheet and Counterparties Credit Risk for the Group and the Bank

(i) As at 31 December 2017

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
<b>Credit related Exposures</b>				
Direct credit substitutes	2,871,511		2,871,511	2,167,427
Assets sold with recourse	–		–	–
Transaction related contingent items	1,066,956		533,478	499,771
Short term self-liquidating trade related contingencies	373,328		74,666	71,836
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- not exceeding one year	318		64	32
- exceeding one year	1,226,538		613,269	445,326
Unutilised credit card lines	–		–	–
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 customer's creditworthiness	4,402,695		–	–
	<b>9,941,346</b>		<b>4,092,988</b>	<b>3,184,392</b>
<b>Derivative Financial Instruments</b>				
Foreign exchange related contracts				
- less than one year	3,218,824	63,827	112,875	41,796
Profit rate related contracts				
- less than one year	–	–	–	–
- one year to less than five years	400,000	2,132	4,921	984
- five years and above	207,992	2,360	14,351	8,894
Equity related contracts				
- less than one year	–	–	–	–
	<b>3,826,816</b>	<b>68,319</b>	<b>132,147</b>	<b>51,674</b>
<b>Total</b>	<b>13,768,162</b>	<b>68,319</b>	<b>4,225,135</b>	<b>3,236,066</b>

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as at 31 December 2017

(cont'd)

**4. CREDIT RISK** (cont'd)**4.10 Off-Balance Sheet and Counterparties Credit Risk for the Group and the Bank** (cont'd)

(ii) As at 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
<b>Credit related Exposures</b>				
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 customer's creditworthiness	4,639,610		-	-
	9,750,962		2,081,097	1,780,737
<b>Derivative Financial Instruments</b>				
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
Equity related contracts				
- less than one year	-	-	-	-
	3,953,597	124,572	192,491	93,279
<b>Total</b>	13,704,559	124,572	2,273,588	1,874,016



## 5. MARKET RISK

### 5.1 Overview

All the Group's financial instruments are subject to the risk that market prices and rates will move, resulting in profit or losses to the Group. The following are the main market risk factors that the Group is exposed to:

- **Profit Rate Risk:** also known as the Rate of Return Risk is the potential impact on the Group'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 Group's currency positions;
- **Equity Investment Risk:** the profitability impact on the Group's equity positions or investments caused by changes in equity prices or values;

The Group separates the market risk exposures 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 designated as per the Board approved Trading Book Policy Statements. Non-trading portfolios primarily arise from the Group's profit rate management of the Group's asset & liabilities and investment portfolio mainly for liquidity management.

### 5.2 Market Risk Governance

The management of market risk is principally carried out by using sets of policies and guidelines approved by the Asset and Liability Management Committee ("ALCO") and/or BRC, guided by the Board's approved Risk Appetite Statement.

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

### 5.3 Management of Market Risk

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

All market risk exposures are managed by Treasury, who has the necessary skills, tools, management and governance to manage such risks. The management of market risk is guided by comprehensive limits, policies and guidelines which are periodically reviewed.

Market Risk Management Department ("MRMD") is the independent risk control function and is responsible for ensuring effective implementation of market risk management policies. MRMD is also responsible for developing the Group's market risk management guidelines, monitoring tools, behavioural assumptions and limit setting methodologies. Strict escalation procedures are documented and approved by the ALCO and/or BRC. In addition, the market risk exposures and limits are regularly 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 regularly to determine the impact of changes in profit rates, foreign exchange rates and other risk factors on the Group'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 Group.

**PILLAR 3 DISCLOSURE**

as at 31 December 2017

(cont'd)

**5. MARKET RISK** (cont'd)**5.3 Management of Market Risk** (cont'd)**(a) 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 earnings-at-risk ("EaR") and economic value of equity ("EVE").

The Group monitors the sensitivity of EaR and EVE under varying profit rate scenarios (i.e. simulation modeling). The model is a combination of standard and non-standard scenarios relevant to the local market. The standard scenarios include the parallel fall or rise in the profit rate curve and historical simulation. These scenarios assume no management action. Hence, it does 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 Bank's profit rate sensitivity to a 100 basis points parallel shift as at reporting date.

BANK	31 DECEMBER 2017 (DECREASE)/INCREASE		31 DECEMBER 2016 (DECREASE)/INCREASE	
	-100BPS	+100BPS	-100BPS	+100BPS
	RM MILLION	RM MILLION	RM MILLION	RM MILLION
Impact on EaR	<b>(85.41)</b>	<b>85.41</b>	(28.46)	28.46
Impact on EVE	<b>168.00</b>	<b>(168.00)</b>	266.25	(266.25)

**(b) Market Risk in the Trading Portfolio**

Market risk in the trading portfolio is monitored and controlled using Value-at-Risk ("VaR"). It is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates over a specified time horizon and to a given level of confidence. The VaR model used by the Group is based on historical simulation. This model derives plausible future scenarios from past series of recorded market rates and prices, taking into account interrelationship between different markets and rates such as profit rates and foreign exchange rates. The historical simulation model used by the Group incorporates the following features:

- Potential market movements are calculated with reference to data from the past two years;
- Historical market rates are calculated with reference to foreign exchange rates and profit rates; and
- VaR is calculated using a 99 per cent confidence level and for a one-day holding period.

**5. MARKET RISK** (cont'd)**5.3 Management of Market Risk** (cont'd)**(b) Market Risk in the Trading Portfolio** (cont'd)

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

BANK	AS AT 31.12.2017	1.1.2016 TO 31.12.2017		
	RM MILLION	AVERAGE RM MILLION	MAXIMUM RM MILLION	MINIMUM RM MILLION
Profit Rate Risk	1.74	1.88	3.29	0.59
Foreign Exchange Risk	0.43	0.29	0.86	0.01
Overall	2.17	2.17	3.67	0.62

BANK	AS AT 31.12.2016	1.1.2016 TO 31.12.2016		
	RM MILLION	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

**(c) Foreign Exchange Risk**

The Group manages and controls the trading portfolio's foreign exchange risk by limiting the net open exposure to individual currencies and on an aggregate basis. The Group also has in place the sensitivity limit. For the Group-wide (trading and non-trading portfolios) foreign exchange risk, the Group manages and controls by limiting the net open exposure on an aggregate basis.

**Sensitivity Analysis**

Assuming that other risk variables remain constant, the foreign currency revaluation sensitivity for the Bank as at reporting date is summarised as follows (only net open position for major currencies are shown in its specific currency in the table below. For other currencies, these exposures are grouped as "Others"):

BANK	31 DECEMBER 2017		31 DECEMBER 2016	
	-1% DEPRECIATION RM'000	+1% APPRECIATION RM'000	-1% DEPRECIATION RM'000	+1% APPRECIATION RM'000
US Dollar	9,331	(9,331)	11,503	(11,503)
Euro	5,197	(5,197)	8,098	(8,098)
Others	826	(826)	(96)	96

**5.4 Capital Treatment for Market Risk**

The Group adopts the Standardised Approach to compute the market risk capital requirement under BNM's CAFIB.

**PILLAR 3 DISCLOSURE**

as at 31 December 2017

(cont'd)

**6. LIQUIDITY RISK****6.1 Overview**

Liquidity risk is the potential inability of the Group to meet its funding needs and regulatory obligation when they fall due, or will have to do it at excessive cost. This risk can arise from mismatches in the timing of cash flows.

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

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

The Group's liquidity management is primarily carried out in accordance with the Bank Negara Malaysia's requirements and limits approved by the ALCO and/or BRC. These limits and triggers vary to take account of the depth and liquidity of the market in which the Group operates. The Group 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 Group's liquidity management process includes:

- Daily projection of cash flows and ensuring that the Group 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.

**6.2 Liquidity Risk Governance**

The management of liquidity risk is principally carried out by using sets of policies and guidelines approved by the ALCO and/or BRC, guided by the Board's approved Risk Appetite Statement.

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

**6.3 Management of Liquidity Risk**

All liquidity risk exposures are managed by Treasury, who 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.

## 6. LIQUIDITY RISK (cont'd)

### 6.3 Management of Liquidity Risk (cont'd)

MRMD is the independent risk control function and is responsible for ensuring efficient implementation of liquidity risk management. It is also responsible for developing the Group's liquidity risk management guidelines, monitoring tools, behavioural assumptions and limit setting methodologies. Strict escalation procedures are documented and approved by the ALCO and/or BRC, with proper authorities to ratify or approve the excess. In addition, the liquidity risk exposures and limits are regularly reported to the ALCO and the BRC.

Stress testing and scenario analysis are important tools used by the Group to manage the liquidity risk. Stress test results are produced regularly 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 Group.

Another key control feature of the Group's liquidity risk management is the approved and documented liquidity contingency management 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 Group.

## 7. OPERATIONAL RISK

### 7.1 Overview

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

It is inherent in all banking products, activities, processes and systems and the effective management of operational risk has always been a fundamental element of a bank's risk management programme.

### 7.2 Operational Risk Governance

The Group's operational risk management ("ORM") is guided by its ORM Policy, Guideline and Enterprise-Wide Risk Management Policy as well as its Risk Appetite Statement Policy which are designed to provide a sound and well-controlled operational environment within the Group.

The BRC is a committee of Board to oversee the Management's activities in managing risks for the Group, including operational risk. Its roles with regard to ORM include reviewing and recommending ORM Policy, strategies and risk appetite for Board's approval.

The MRCC, under the authority delegated by the BRC is responsible to perform the oversight functions and to ensure effective management of issues relating to operational risk at strategic level. The ORCC which is a sub-committee of MRCC is primarily responsible in ensuring the effective implementation and maintenance of policies, processes and systems for managing operational risk for the Group.

Notwithstanding the above, the various Business & Support Units ("BU/SU") are responsible for managing operational risk within their respective domains on a day to day basis and ensuring that their business & operational activities are carried out within the established ORM policies, guidelines, procedures and limits. To reinforce accountability and ownership of risk & control at BU/SU level, a Risk Controller for each BU/SU is appointed and Embedded Risk and Compliance Unit is established at selected BU/ SU to assist in driving the risk & control programme for the Group.

Ultimately all staff of the Group is to ensure they properly discharge their day to day responsibilities and are well-equipped with the necessary knowledge including the policies and procedures in executing their job functions. This is in line with our Risk Management Tagline i.e. "Managing Risk is Everyone's Business".

**PILLAR 3 DISCLOSURE**as at 31 December 2017  
(cont'd)**7. OPERATIONAL RISK** (cont'd)**7.3 Management of Operational Risk**

The Group recognises and emphasises the importance of 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 ORM, guidelines, procedures and limits.

The Group's overall governance approach in managing operational risk is premised on the Three Lines of Defence Approach:

- a) **1st Line of Defence** – the risk owner or risk taking unit i.e. BU/SU is accountable for putting in place a robust control environment within their respective units. They are responsible for the day to day management of operational risk. To reinforce accountability and ownership of risk and control, the Embedded Risk & Compliance Unit ("ERU") has been established to maintain the oversight of risk and compliance matters within the Business/Support Division. The ERU will have direct reporting to Head of Division and dotted line reporting to Risk Management & Compliance Division.
- b) **2nd Line of Defence** – the Operational Risk Management Department ("ORMD") is responsible for establishing and maintaining the ORM Policy and its supporting guidelines/manuals, developing methodologies and various ORM tools to facilitate the management of operational risk, monitoring the effectiveness of ORM, assessing operational risk issues from the risk owner and escalating operational risk 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 Group.

Both Shariah Risk Management ("SRM") and Compliance Division complement the role of ORMD as the 2nd Line of Defence. SRM is responsible for managing the Shariah compliance risk ("SCR") by establishing and maintaining appropriate Shariah Compliance Risk Management ("SCRM") guidelines, facilitating the process of identifying, assessing, controlling and 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, money laundering and terrorism financing risks through proper classification of risks and developing, reviewing and enhancing compliance-related training programmes as well as conducting trainings that promote 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.

## 7. OPERATIONAL RISK (cont'd)

### 7.4 ORM Tools & Mitigation Strategies

The Group employs various tools comprising proactive and reactive tools which are in line with the best practices in managing and mitigating its, namely:

OVERVIEW OF ORM TOOLS				
PROACTIVE TOOLS				REACTIVE TOOL
KEY RISK INDICATOR	RISK CONTROL SELF ASSESSMENT	PROCESS RISK MAPPING	NEW PRODUCT SERVICES APPROVAL PROCESS	RISK LOSS EVENT MANAGEMENT & REPORTING
<ul style="list-style-type: none"> <li>A forward looking tool to identify potential risks and to enable counter measures and risk mitigation actions before an incident occurs (early warning system);</li> <li>To assist management to focus on high-risk issues.</li> </ul>	<ul style="list-style-type: none"> <li>To identify and assess operational risks by Risk Owners;</li> <li>The tool creates ownership and increases operational risk awareness.</li> </ul>	<ul style="list-style-type: none"> <li>End to end review of critical banking activities to identify potential risks and ensure appropriate controls are in place and are effective.</li> </ul>	<ul style="list-style-type: none"> <li>To ensure risks are identified and adequate controls are in place prior to launching of new products/services.</li> </ul>	<ul style="list-style-type: none"> <li>Centralised group-wide loss database which provides line of business loss reporting overview, tracks frequency of events and facilitates detailed reviews of the incident and its impact.</li> </ul>
RISK ANALYSIS & REPORTING				
<ul style="list-style-type: none"> <li>Analysis and reporting of qualitative and quantitative results from various ORM tools</li> </ul>				

In addition, a comprehensive Business Continuity Management (“BCM”) function has been established within the Group to ensure that in the event of material disruptions from internal or external events, critical business functions can be maintained or restored in a timely manner. This ensures minimal adverse impact on customers, staff and products and services. BCM constitutes an essential component of the Group’s risk management process by providing a controlled response to potential operational risk that could have a significant impact on the Group’s critical processes and revenue streams.

As part of the risk transfer strategy, the Group obtains a 3rd party Takaful coverage to cover for the Group’s high impact loss events.

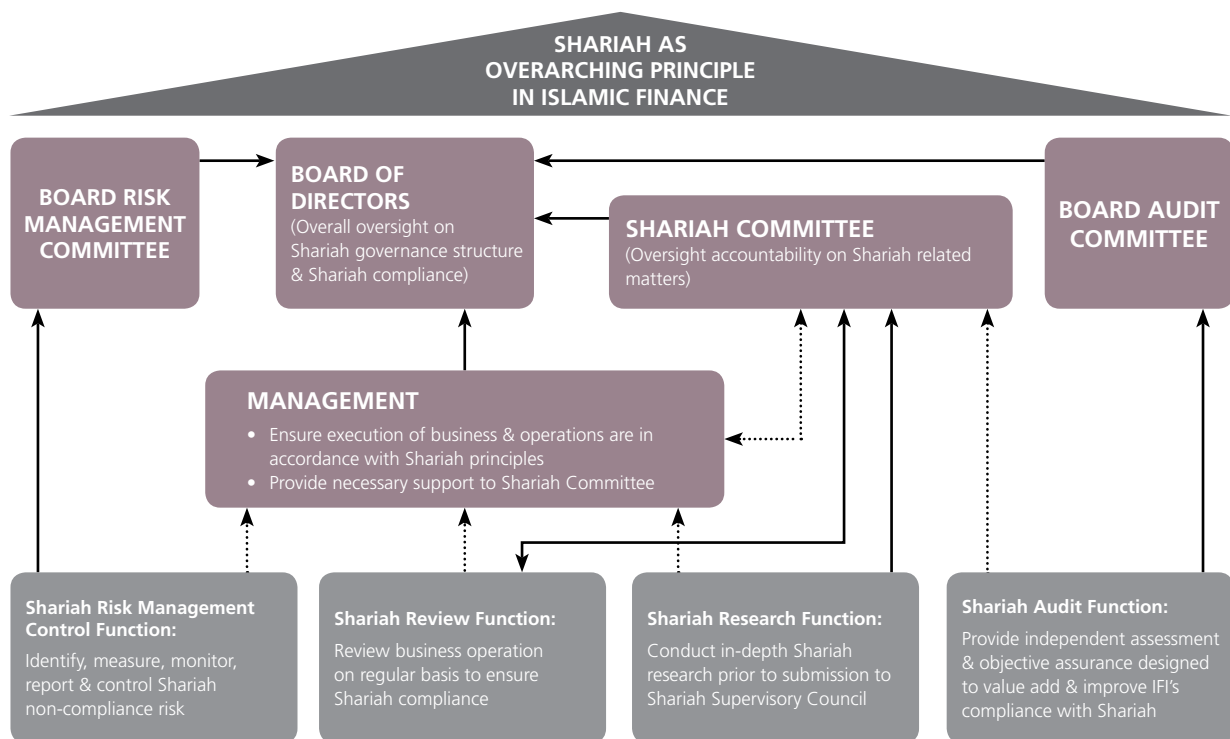
The Group also ensures that the Group-wide Operational Risk awareness programme is conducted on an ongoing basis. This training programme includes emphasis on inculcating an operational risk culture among staff, effective implementation of ORM tools, fraud awareness, BCM and other aspects of ORM.

### 7.5 Capital Treatment for Operational Risk

Operational Risk capital charge is calculated using the Basic Indicator Approach (“BIA”) as per BNM’s CAFIB. The BIA for operational risk capital charge calculation applies an alpha (15%) to the average of positive gross income that was achieved over the previous three years by the Group. The RWA amount is computed by multiplying the minimum capital required with a multiplier of 12.5 (reciprocal of 8%).

**8. SHARIAH GOVERNANCE****8.1 Overview**

By virtue of BNM's Shariah Governance Framework for Islamic Financial Institution ("SGF"), the Group has established a sound and robust Shariah governance framework with emphasis placed on the roles of its key functionalities, which include having in place an effective and responsible Board and Management and an independent Shariah Supervisory Council ("SSC") that is supported by strong and competent internal Shariah functions. The below diagram depicts the Group's Shariah governance structure:



To date, the Group has in place the Shariah Compliance Policy to communicate its comprehensive Shariah governance framework to ensure the Group's business activities and behaviors are in compliance with Shariah rules and principles, provisions of the Islamic Financial Services Act ("IFSA") 2013, BNM's SGF and its other rules and regulations, and the resolutions of BNM and Securities Commission ("SC")'s Shariah Advisory Council and the Group's SSC.

**8.2 Shariah Risk Management**

The Group's Shariah risk management is guided by its Shariah Compliance Risk Management ("SCRM") Guideline which sets out the high-level framework supporting the Shariah Compliance Policy and details out the Shariah risk management processes and tools. The guideline serves to provide a consistent groupwide framework for managing Shariah compliance risk ("SCR") across the Group.



## 8. SHARIAH GOVERNANCE (cont'd)

### 8.2 Shariah Risk Management (cont'd)

In addition to this, the Shariah Non-Compliance Management and Reporting Guideline provides sound mechanism on Shariah non-compliance (“SNC”) management and reporting in order to ensure the Group strictly complies with Shariah rules and principles as well as the regulatory requirements. The guideline has been established in line with the mechanism set out by BNM’s Operational Risk Reporting Requirement – Operational Risk Integrated Online Network (“ORION”) and to ensure compliance to section 28(3) of the IFSA 2013 which requires any SNC event to be immediately reported to BNM. Additionally, pursuant to this guideline, any actual SNC events caused by operational lapses including negligence, breach of policies and lack of due care by staff may be subject to disciplinary action.

Being part of operational risk, the Shariah risk management leverages on the same ORM principles, processes and tools. The responsibility of managing SCR is spearheaded by the Bank’s Shariah Risk Management Department. In general, all ORM tools are extended to the process of managing SCR. However, the tools are modified to suit the regulatory requirements on Shariah governance in order to provide a robust and consistent approach in managing SCR.

In 2017, the generic Shariah Key Risk Indicator (“SKRI”) was introduced and implemented. The SKRI serves as a “Dashboard View” on the effectiveness of Shariah Governance and Risk Management.

### 8.3 Shariah Non-Compliance (“SNC”) Events

An SNC event is a result of the Group’s failure to comply with the Shariah rules and principles determined by the relevant Shariah regulatory councils.

Throughout the year 2017, there were seven (7) incidences confirmed by the Shariah Supervisory Council as SNC events with nil financial loss.

The SNC events were due to operational failures and lack of knowledge on related Shariah requirements for products offered. The Group, from time to time, makes efforts to prevent similar Shariah breaches from recurring by issuing reminders, conducting ongoing awareness and training as well as putting additional controls to ensure compliance with Shariah requirements.

### 8.4 Shariah Non-Compliant Income

31 December 2017	31 December 2016
RM8,374.23	RM8,828.95

The above amount consists of commissions from Shariah non-compliant merchants of card business, interest received as well as rental purification from the Group’s land that is being used to facilitate *bai’ inah* based transaction. The income was channeled to charitable causes upon approval by the Shariah Supervisory Council.

## CHIEF EXECUTIVE OFFICER ATTESTATION

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In accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Bank (CAFIB) Disclosure Requirements (Pillar 3), I hereby attest that to the best of my knowledge, the disclosures contained in Bank Islam Malaysia Berhad's Pillar 3 Disclosure report for the financial year ended 31 December 2017 are consistent with the manner in which the Group and the Bank assesses and manages its risk, and are not misleading in any particular way.

**Khairul Kamarudin**

Chief Executive Officer, Bank Islam Malaysia Berhad

# DIRECTORY CENTRAL REGION

INTEGRATED  
ANNUAL  
REPORT  
2017

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Fax : (6) 03 3362 3216

### ● SHAH ALAM

Tel : (6) 03 5510 1481 / 1492 / 4509  
Fax : (6) 03 5510 1497

### ● SRI GOMBAK

Tel : (6) 03 6185 9655 / 9667 / 9672  
Fax : (6) 03 6185 9675

### ● SUBANG JAYA

Tel : (6) 03 8023 2072 / 2087 / 2125  
Fax : (6) 03 8023 2140

### ● SUNGAI BESAR

Tel : (6) 03 3224 2886 / 3478  
(6) 03 3224 2434 / 2876  
Fax : (6) 03 3224 3479

### ● SUNGAI BULOH

Tel : (6) 03 6156 0082 / 0084 / 0086  
Fax : (6) 03 6156 0085

### ● TANJUNG KARANG

Tel : (6) 03 3269 1090 / 0090  
Fax : (6) 03 3269 1091

### ● UITM SHAH ALAM

Tel : (6) 03 5510 4194 / 4196  
Fax : (6) 03 5510 4186



## WILAYAH PERSEKUTUAN

### ● PUTRAJAYA

Tel : (6) 03 8889 3192 / 3193 / 3194  
Fax : (6) 03 8889 3189

### ● IFIC PUTRAJAYA

Tel : (6) 03 8861 3698 / 2824  
Fax : (6) 03 8861 2673

# DIRECTORY NORTHERN REGION

## REGIONAL OFFICE

01

Ground & First Floor, No 3009  
Bangunan KWSP Seberang Jaya  
Lebuh Tenggiri 2, 13700 Seberang Jaya  
Pulau Pinang

Tel : (6) 04 382 9100  
Fax : (6) 04 382 9166

02

1<sup>st</sup> Floor, 21 & 23 Jalan Taman Meru  
Utama A1, Medan Meru Utama  
Meru Raya, 30020 Ipoh  
Perak

Tel : (6) 05 527 7701  
Fax : (6) 05 527 7706

## PULAU PINANG

### ● BANDAR BARU PERDA

Tel : (6) 04 540 3150 / 3151 / 3153  
Fax : (6) 04 540 3152

### ● BAYAN BARU

Tel : (6) 04 642 5094 / 5095 / 5096 /  
5097  
Fax : (6) 04 642 5098

### ● BUTTERWORTH

Tel : (6) 04 331 2357 / 2358  
(6) 04 332 1301 / 1317  
Fax : (6) 04 331 2360

### ● GEORGETOWN

Tel : (6) 04 262 4724 / 4933 / 5019 /  
0626  
Fax : (6) 04 262 2594

### ● KEPALA BATAS

Tel : (6) 04 575 5517 / 5579 / 3376  
Fax : (6) 04 575 3986

## PERAK

### ● BAGAN SERAI

Tel : (6) 05 721 8509 / 8513 / 8512  
Fax : (6) 05 721 8515

### ● IPOH

Tel : (6) 05 255 3866 / 3867 / 3868  
Fax : (6) 05 253 5760

### ● MERU RAYA

Tel : (6) 05 527 7701 / 7702 / 7703  
Fax : (6) 05 527 7706

### ● PARIT BUNTAR

Tel : (6) 05 716 4493 / 4494  
Fax : (6) 05 716 4495

### ● SERI ISKANDAR

Tel : (6) 05 371 6020 / 6021 / 6022  
Fax : (6) 05 371 6023

### ● SRI MANJUNG

Tel : (6) 05 688 1227 / 9071  
Fax : (6) 05 688 1672

### ● TAIPIING

Tel : (6) 05 806 5441 / 5442 / 5443  
Fax : (6) 05 806 5436

### ● TANJUNG MALIM

Tel : (6) 05 459 8237 / 5127 / 5125  
Fax : (6) 05 459 8241

### ● TELUK INTAN

Tel : (6) 05 622 1700 / 1200 / 1411  
Fax : (6) 05 622 1489

**PERLIS**● **KANGAR**

Tel : (6) 04 970 5525 / 5535

Fax : (6) 04 970 5565

**KEDAH**● **ALOR SETAR**

Tel : (6) 04 733 5126 / 5136

(6) 04 731 9813

Fax : (6) 04 733 5128

● **BALING**

Tel : (6) 04 470 1678 / 7052

Fax : (6) 04 470 1679

● **GUAR CHEMPEDAK**Tel : (6) 04 468 0880 / 4827 / 4829 /  
4830

Fax : (6) 04 468 0884

● **JITRA**

Tel : (6) 04 917 4404 / 1151

Fax : (6) 04 917 4225

● **KODIANG**

Tel : (6) 04 925 0397 / 0100 / 0208

Fax : (6) 04 925 0215

● **KULIM**

Tel : (6) 04 403 3300 / 3003 / 3976

Fax : (6) 04 403 3977

● **LANGKAWI**Tel : (6) 04 966 2463 / 2464 / 2466 /  
5191

Fax : (6) 04 966 2469

● **ALOR SETAR 2  
(PERSIARAN SULTAN ADDUL  
HAMID)**

Tel : (6) 04 772 8800 / 5818

(6) 04 771 6575

Fax : (6) 04 772 8100

● **POKOK SENAI**

Tel : (6) 04 782 1033 / 1034

Fax : (6) 04 782 1022

● **SUNGAI PETANI**

Tel : (6) 04 422 0620 / 0621 / 0622

(6) 04 423 8752

Fax : (6) 04 421 3912

● **SUNGAI PETANI 2**

Tel : (6) 04 422 0061 / 0062 / 0063

Fax : (6) 04 422 0064

● **UNIVERSITI UTARA  
MALAYSIA**

Tel : (6) 04 924 6271 / 6272 / 6273

Fax : (6) 04 924 6270

# DIRECTORY EASTERN REGION

## REGIONAL OFFICE

01

No 8033, 2<sup>nd</sup> Floor  
Bandar Satelit Pasir Tumbuh  
16150 Kota Bharu  
Kelantan

Tel : (6) 09 764 3840 / 3850 / 3854  
Fax : (6) 09 764 3870

## KELANTAN

### ● BANDAR BARU TUNJUNG

Tel : (6) 09 743 0190 / 0192 / 0193  
Fax : (6) 09 743 0194

### ● GUA MUSANG

Tel : (6) 09 912 2003  
Fax : (6) 09 912 1772

### ● JALAN SULTAN IBRAHIM

Tel : (6) 09 743 4020 / 4030 / 4060  
Fax : (6) 09 743 3020

### ● KOTA BHARU 2

Tel : (6) 09 741 9222 / 9333 / 9555  
(6) 09 743 8825  
Fax : (6) 09 743 8826

### ● KUALA KRAI

Tel : (6) 09 966 4627 / 3002 / 3008  
Fax : (6) 09 966 4651

### ● KUBANG KERIAN

Tel : (6) 09 764 0058 / 0070 / 0071  
Fax : (6) 09 764 0057

### ● MACHANG

Tel : (6) 09 975 2800 / 1490  
Fax : (6) 09 975 2900

### ● PASIR MAS

Tel : (6) 09 790 0750 / 0751  
Fax : (6) 09 790 0752

### ● PASIR PUTEH

Tel : (6) 09 786 0061 / 0062 / 0063  
Fax : (6) 09 786 0068

### ● PASIR TUMBOH

Tel : (6) 09 764 4077  
Fax : (6) 09 764 6077

### ● RANTAU PANJANG

Tel : (6) 09 795 0077 / 2768  
Fax : (6) 09 795 0088

### ● TANAH MERAH

Tel : (6) 09 955 8341 / 2341  
Fax : (6) 09 955 8342

### ● PADANG GARONG

Tel : (6) 09 747 1867 / 9313 / 9317  
Fax : (6) 09 747 1902

### ● WAKAF BHARU

Tel : (6) 09 719 8444 / 8445 / 8446  
Fax : (6) 09 719 8447



REGIONAL OFFICE 

01

2<sup>nd</sup> Floor, Putra Square Branch  
25200 Kuantan  
PahangTel : (6) 09 517 3452 / 3491 / 3584  
Fax : (6) 09 517 3605 PAHANG● **BANDAR MUADZAM SHAH**Tel : (6) 09 452 3175 / 5175 / 5176  
Fax : (6) 09 452 3177● **JENKA**Tel : (6) 09 466 2890 / 2871 / 4837 /  
4153  
Fax : (6) 09 466 2891● **JERANTUT**Tel : (6) 09 266 6120 / 6121 / 9096  
(6) 09 266 9380 / 9381  
Fax : (6) 09 266 6380● **KUALA ROMPIN**Tel : (6) 09 414 6064 / 6065 / 6068  
Fax : (6) 09 414 6074● **KUANTAN**Tel : (6) 09 513 3366 / 3367 / 3368  
Fax : (6) 09 513 3369● **PEKAN**Tel : (6) 09 422 8622 / 8922  
Fax : (6) 09 422 8818● **PUTRA SQUARE**Tel : (6) 09 517 3225 / 3229 / 3231  
Fax : (6) 09 517 3235● **RAUB**Tel : (6) 09 355 8300 / 8301  
Fax : (6) 09 355 8302● **TEMERLOH**Tel : (6) 09 296 5301 / 3222 / 1416  
Fax : (6) 09 296 5300

REGIONAL OFFICE 

01

3<sup>rd</sup> & 4<sup>th</sup> Floor, Lot 35308  
Dataran Austin, Gong Badak  
Mukim Kuala Nerus  
20200 Kuala Terengganu, Terengganu  
Tel : (6) 09 667 2426 / 2427 / 2428  
Fax : (6) 09 667 2429


**TERENGGANU**
● **CHUKAI**

Tel : (6) 09 859 9999 / 9977  
Fax : (6) 09 858 1675

● **DUNGUN**

Tel : (6) 09 848 5498  
(6) 09 845 3302 / 3055  
Fax : (6) 09 848 5502

● **JALAN PADANG HILIRAN**

Tel : (6) 09 631 3533 / 8354 / 8355  
Fax : (6) 09 631 3633

● **JERTEH**

Tel : (6) 09 697 3388 / 1672 / 1673  
Fax : (6) 09 697 1592

● **KUALA TERENGGANU**

Tel : (6) 09 622 4730 / 4744 / 4754 /  
4780  
(6) 09 623 4537  
Fax : (6) 09 623 3944

● **KUALA NERUS**

Tel : (6) 09 667 1700 / 1702 / 1703  
Fax : (6) 09 667 1705

# DIRECTORY SOUTHERN REGION

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## REGIONAL OFFICE

01

15<sup>th</sup> Floor, Menara TH  
Jalan Ayer Molek, 80000 Johor Bahru  
Johor  
Tel : (6) 07 225 8800  
Fax : (6) 07 225 8901

## JOHOR

- **AERO MALL AIRPORT, JB**

Tel : (6) 07 598 5975 / 5977  
Fax : (6) 07 598 5978

- **AUSTIN HEIGHT**

Tel : (6) 07 364 3070 / 3081 / 3293  
Fax : (6) 07 364 3839

- **BANDAR PENAWAR**

Tel : (6) 07 822 2802 / 2803 / 2804  
Fax : (6) 07 822 2806

- **BATU PAHAT**

Tel : (6) 07 431 9350 / 9352 / 8927  
Fax : (6) 07 431 9351

- **IFIC JOHOR BAHRU**

Tel : (6) 07 223 7030 / 7031  
Fax : (6) 07 223 7032

- **JOHOR BAHRU**

Tel : (6) 07 224 0242 / 0244 / 0272  
Fax : (6) 07 224 0243

- **KLUANG**

Tel : (6) 07 772 6423 / 6417 / 6878  
Fax : (6) 07 773 2702

- **KOTA TINGGI**

Tel : (6) 07 883 8800 / 5582  
(6) 07 882 6205  
Fax : (6) 07 882 4485

- **KULAIJAYA**

Tel : (6) 07 663 5204 / 5205 / 5206  
Fax : (6) 07 663 3208

- **MERSING**

Tel : (6) 07 799 5076 / 6606 / 6607 /  
6608  
Fax : (6) 07 799 5077

- **MUAR**

Tel : (6) 06 952 8301 / 8302 / 8303  
Fax : (6) 06 952 8304

- **PASIR GUDANG**

Tel : (6) 07 252 6671 / 6672 / 6673  
Fax : (6) 07 252 6676

- **PONTIAN**

Tel : (6) 07 688 1909 / 2259  
(6) 07 686 5666  
Fax : (6) 07 688 3660

- **SEGAMAT**

Tel : (6) 07 932 4257 / 2901 / 2862 /  
2873  
Fax : (6) 07 932 4273

- **TAMAN BUKIT INDAH**

Tel : (6) 07 239 5977 / 5978 / 5979  
Fax : (6) 07 239 5980

- **TAMPOI**

Tel : (6) 07 234 5228 / 5229 / 8785  
Fax : (6) 07 234 5230

REGIONAL OFFICE 

01

JC 526 & 527  
Tingkat 1, Jalan Bestari 5  
77200 Jasin, Melaka  
Tel : (6) 06 529 4402 / 4403  
Fax : (6) 06 529 4370

## MELAKA

## ● AYER KEROH

Tel : (6) 06 232 0986 / 1273 / 6559  
Fax : (6) 06 232 6561

## ● BANDAR MELAKA

Tel : (6) 06 284 1366 / 1367 / 1368  
Fax : (6) 06 284 7257

## NEGERI SEMBILAN

## ● KUALA PILAH

Tel : (6) 06 481 4600 / 8482  
Fax : (6) 06 481 1431

## ● NILAI

Tel : (6) 06 799 0549 / 0277 / 6124  
Fax : (6) 06 799 6217

## ● PORT DICKSON

Tel : (6) 06 647 4330  
(6) 06 646 3281  
Fax : (6) 06 647 5657

## ● IFIC BANDA KABA

Tel : (6) 06 288 0425 / 0426 / 0427  
Fax : (6) 06 288 0428

## ● JASIN

Tel : (6) 06 529 5301 / 5302 / 5303  
Fax : (6) 06 529 5312

## ● SENAWANG

Tel : (6) 06 678 2731 / 2732 / 2733  
Fax : (6) 06 678 2734

## ● SEREMBAN

Tel : (6) 06 762 9814 / 9815 / 9816 /  
9817  
Fax : (6) 06 763 8391

## ● MASJID TANAH

Tel : (6) 06 384 5108 / 8340 / 8332  
Fax : (6) 06 384 5109

## ● TAMPIN

Tel : (6) 06 441 4131 / 4132 / 4133  
Fax : (6) 06 441 7479

## ● BANDAR ENSTEK

Tel : (6) 06 799 6484 / 6485 / 6486  
Fax : (6) 06 799 6487

# DIRECTORY EAST MALAYSIA REGION

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## REGIONAL OFFICE

01

1<sup>st</sup> Floor  
UMNO Building, Jalan Kemajuan  
88500 Kota Kinabalu, Sabah  
Tel : (6) 088 447 114 / 160 / 260  
Fax : (6) 088 447 256

### SABAH

- **ALAMESRA**

Tel : (6) 088 487 978 / 975 / 976  
Fax : (6) 088 487 980

- **KOTA KINABALU**

Tel : (6) 088 447 285 / 306 / 312 / 314  
Fax : (6) 088 447 315

- **LAHAD DATU**

Tel : (6) 089 863 255 / 244 / 577  
Fax : (6) 089 863 433

- **SANDAKAN**

Tel : (6) 089 214 885 / 942 / 964  
Fax : (6) 089 214 977

- **TAWAU**

Tel : (6) 089 778 966 / 758  
Fax : (6) 089 779 666

- **KENINGAU**

Tel : (6) 087 342 201 / 202 / 203  
Fax : (6) 087 342 204

### WILAYAH PERSEKUTUAN

- **LABUAN**

Tel : (6) 087 419 205 / 424 667  
Fax : (6) 087 419 206

**REGIONAL OFFICE**


01

Lot 423 – 426, Bangunan Aiman  
 Jalan Kulas Barat, Section 5  
 93400 Kuching, Sarawak  
 Tel : (6) 082 425 118 / 235 419 / 416 215  
 Fax : (6) 082 233 172 / 234 108 / 235 521


**SARAWAK**
**BINTULU**

Tel : (6) 086 337 413 / 418 / 493 / 781  
 Fax : (6) 086 337 401

**KOTA SAMARAHAN**

Tel : (6) 082 662 616 / 617 / 284 / 285  
 Fax : (6) 082 662 618

**KUCHING**

Tel : (6) 082 412 259 / 413 229  
 (6) 082 414 159 / 417 289  
 Fax : (6) 082 410 446

**MIRI**

Tel : (6) 085 415 422 / 424 / 425  
 Fax : (6) 085 415 421

**SIBU**

Tel : (6) 084 327 140 / 141 / 142  
 Fax : (6) 084 327 144

**SIMPANG TIGA, KUCHING**

Tel : (6) 082 453 716 / 726 / 736  
 Fax : (6) 082 453 711

## AR-RAHNU BRANCHES

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### ALOR SETAR

Lot 2024, Jalan Langgar  
05000 Alor Setar  
Kedah  
Tel : (6) 04 731 9090  
Fax : (6) 04 730 5050

### KUBANG KERIAN

PT816, Ground Floor  
Jalan Raja Perempuan Zainab II  
Bandar Baru Kubang Kerian  
16150 Kota Bharu  
Kelantan  
Tel : (6) 09 767 8090  
Fax : (6) 09 764 5090

### TANAH MERAH

Lot PT175  
Jalan Hospital  
17500 Tanah Merah  
Kelantan  
Tel : (6) 09 955 7090  
Fax : (6) 09 955 5090

### SUNGAI PETANI

21-B, Jalan Ibrahim  
08000 Sungai Petani  
Kedah  
Tel : (6) 04 421 9090  
Fax : (6) 04 421 5050

### PASIR MAS

Lot 319, Seksyen 1  
Jalan Pasir Pekan  
17000 Pasir Mas  
Kelantan  
Tel : (6) 09 790 8090  
Fax : (6) 09 790 3090

### KUALA TERENGGANU

MBKT-No 19  
Pusat Niaga Paya Keladi  
Kampung Paya Keladi  
20200 Kuala Terengganu  
Terengganu  
Tel : (6) 09 626 7090  
Fax : (6) 09 623 5050

### KOTA BHARU

No 1154 & 1155, Seksyen 11  
Lorong Medan MARA  
15000 Kota Bharu  
Kelantan  
Tel : (6) 09 748 9090  
Fax : (6) 09 748 9050

### PASIR PUTEH

No PT546, Seksyen 2  
Jalan Nara  
16800 Pasir Puteh  
Kelantan  
Tel : (6) 09 786 9090  
Fax : (6) 09 786 5050

### KUANTAN

No G-11, Ground Floor  
Mahkota Square  
Jalan Mahkota  
25000 Kuantan  
Pahang  
Tel : (6) 09 517 9090  
Fax : (6) 09 514 5050

## SUBSIDIARIES OF BANK ISLAM MALAYSIA BERHAD

### **BIMB INVESTMENT MANAGEMENT BERHAD**

19<sup>th</sup> Floor, Menara Bank Islam  
No 22, Jalan Perak  
50450 Kuala Lumpur  
Tel : (6) 03 2161 2524 / 2924  
Toll Free : 1800 88 1196  
Fax : (6) 03 2161 2464

### **BANK ISLAM TRUST COMPANY (LABUAN) LTD**

Level 5(l), Main Office Tower  
Financial Park Complex  
Jalan Merdeka  
87000 F.T Labuan  
Tel : (6) 087 451 806  
Fax : (6) 087 451 808

### **AL-WAKALAH NOMINEES (TEMPATAN) SDN BHD**

21<sup>st</sup> Floor, Menara Bank Islam  
No. 22, Jalan Perak  
50450 Kuala Lumpur  
Tel : (6) 03 2726 7724  
Fax : (6) 03 2726 7733

### **FARIHAN CORPORATION SDN BHD**

19<sup>th</sup> Floor, Menara Bank Islam  
No 22, Jalan Perak  
50450 Kuala Lumpur  
Tel : (6) 03 2782 1333  
Fax : (6) 03 2782 1355



All information detailed in this Integrated Annual Report is correct at the time of printing.

**Bank Islam Malaysia Berhad** (98127-X)

Level 32, Menara Bank Islam

No. 22, Jalan Perak

50450 Kuala Lumpur

Tel (6)03 2088 8000

Fax (6)03 2088 8028

[www.bankislam.com.my](http://www.bankislam.com.my)