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working world

**AMBANK ISLAMIC BERHAD**  
**(295576-U)**  
**(Incorporated in Malaysia)**

**Directors' Report and Audited Financial Statements**  
**31 March 2017**

Company No. 295576-U

**AMBANK ISLAMIC BERHAD**  
**(Incorporated in Malaysia)**

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Company No. 295576-U

**AMBANK ISLAMIC BERHAD**  
**(Incorporated in Malaysia)**

**DIRECTORS' REPORT**

The Directors have pleasure in presenting their report and the audited financial statements of the Bank for the financial year ended 31 March 2017.

**PRINCIPAL ACTIVITIES**

The Bank is a licensed Islamic banking institution providing Islamic retail and commercial banking products and services in accordance with Shariah principles. There have been no significant changes in the nature of the activities of the Bank during the financial year.

**FINANCIAL RESULTS**

	<b>RM'000</b>
Profit for the financial year	<u>255,658</u>

There were no material transfers to or from reserves, allowances or provisions during the financial year other than those disclosed in the financial statements.

In the opinion of the Directors, the results of the Bank during the financial year have not been 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, in the opinion of the Directors, to affect substantially the results of the operations of the Bank for the current financial year in which this report is made.

**DIVIDENDS**

The Directors did not propose or declare any dividends for the current financial year.

## **BUSINESS PLAN AND STRATEGY**

Financial year 2017 marked the start of the AMMB Holding Berhad ("the AMMB Group") "Top4" journey which encapsulates the group's aspirations:

- To be Top 4 in each of our 4 growth segments – Mass Affluent, Affluent, SME, Mid Corporate;
- To be Top 4 in each of our 4 focus products – Cards and Merchants, Transaction Banking, Markets/Foreign Exchange, Wealth Management;
- To sustain Top 4 in each of our current engines – Corporate Financing, Debt Capital Market, Funds Management; and
- To be the Top 4 best employer in Malaysia.

We made solid progress in the first year of the AMMB Group "Top4" journey with early benefits reflected in our FY2017 results. As we enter the second year of our "Top4" journey, we will see more momentum building from initiatives rolled out in FY2017, contributing to higher income growth and strengthening of our funding and capital positions. Meanwhile, our digital banking transformation is set to gain momentum in FY2018 as we progressively materialise initiatives that will help improve customer experience and overall efficiency.

Wholesale Banking's strategic priorities for FY2018 are growing payroll accounts, improving profitability and evolutionising the business through analytics and innovative financial solutioning. The business will heighten focus on the Mid Corporate segment, enhance foreign exchange across all customer segments, along with enhancing transaction banking solutions and developing digital capabilities. Transaction Banking continues to play the pivotal role in our CASA and deposit growth strategy. In addition to building a new platform with wider functionalities to facilitate liquidity management and foreign exchange business, it remains committed to innovating cash management and JomPay solutions and sourcing for avenues to intensify cross selling opportunities.

Our Business Banking is a new division established to provide greater focus to the small and medium-sized enterprise (SME) segment. It comprises two lines of business; Enterprise Banking will drive programme lending and flow business such as foreign exchange and trade while Commercial Banking is based around liabilities and discretionary lending, along with ancillary solutions.

In FY2018, Retail Banking will continue to focus on growth in our mass affluent, affluent and retail SME segments, while strengthening our product market positions in cards and wealth management. These propositions are supported by enhanced sales and distribution capabilities, including via leveraging on advanced customer data analytics and improved efficiency through process reengineering and digitalisation.

## **BUSINESS PLAN AND STRATEGY (CONT'D.)**

The AMMB Group continues to harness opportunities in the Islamic Banking space by offering more distinct products to serve niche market segments. In its quest to tap into the underserved Islamic banking segment, the AMMB Group aims to strengthen its position as a reputable Shariah brand and a banking group with a conscience. The AMMB Group's Islamic Strategic drive will see it focusing on the B40 Affordable Home Financing scheme in line with our national aspiration to enhance the well-being of the rakyat, particularly the lower income group. The AMMB Group is also channeling its efforts to the Amanah Saham Bumiputera and Amanah Saham Bumiputera 2 financing to ensure that our incentives meet the growth targets. To widen the AMMB Group's outreach to SMEs, Government departments, religious bodies, Halal players, the AMMB Group will continue to introduce new Muslim-centric products and financial solutioning.

Premised on the consistent growth in Malaysia's economy and our commitment to achieve our "Top4" aspirations, the AMMB Group remains focused in delivering optimal returns for our shareholders.

### **Performance review for the financial year ended 31 March 2017**

For the financial year ended 31 March 2017, the Bank showed significant progress amidst an increasingly competitive environment and challenging economic conditions as manifested in its profit after taxation and zakat of RM256 million, an increase of 10% from the previous financial year. The achievement is an attestation of the Bank's strategy to focus on profitable growth areas and non-funded income, and identify the "whitespaces" or niche market segments which had been under-penetrated by the AMMB Group.

As a key component of the AMMB Group, the Bank constituted 18.1% and 27.1% of the AMMB Group's profit after taxation and total assets respectively. The Bank has also consistently strived to capitalise on the robust demand for Islamic financial services by synergising with the AMMB Group's infrastructure to widen its market reach.

The Bank continued to re-structure its balance sheet by growing its auto financing portfolio in a selective manner and focusing on profitable growth for its wholesale banking portfolio. To create a more sustainable earnings stream, the Bank continued to substantially grow its mortgage portfolio. In line with the AMMB Group's strategy to address the issue of margin compression, the Bank started to place more emphasis on wealth management, credit cards and transaction banking. The drop in deposits was a reflection of the Bank's strategy to improve its cost of funds whilst not compromising the need to have adequate liquidity. The strategy which entailed growing low cost deposits and consciously forgoing the expensive term deposits resulted in the improvement in the Bank's cost of funds by approximately 20 basis points.

## **BUSINESS PLAN AND STRATEGY (CONT'D.)**

The gross impaired financing ratio improved from 2.18% to 1.78% for the financial years ended 31 March 2016 and 2017 respectively, reflecting the disciplined approach in credit risk management and collection processes.

To fund its business growth and have adequate buffer in light of the more challenging and complex economic environment, the Bank raised RM250 million of Tier-II capital in the financial year 2017. Coupled with the growth in profitability, the Bank managed to maintain a strong capital position, with total capital ratio and capital equity tier 1 ratio as at 31 March 2017 of 15.07% and 10.50% respectively.

### **Business Highlights**

#### **New Focus Areas**

In line with the AMMB Group's Top-4 Strategy, the Bank had focused in driving its penetration into the small and medium enterprise ("SME") segment.

To this end, the Bank and Credit Guarantee Corporation Malaysia Berhad ("CGC") entered into portfolio guarantee ("PG") agreements to further enhance SME financing by AmBank Islamic. Through this partnership, both CGC and the Bank have committed to extend up to RM475 million of financing to qualified SMEs which lack collateral. In addition, eligible SMEs could receive 2% profit rebate from SME Corporation under the Shariah SME Financing Scheme, under which the Government had given an allocation of up to RM1 billion until 31 December 2017.

The Bank also pursued to create visibility in the SME segment through collaborations with partners such as government bodies. The collaborations entailed organising series of pocket talks as an additional channel for the Bank to promote its Islamic banking solutions to SMEs, including those in the Halal sector. Amongst the partners which the Bank collaborated with were Halal Industry Development Corporation and SME Corporation.

With regard to the strategy to penetrate into the affluent and mass affluent segments, the Bank had inter alia managed to obtain an institutional unit trust adviser license from the Federation of Investment Managers Malaysia. This allowed the Bank to enter into distribution agreements with unit trust management companies. With such distribution arrangements, the Bank could augment its wealth management business by distributing Islamic unit trusts to diversify its range of products and boost fee income.

Further, the Bank introduced the term financing-i for the provision of financing to eligible individuals to invest in Amanah Saham Nasional ("ASB") and ASB2. Both unit trust funds are promoted by Amanah Saham Nasional Berhad ("ASNB"), a wholly-owned subsidiary of Permodalan Nasional Berhad ("PNB"), which is currently the largest unit trust institution in Malaysia.

## **BUSINESS PLAN AND STRATEGY (CONT'D.)**

Realising that one of the areas which is under served is the provision of financing for affordable homes, the Bank and the State Government of Johor in September 2016, had launched the Johor affordable home financing scheme to assist qualified applicants from Johor to acquire affordable homes. The Johor affordable home financing scheme was designed to assist home purchasers who actually qualify to secure financing but were typically not accepted by financial institutions ("FI"s), since the lower category of affordable homes may not be within a number of FIs' target market.

### Products and Services

The Bank has been unfailingly committed in ensuring that the conduct of its business are consistent with Shariah requirements and meet customer needs.

The Bank conducted an exercise to migrate a number of its products to adopt the Shariah principle of Tawarruq; an arrangement that involves the sale of an asset to the purchaser on a deferred basis and subsequent sale of the asset to a third party on a cash basis to obtain cash or vice versa. Given that the trading of the asset is executed at head office, the risk of Shariah non-compliance ("SNC") has been minimised.

Amongst the products that were launched adopting the Tawarruq principle were:

- Cash Line-i – a short-term facility made available through the current account-i where utilisation is allowed up to the facility limit approved by the Bank. This product is applicable for customers who require funds for working capital requirement, personal use or project/ contract financing.
- Home/ Property Financing-i – a financing facility for the purchase of properties where the profit is calculated based on variable rates. For the benefit of the customer, the profit rate is capped throughout the financing period.
- Term Financing-i Secured by ASB and ASB2 – term financing facility with fixed payment period offered to eligible individuals for the purpose of investing in ASB and ASB2 unit trust. This product caters for customers in managing their financial planning by providing an effective mechanism for wealth building.

Documentation were further simplified via the implementation of dual-agency agreement for Tawarruq-based products.

As part of the strategy to focus on trade, the Bank has simplified its processes for trade products such as AB-i, OBP-i, CBN-i, FCTF-i and TR-i. Over-the-counter Bank Guarantee-i ("BG-I") were introduced to improve the turnaround time for the procurement of BG-I by customers. Further, the master terms & conditions for products and services for cash management and trade were introduced.

## **BUSINESS PLAN AND STRATEGY (CONT'D.)**

Apart from that, the Bank has also submitted few product implementation plans to Bank Negara Malaysia ("BNM") in-line with the issuance of new policy document which are:

- *Wakalah* (agency)
- *Kafalah* (guarantee)
- *Hibah* (gift)
- *Qard* (benevolent loan)
- *Wad'ah* (safe-keeping)
- *Ijarah* (lease)
- *Wa'd* (undertaking)

### Shariah Governance

The Bank adopted the Shariah Governance Framework ("SGF") issued by BNM by having 4 separate Shariah pillars namely Shariah Research, Shariah Review, Shariah Risk Management and Shariah Audit. In addition, the Bank has set-up a Shariah Legal Section under the Shariah Research & Advisory Department.

With the strengthening of the SGF, any lapses in controls or processes which could lead to SNC incidents were identified in a proactive manner. Pursuant thereto, the Bank has enhanced controls to mitigate against potential SNCs, including improvements in documentation and process flows as well as manuals and guides. For the financial year ended 31 March 2017, no SNCs were recorded by the Bank.

### Senior Management Oversight

The oversight of the Bank's business and compliance aspects were conducted via AmBank Islamic's Heads of Department Forum and Oversight Form. The Heads of Department Committee Forum discussed the strategic, financial performance, human resource, industry development, product, and other business and organisation matters. The Oversight Forum focused on Shariah, risk management, compliance, internal audit, liquidity, regulatory and other control issues.

### Capacity Building

The Bank recruited new personnel to its management team as part of its on-going efforts to strengthen its human capital capabilities. Amongst the key recruitment included the Heads of Product Management Sections of both the Retail Banking and Wholesale Banking Departments, and the Heads of Business Development Sections of both the Retail Banking and Wholesale Banking Departments.

## **BUSINESS PLAN AND STRATEGY (CONT'D.)**

The Bank continued to implement the 2016/2017 training plan which has been endorsed by the Board. The training plan included a systematic and targeted training for Board members, Shariah Committee members, management and staff of the AMMB Group who were involved in Islamic banking business. Series of Islamic banking trainings cum engagements with relationships managers' nationwide and Islamic banking champions at branches were organised. Such internal education/ awareness programmes were key to position Islamic banking as the choice for customers.

### **Brand Presence**

The Bank continued to focus in strengthening its brand presence and promote greater awareness and knowledge of Islamic banking activities amongst the public through participation in various events namely:

- The 13<sup>th</sup> Kuala Lumpur Islamic Finance Forum ("KLIFF") 2016
- Global Islamic Finance Forum 5.0 ("GIFF") 2016
- The 19th SME Annual Showcase ("SMIDEX 2016")
- Karnival Kewangan 2017 by Bank Negara Malaysia

### **Corporate Social Responsibility**

The Bank maintained its progress in serving the community through corporate social responsibility ("CSR") initiatives. Similar to previous years, the Bank has fulfilled its responsibility through business zakat distribution of RM1.5 million. A sum of RM414,000 was paid to state zakat collection centres. The balance of RM1.1 million was distributed to eligible recipients ranging from associations and charity homes throughout Malaysia, including Yayasan Pelajaran Mara ("YPM"). The distribution to YPM was for the ongoing Student Adoption Programme which was currently into its sixth out of a 10-year programme.

## **OUTLOOK FOR NEXT FINANCIAL YEAR**

Whilst we expect the Malaysian banking sector and economy to pick-up momentum, there would remain uncertainties and challenges arising from increasing competition, and internal and external developments.

In line with the AMMB Group's Top-4 Strategy, the Bank would continue to focus in driving penetration into the small and medium enterprise ("SME") segment. To this end, the Bank has established the new Business Banking Department to facilitate the seamless interface with the AMMB Group's Business Banking line of business.

## **OUTLOOK FOR NEXT FINANCIAL YEAR**

The Bank shall place greater emphasis on the profitable segments for auto financing, corporates and trade. In addition, the distribution of Islamic unit trusts and bancatakaful products, and term financing-i for investment in Amanah Saham Bumiputera ("ASB") and ASB2 are expected to diversify and further improve the Bank's earnings. Coupled with the procurement of low cost deposits, these new earnings drivers would help to mitigate the impact of margin compression.

Managing asset quality via prudent credit underwriting standards and proactive collection strategies would also be a key focus.

Given that the adherence to Shariah norms and requirements is paramount, the Bank will continuously review the effectiveness of its Shariah governance framework, and ensure that its business and operations comply with Shariah requirements.

The Bank would continue to promote capacity building in order to have the right skills set, optimal level of resources and proper succession. To ensure the sustainability of the Bank's business and operations, training on Islamic banking shall be provided in a systematic manner to ensure consistent and relevant delivery throughout the Bank Group. Training modules shall be tailored to ensure that the specific requirements of the business are met.

For the coming year, the Bank shall continue the momentum in leveraging on the distinct value proposition offered by Islamic finance to add further value to the AMMB Group. This strategy would entail further penetration into niche market segments which were hitherto under-penetrated by the AMMB Group.

The Bank also aspires to introduce Islamic specific offerings over the medium term to enhance the prominence and strategic focus for the Bank. To this end, the Bank shall embark on financial R&D to drive product diversification. Nonetheless, the major challenges such as customer acceptance, and whether the existing business framework and enablers are equipped for the introduction of such distinct products, would need to be overcome.

The Bank is also contemplating of widening its scope of business beyond credit intermediation. Whilst credit intermediation shall continue to remain the Bank's key earnings generator and source of funding, the Bank would explore playing an investment intermediary role. This could be supported by the adoption of environmental, social and governance ("ESG") parameters as one of the guiding principles in the conduct of the Bank's business.

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## **ISSUANCE OF SHARES AND DEBENTURES**

On 30 September 2016, the Bank redeemed the First Tranche of the Subordinated Sukuk Musharakah with nominal value amounting to RM480.0 million on its first call date.

On 30 December 2016, the Bank had issued Tranche 4 of the Subordinated Sukuk Murabahah with a nominal value of RM10.0 million.

On 31 January 2017, the Bank redeemed the Second Tranche of the Subordinated Sukuk Musharakah with nominal value amounting to RM190.0 million on its first call date.

On 15 March 2017, the Bank had issued Tranche 5 of the Subordinated Sukuk Murabahah with a nominal value of RM240.0 million.

There were no issuance of shares or other debentures during the financial year.

## **SHARE OPTIONS**

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

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

## **INDEMNIFICATION OF DIRECTORS**

The Bank through the ultimate holding company, AMMB Holdings Berhad ("AMMB") has maintained, a Directors' and Officers' Liability Insurance on a group basis up to an aggregate limit of RM300.0 million against any liability incurred by the directors and officers in the discharge of their duties while holding office for the Bank. The Directors and Officers shall not be indemnified for any negligence, fraud, breach of law or breach of trust proven against them.

## **AMMB EXECUTIVES' SHARE SCHEME**

At the 22nd Extraordinary General Meeting held on 26 September 2008, the shareholders of AMMB approved the proposal by AMMB to establish an executives' share scheme ("ESS") of up to fifteen percent (15%) (which was subsequently reduced to ten percent (10%) as approved by the Board of Directors pursuant to the ESS By-Laws) of the issued and paid-up ordinary share capital of AMMB at any point in time for the duration of the ESS for eligible executives (including senior management) and executive directors of the AMMB Group (excluding subsidiaries which are dormant or such other subsidiaries which may be excluded under the terms of the By-Laws) who fulfil the criteria for eligibility stipulated in the By-Laws governing the ESS ("Eligible Executives"). The ESS is implemented and administered by an executives' share scheme committee ("ESS Committee"), in accordance with the By-Laws. The functions of the ESS Committee has since been consolidated with that of Group Nomination and Remuneration Committee ("GNRC") from 29 October 2013. The ESS was established on 12 January 2009 and would be in force for a period of ten (10) years.

#### **AMMB EXECUTIVES' SHARE SCHEME (CONT'D.)**

The awards granted to such Eligible Executives can comprise shares and/or options to subscribe for shares ("Options"). Shares to be made available under the ESS ("AMMB Executive Scheme Shares") will only vest or Options are only exercisable by Eligible Executives who have duly accepted the offers of awards under the ESS ("Scheme Participants") subject to the satisfaction of stipulated conditions. Such conditions are stipulated and determined by the GNRC.

#### **BAD AND DOUBTFUL FINANCING**

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad financing and the making of allowance for doubtful financing and have satisfied themselves that all known bad financing had been written off and adequate allowances had been made for doubtful 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 the amount of allowances for doubtful financing in the financial statements of the Bank inadequate to any substantial extent.

#### **CURRENT ASSETS**

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

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Bank 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 Bank 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 Bank which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Bank which has arisen since the end of the financial year, other than those incurred in the normal course of business.

No contingent or other liability of the Bank 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 Bank to meet its 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 of the Bank that would render any amount stated in the financial statements misleading.

## **DIRECTORS**

The Directors of the Bank who served on the Board since the beginning of the current financial year to the date of this report are:

Dato' Sri Abdul Hamidy Abdul Hafiz (appointed on 1.4.2017)  
Wasim Akhtar Saifi  
Raja Anuar Raja Abu Hassan  
Hjh Rosmah Ismail (appointed on 1.4.2017)  
Pn Farina Farikhullah Khan (appointed on 14.4.2017)  
Tan Sri Azman Hashim (resigned on 1.4.2017)  
Graham Kennedy Hodges (resigned on 1.7.2016)  
Kevin Paul Corbally (appointed on 1.7.2016) (resigned on 20.9.2016)

## **DIRECTORS' INTERESTS**

Under the Bank's Constitution, the Directors are not required to hold shares in the Bank.

Tan Sri Azman Hashim is also a Director of the holding company and his interests in shares in the related corporations during and at the end of the financial year are reported in the Directors' Report of the holding company.

Save as disclosed above, none of the other Directors in office at the end of the financial year had any interest in shares in the related corporations during and at the end of the financial year.

## **DIRECTORS' BENEFITS**

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by Directors as shown in Note 36 to the financial statements and from related corporations) by reason of a contract made by the Bank or a related corporation with the Director or with a firm in which the Director is a member, or with a company in which the Director has a substantial financial interest except for related party transactions as shown in Note 41 to the financial statements.

Neither during nor at the end of the financial year, did there subsist any arrangements to which the Bank is a party to any arrangements whose object is to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate, other than those arising from the scheme shares and/or options granted pursuant to the Executives' Share Scheme of AMMB, the holding company.

## **CORPORATE GOVERNANCE**

### **(a) DIRECTORS' PROFILES**

#### **DATO' SRI ABDUL HAMIDY ABDUL HAFIZ** **Chairman/Independent Non-Executive Director**

Dato' Sri Abdul Hamidy bin Abdul Hafiz ("Dato' Sri Hamidy"), a Malaysian, male, aged 60, was appointed as Chairman/Independent Non-Executive Director ("INED") of the Bank on 1 April 2017.

Dato' Sri Hamidy holds a Bachelor's Degree and a Master in Business Administration from Ohio University, USA and he is also a Fellow Member of the Institut Bank Malaysia and a Member of the Association of Chartered Islamic Finance Professionals ("ACIFP").

Dato' Sri Hamidy is an experienced banker with over 30 years of extensive banking experience in the fields of Commercial and Finance Banking, Investment Banking and Islamic Banking. Dato' Sri Hamidy was previously the Chief Executive Officer of Kuwait Finance House (Malaysia) Berhad and prior to that, Dato' Sri Hamidy was the Chairman of Danajamin Nasional Berhad. He was also previously the Managing Director/Chief Executive Officer of Affin Bank Berhad, Chairman of the Association of Banks Malaysia and the Managing Director of Pengurusan Danaharta Nasional Berhad.

Dato' Sri Hamidy is currently the Chairman of Eastland Equity Berhad and he also sits on the Boards of ACE Jerneh Insurance Berhad, Sime Darby Motors Sdn Bhd, Sime Darby Industrial Holdings Sdn Bhd and Sky Xchange Sdn Bhd. Besides directorship in companies, Dato' Sri Hamidy also serves as the Chairman of Corporate Debt Restructuring Committee ("CDRC") since 2009 and as a Member of Listing Committee of Bursa Malaysia Securities Berhad since 2001.

Dato' Sri Hamidy is also an INED of AmBank (M) Berhad ("AmBank") and a Member of the Board Credit Committee of AmBank.

## **CORPORATE GOVERNANCE (CONT'D.)**

### **(a) DIRECTORS' PROFILES (CONT'D.)**

#### **WASIM AKHTAR SAIFI**

##### **Independent Non-Executive Director**

Wasim Akhtar Saifi ("Mr Wasim"), an Indian, aged 59, was appointed to the Board of the Bank on 15 January 2015.

Mr Wasim is currently the Deputy Chief Executive Officer, Consumer and Wealth Management at Emirates Islamic in Dubai.

Mr Wasim holds a Bachelor of Commerce from Mumbai University, India and a Master of Business Administration from Rutgers University, USA.

Mr Wasim has extensive experience in banking industry particularly on Islamic banking from his past employment history. He started his career in Mashreq Bank, Mumbai in 1981. In 1986, he joined Standard Chartered Bank where he held various positions based in Mumbai and Dubai, with the last held position as the Chief Executive Officer of Standard Chartered Bank in Sri Lanka from 2001 to 2003.

Mr Wasim then joined Dubai Islamic Bank, one of the largest Islamic Bank in the UAE for 4½ years and subsequently joined Tamweel PJSC, Dubai one of the leading Islamic mortgage company based in UAE as the Chief Executive Officer from 2008 to 2010.

Mr Wasim re-joined Standard Chartered Bank in Singapore in 2011 and was appointed as the Global Head, Islamic Banking, Consumer Bank responsible for CB Islamic Banking in 7 countries in South East and South Asia, Middle East and Africa until his appointment as the Chief Executive Officer and Global Head of Islamic Banking, Consumer Bank of Standard Chartered Saadiq Berhad, Kuala Lumpur on 2 July 2012.

Until recently he was the Managing Director of WSG Management Consultancies in Dubai, which provides advisory services on Islamic corporate practice.

Mr Wasim also served as a board member and a member of the Global Strategy Board for Standard Chartered Saadiq Berhad. He resigned from Standard Chartered Saadiq Berhad in October 2014. Mr Wasim also sat on the board of International Investment Bank, an Islamic Investment Bank based in Bahrain. He resigned as a member of the board in March 2017. Mr Wasim was also an Independent Non-Executive Director on the board of the AMMB Group but resigned from this position on 31 March 2017.

## **CORPORATE GOVERNANCE (CONT'D.)**

### **(a) DIRECTORS' PROFILES (CONT'D.)**

#### **RAJA ANUAR RAJA ABU HASSAN Independent Non-Executive Director**

Raja Anuar Raja Abu Hassan ("Raja Anuar"), a Malaysian, aged 61, was appointed as an Independent Non- Executive Director of the Bank on 18 February 2016. Raja Anuar is also the Chairman of the Audit and Examination Committee and a Member of the Risk Management Committee.

Raja Anuar is a Chartered Accountant by profession and is a Member of the Malaysian Institute of Accountants, a Member of the Malaysian Institute of Certified Public Accountants, a Fellow of the Association of Chartered Certified Accountants and a Chartered Member of the Institute of Internal Auditors.

During his career, Raja Anuar held senior positions in finance and internal audit in several public listed companies in the banking, telecommunications, plantations, manufacturing, and financial services industries. Raja Anuar's previous experiences also include holding senior board directorships in several public listed Malaysian companies, namely Perdana Petroleum Berhad as the Independent Non-Executive Chairman and MSM Holdings Berhad as the Senior Independent Director. He also served as the Chairman of the Audit Committee and the Nomination and Remuneration Committee of both public listed companies. Currently he is an Independent Non-Executive Director of Panasonic Manufacturing Malaysia Berhad.

#### **HJH ROSMAH ISMAIL Independent Non-Executive Director**

Hjh Rosmah Ismail ("Hjh Rosmah"), a Malaysian, aged 53, was appointed as an Independent Non-Executive Director of the Bank on 1 April 2017.

Hjh Rosmah graduated with the Master of Laws (LLM) in Banking Law specializing in Banking, Securities Law and Islamic Finance at the International Islamic University of Malaysia with Top Honours as the Best Postgraduate Student and the Bachelor of Science (Economics) Honours degree in International Relations from the London School of Economics & Political Science (University of London) in United Kingdom. She is also a holder of the Takaful Licence Certificate (Distinction) from the Malaysian Institute of Insurance.

## **CORPORATE GOVERNANCE (CONT'D.)**

### **(a) DIRECTORS' PROFILES (CONT'D.)**

#### **HJH ROSMAH ISMAIL**

##### **Independent Non-Executive Director**

Hjh Rosmah is an international banker with a total of more than 25 years of comprehensive experience in the Banking and Financial sector, covering Conventional and Islamic Finance across both corporate and consumer client segments across all banking products, and 3 years in the Financial Consultancy sector. During her career, she has been commended by top international Shariah Advisors for having authored among the best Shariah Compliance, Risk and Business Operational Policy & Procedures Manual for Islamic Banking and Finance. She has set up Islamic Banking entities in the Middle East and Malaysia, and the businesses under her leadership had also won corporate awards during her tenure.

#### **PUAN FARINA FARIKHULLAH KHAN**

##### **Independent Non-Executive Director**

Puan Farina Farikhullah Khan ("Pn Farina"), a Malaysian, aged 45, was appointed as an INED of the Bank on 14 April 2017.

Pn Farina graduated from the University of New South Wales in Australia with a Bachelor of Commerce in Accounting in 1993. She is a Fellow of the Institute of Chartered Accountants in Australia. She has also completed the Advanced Management Program at Harvard Business School in the USA.

Pn Farina has 23 years working experience, with 20 years in oil and gas industry and 10 years of which in the management capacity. She started out her career in 1994 with Coopers & Lybrand, Australia as a Senior Associate for the Business Services unit whereby she provided assistance and advisory services on accounting, audit, tax requirements and business services for 3 years.

In 1997, Pn Farina returned to Malaysia to join Petroliam Nasional Berhad ("PETRONAS") in the Corporate Planning and Development Division where she started as an executive and in the ensuing years until 2005, she held various positions including Senior Manager (Strategy and Portfolio) in Group Strategic Planning of PETRONAS.

Pn Farina subsequently assumed the position of the Chief Financial Officer of PETRONAS Carigali Sdn. Bhd, one of the largest subsidiaries of PETRONAS with operations in over 23 countries, from 2006 to 2010. She then served as the Chief Financial Officer at PETRONAS Exploration and Production Business, the largest arm of PETRONAS Business, from mid-2010 until 2013, where the business included both PETRONAS Carigali Group of Companies as well as the Petroleum Management Unit of PETRONAS.

## **CORPORATE GOVERNANCE (CONT'D.)**

### **(a) DIRECTORS' PROFILES (CONT'D.)**

#### **PUAN FARINA FARIKHULLAH KHAN**

#### **Independent Non-Executive Director**

Prior to leaving PETRONAS Group at the end of 2015 to pursue her other interests, Pn Farina was the Chief Financial Officer of PETRONAS Chemical Group Berhad, the largest listed entity of PETRONAS, for two years.

Pn Farina is also an INED of Icon Offshore Berhad on 18 May 2016. She had also previously served on the Board of various PETRONAS entities such as Progress Energy Canada Ltd as well as a number of PETRONAS joint venture entities with foreign partners.

### **(b) DIRECTORS' TRAINING**

The Board recognised the importance of ensuring that Directors are continuously being developed to acquire or enhance the requisite knowledge and skills to discharge their duties effectively.

All new Directors appointed to the Board would attend a formal induction programme to familiarise themselves with the Bank's strategy and aspiration, understanding of the line of businesses and corporate functions, key financial highlights, people initiatives, requirements of audit, compliance and risk management conducted by the various Managing Directors / Chief Executive Officers / Heads of the business units as well as Senior Management, and organised by the Group Learning and Development unit. The Company Secretary would also provide the new Directors with an information kit regarding disclosure obligations of a director, Board Charter, Code of Ethics, Constitution of the Bank, Board Committees' Terms of Reference and Schedule of Matters Reserved for the Board, amongst others.

Apart from the Financial Institutions Directors' Education (FIDE) Programme accredited by ICLIF, all Directors appointed to the Board, have also attended other relevant training programmes and seminars organised by the regulatory authorities and professional bodies to further enhance their business acumen and professionalism in discharging their duties to the Bank. The Directors also attend offsite Strategy Meeting to have an in-depth understanding and continuous engagement with Management pertaining to the AMMB Group's strategic direction. In addition, the Directors are constantly updated on information relating to the AMMB Group's development and industry development through discussion at Board meetings with the Senior Management team.

## **CORPORATE GOVERNANCE (CONT'D.)**

### **(c) BOARD RESPONSIBILITY AND OVERSIGHT**

The Board of Directors (the "Board") remains fully committed in ensuring that the principles and recommendations in corporate governance are applied consistently in the Bank. The Board complies with the recommendations in corporate governance as set out in the Malaysian Code on Corporate Governance 2012.

The Board supervises the management of the Bank's businesses, policies and affairs with the goal of enhancing shareholder's value. The Board meets nine (9) times in the year to carry out its duties and responsibilities, with additional Board meetings being convened, whenever required.

The Board addresses key matters concerning strategy, finance, organisation structure, business developments, human resource (subject to matters reserved for shareholder's meetings by law), and establishes guidelines for overall business, risk and control policies, capital allocation and approves all key business developments. The Board also gives due regard to any decision of the Shariah Committee on any Shariah issue relating to the carrying on of business, affairs or activities of the Bank and approves policies relating to Shariah matters upon consultation with the Shariah Committee.

The Board currently comprises three (3) Directors with wide skills and experience, two (2) of whom are Independent Non-Executive Directors. The Directors participate fully in decision-making on key issues regarding the Bank. The Independent Non-Executive Directors ensure strategies proposed by the management are fully discussed and examined, as well as taking into account the long term interests of various stakeholders.

There is a clear division between the roles of Chairman and the Chief Executive Officer of the Bank. The Senior Management team of the Bank are invited to attend Board Meetings to provide presentations and detailed explanations on matters that have been tabled. The Company Secretary has been empowered by the Board to assist the Board in matters of governance and in complying with statutory duties.

### **(d) COMMITTEES OF THE BOARD**

The Board delegates certain responsibilities to the Board Committees. The Board Committees together with the Committees established at Group level (AMMB) which were created to assist the Board in certain areas of deliberations, are:

1. Group Nomination and Remuneration Committee (at Group level)
2. Audit and Examination Committee (at Bank level)
3. Risk Management Committee (at Bank level)

The roles and responsibilities of each Committee are set out under the respective terms of reference, which have been approved by the Board. The minutes of the Committee meetings are tabled at the subsequent Board meetings for comment and notation.

**CORPORATE GOVERNANCE (CONT'D.)**

**(d) COMMITTEES OF THE BOARD (CONT'D.)**

The attendance of Board members at the meetings of the Board and the various Board Committees is set out below:-

Number of meetings attended in Financial Year 2017 ("FY2017")				
	Board of Directors	Group Nomination and Remuneration Committee	Audit and Examination Committee	Risk Management Committee
Tan Sri Azman Hashim	25/25 (Chairman)	N/A	N/A	N/A
Graham Kennedy Hodges (resigned on 1.7.2016)	3/5	N/A	3/3 <sup>a</sup>	1/1 <sup>a</sup>
Wasim Akhtar Saifi	25/25	5/8	7/7	9/9 (Chairman)
Raja Anuar Raja Abu Hassan	25/25	N/A	7/7 (Chairman)	9/9
Kevin Paul Corbally (appointed on 1.7.2016 and resigned on 20.9.2016)	6/7	N/A	1/1 <sup>b/a</sup>	2/2 <sup>b/a</sup>
Number of meetings held in FY2017	25	8	7	9

a Ceased as Member following resignation as Director

b Appointed as Member on 1.7.2016

Notes:

1. All attendances reflect the number of meetings attended during the Directors' tenure of service.
2. N/A represents non-Committee member.

## **CORPORATE GOVERNANCE (CONT'D.)**

### **(d) COMMITTEES OF THE BOARD (CONT'D.)**

#### **Group Nomination and Remuneration Committee**

The Committee was established at Group level (AMMB) and the Committee comprises seven (7) members, all of whom are Non-Executive Directors and chaired by an Independent Non-Executive Director. The Committee is responsible for:

- regularly reviewing the board structure, size and composition, as well as making recommendation to the Board of the Bank with regard to any changes that are deemed necessary;
- recommending the appointment of Directors to the Board and Committees of the Board as well as annually review the mix of skills, experience and competencies that Non-Executive and Executive Directors should bring to the Board;
- on an annual basis, assessing the effectiveness of the Board as a whole and the Committees as well as the contributions of the Chairman and each Director to the effectiveness of the Board;
- recommending to the Board the framework/methodology for the remuneration of the Directors, Chief Executive Officer and other Senior Management staff, with the relevant experience and expertise needed to assist in managing the AMMB Group effectively. The services of consultants are utilised to review the methodology for rewarding Executive Directors and Management staff according to the Key Performance Indicators required to be achieved;
- recommending the appointment of Shariah Committee members as well as reviewing the annual performance of the Shariah Committee members and recommending the remuneration for the Shariah Committee members; and
- to implement the Executives' Share Scheme of AMMB (the "Scheme") in accordance with the By-Laws of the Scheme or approved by the shareholders of the AMMB.

The Committee met eight (8) times during the financial year ended 31 March 2017.

## **CORPORATE GOVERNANCE (CONT'D.)**

### **(d) COMMITTEES OF THE BOARD (CONT'D.)**

#### **Audit and Examination Committee**

The Committee comprises two (2) members, both of whom are Non-Executive Directors. The Board has appointed the Audit and Examination Committee ("AEC") to assist in discharging its duties of maintaining a sound system of internal controls to safeguard the Bank's assets and shareholder's investments.

The AEC met during the financial year to review the scope of work of both the internal audit function and the statutory auditors, the results arising thereafter as well as their evaluation of the system of internal controls. The AEC also followed up on the resolution of major issues raised by the internal auditors, statutory auditors as well as the regulatory authorities in their audit reports. The financial statements were reviewed by the AEC prior to their submission to the Board of the Bank for adoption.

In addition, the AEC has reviewed the procedures set up by the Bank to identify and report, and where necessary, seeks approval for related party transactions and, with the assistance of the internal auditors, reviewed related party transactions.

The Committee met seven (7) times during the financial year ended 31 March 2017.

#### **Internal Audit Function**

The Internal Audit function is established at AMMB Group level, headed by the Group Chief Internal Auditor.

The Group Chief Internal Auditor reports to the AEC. Group Internal Audit assists the AEC in assessing and reporting on business risks and internal controls, operating within the framework defined in the Audit Charter.

The AEC approves Group Internal Audit's annual audit plan, which covers the audit of all major business units and operations within the Bank. The results of each audit are submitted to the AEC and significant findings are discussed during the AEC meeting. The minutes of the AEC meetings are formally tabled to the Board for notation and action, where necessary. The Group Chief Internal Auditor attends the AEC meeting by invitation. The AEC also holds separate meetings with the Group Chief Internal Auditor whenever necessary.

## **CORPORATE GOVERNANCE (CONT'D.)**

### **(d) COMMITTEES OF THE BOARD (CONT'D.)**

#### **Internal Audit Function (Cont'd.)**

The scope of internal audit includes the review of risk management processes, operational controls, financial controls, compliance with laws and regulations, and information technology systems and security.

Group Internal Audit prioritises its efforts on performing audits in accordance with the audit plan, based on a comprehensive risk assessment of all areas of banking activities. The risk-based audit plan is reviewed at least semi-annually taking into account of the changing business and risk environment.

Group Internal Audit also performs investigations and special reviews, and participates actively in major system development activities and projects to advise on risk management and internal control measures.

#### **Risk Management Committee**

Risk management is an integral part of the Bank's strategic decision-making process which ensures that the corporate objectives are consistent with the appropriate risk-return trade-off. The Board approves the risk management strategy and sets the broad risk tolerance level and also approves the engagement of new products or activities after considering the risk bearing capacity and readiness of the Bank.

The Risk Management Committee exercises oversight on behalf of the Board to ensure adequate overall management of credit, market, liquidity, operational, legal and capital risks, cyber security risk impacting the Bank.

The Committee is independent from management and comprises two (2) members, all of whom are Independent Non-Executive Directors and Chaired by an Independent Non-Executive Director. The Committee ensures that the Board's risk tolerance level is effectively enforced, the risk management process is in place and functioning and reviews high-level risk exposures to ensure that they are within the overall interests of the Bank. It also assesses the Bank's ability to accommodate risks under normal and stress scenarios.

The Risk Management Department is independent of the various business units and acts as the catalyst for the development and maintenance of comprehensive and sound risk management policies, strategies and procedures within the Bank. The functions encompass research and analysis, portfolio risk exposure reporting, compliance monitoring, formulation of policies and risk assessment methodology, and formulation of risk strategies.

The Committee met nine (9) times during the financial year ended 31 March 2017.

## **CORPORATE GOVERNANCE (CONT'D.)**

### **(d) COMMITTEES OF THE BOARD (CONT'D.)**

#### **Risk Management Functions**

The Risk Management Division is independent of the various business units and acts as the catalyst for the development and maintenance of comprehensive and sound risk management policies, strategies and procedures within the Bank. This Risk Management Division encompasses Wholesale Credit Risk, Retail Credit Risk, Investment Banking and Markets Risk, Operational Risk, Governance and Provisioning (which is responsible for the development of credit models), Legal Risk and Group Risk Projects.

Risk Management Division take its lead from the Board's Approved Risk Appetite Framework that forms the foundation of the Bank to set its risk/reward profile. The framework is approved annually by the Board taking into account the Bank's desired external rating and targeted profitability/return on equity ("ROE") and is reviewed periodically throughout the financial year to take account of prevailing or expected changes to the operating environment.

We have an IT Risk Management Framework that is designed to protect our Group's IT systems against internal and external risks and threats. It is our objective to ensure that our IT Risk Management Framework is continuously enhanced and robustly tested to safeguard our Group's and our customers' data from potential cyber-attacks.

## **MANAGEMENT INFORMATION**

All Directors review Board papers and reports prior to the Board meeting. Information and materials, relating to the operations of the Bank that are important to the Directors' understanding of the items in the agenda and related topics, are distributed in advance of the meeting. The Board reports, include among others, minutes of meetings of all Committees of the Board, monthly performance of the Bank, credit risk management, asset liability and market risk management and industry benchmarking as well as prevailing regulatory developments and the economic and business environment.

These reports are issued giving sufficient time before the meeting to enable the Directors to be prepared and to obtain further explanations, where necessary, and provide input on Bank policies.

## **HOLDING COMPANY**

The Directors regard AMMB Holdings Berhad which is incorporated in Malaysia, as the holding company.

## RATING BY EXTERNAL AGENCIES

The Bank continues to maintain credit ratings with Moody's Investors Service, S&P Global Ratings and RAM Rating Services Berhad.

Rating agency	Date accorded	Rating classification	Ratings
RAM Rating Services Berhad	December 2016	Long-term financial institution rating	AA2
		Short-term financial institution rating	P1
		Outlook	Stable

## SHARIAH COMMITTEE

Shariah Committee comprises five (5) members and is responsible and accountable for all decisions, views and opinions related to Shariah. The main functions and duties of the Shariah Committee shall include, but are not limited to the following:

- i. to advise the Board and the Bank on Shariah matters to ensure that the business operations of the Bank comply with Shariah principles at all times;
- ii. to review and endorse the Shariah policies and procedures of the Bank and to ensure that the contents do not contain any elements which are not in line with Shariah principles;
- iii. to review and approve relevant documentation in relation to the Bank's products to ensure that the products are in compliance with Shariah principles;
- iv. to perform oversight on the work carried out by the Shariah Research and Advisory, and Shariah Review functions in order to ensure compliance with Shariah matters which form part of their duties in providing their assessment of Shariah compliance and assurance information in the annual report;
- v. to assess the work carried out by Group Internal Audit relating to the Shariah Audit function and Shariah Risk Management Unit relating to Shariah Risk Management function in order to ensure compliance with Shariah matters which form part of their duties in providing their assessment of Shariah compliance and assurance information in the annual report;
- vi. to provide assistance to related parties of the Bank such as its legal counsel, auditor or consultant on Shariah matters upon request;
- vii. to provide advice and guidance on management of zakat fund, charity and other social program or activities; and
- viii. to oversee strategies and initiatives implemented by key organs carrying out the Shariah functions including the Shariah Research & Advisory, Shariah Review, Shariah Audit and Shariah Risk Management functions.

**SHARIAH COMMITTEE (CONT'D.)**

Shariah Committee members also sit in Shariah Oversight Committee, a sub-committee to the Shariah Committee. Shariah Oversight Committee is established to assist the Shariah Committee in discharging its responsibilities relating to the oversight from Shariah perspectives of the Shariah Review function. In addition, Shariah Oversight Committee is to assess the work carried out by Group Internal Audit relating to the Shariah Audit function and Shariah Risk Management Unit relating to Shariah Risk Management function in order to ensure compliance with Shariah matters.

The main functions and duties of Shariah Oversight Committee shall include, but are not limited to the following:

- i. to determine and confirm actual and potential Shariah non-compliance incidents and endorse corresponding rectifications plans;
- ii. to recommend alternative ways to rectify issues found through Shariah Audit, Shariah Review and Shariah Risk Management activities and other sources;
- iii. to provide advice on the recognition of income pursuant to Shariah non-compliance incidents and its disposal; and
- iv. to recommend possible implementation methods to improve the Bank's Shariah business activities in line with applicable statutes and guidelines/policies/circulars issued by relevant regulatory bodies.

Shariah Committee met eight (8) times and Shariah Oversight Committee met five (5) times during the financial year ended 31 March 2017.

The attendance of Shariah Committee members at the meetings of Shariah Committee and Shariah Oversight Committee is set out below:-

**Number of Meetings Attended in Financial Year Ended 31 March 2017**

	Shariah Committee	Shariah Oversight Committee
Asst. Prof. Dr. Tajul Aris Ahmad Bustami (Chairman)	8	5
Prof. Dr. Amir Husin Mohd Nor	8	4
Assoc. Prof. Datin Dr. Noor Naemah Abdul Rahman	8	5
Assoc. Prof. Dr. Adnan Yusoff	6	4
Dr. Asmak Ab Rahman	8	5
Number of meetings held in financial year 2017	8	5

Company No. 295576-U

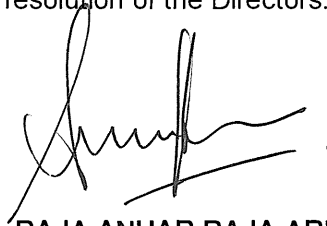
## AUDITORS AND AUDITORS' REMUNERATION

The auditors, Ernst & Young, have expressed their willingness to continue in office. The auditors' remuneration is disclosed in Note 35 to the financial statements.

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



**DATO' SRI ABDUL HAMIDY ABDUL HAFIZ**  
Director



**RAJA ANUAR RAJA ABU HASSAN**  
Director

Kuala Lumpur, Malaysia  
30 May 2017

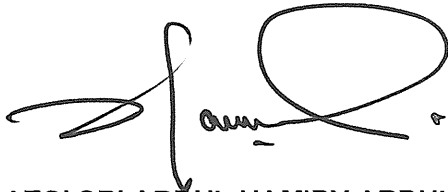
Company No. 295576-U

**AMBANK ISLAMIC BERHAD**  
**(Incorporated in Malaysia)**

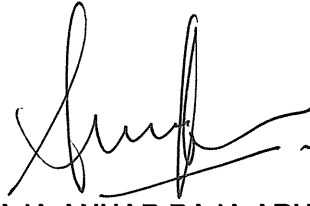
**STATEMENT BY DIRECTORS**  
**PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016**

We, **DATO' SRI ABDUL HAMIDY ABDUL HAFIZ** and **RAJA ANUAR RAJA ABU HASSAN**, being two of the Directors of **AMBANK ISLAMIC BERHAD**, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 35 to 186 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 March 2017 and of its financial performance and cash flows for the financial year then ended.

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



**DATO' SRI ABDUL HAMIDY ABDUL HAFIZ**  
Director



**RAJA ANUAR RAJA ABU HASSAN**  
Director

Kuala Lumpur, Malaysia  
30 May 2017

Company No. 295576-U

**AMBANK ISLAMIC BERHAD**  
(Incorporated in Malaysia)

**STATUTORY DECLARATION**  
**PURSUANT TO SECTION 251 (1)(b) OF THE COMPANIES ACT, 2016**

I, **MANDY JEAN SIMPSON**, being the Officer primarily responsible for the financial management of **AMBANK ISLAMIC BERHAD**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 35 to 186 are, in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the  
abovenamed **MANDY JEAN SIMPSON**  
at Kuala Lumpur in the Wilayah Persekutuan  
on 30 May 2017



**MANDY JEAN SIMPSON**

Before me,

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



**COMMISSIONER FOR OATHS**

Lodged on behalf by:  
Address: 22nd Floor, Bangunan AmBank Group,  
No. 55 Jalan Raja Chulan,  
50200 Kuala Lumpur  
Telephone Number: 03-20362633

Company No. 295576-U

**AMBANK ISLAMIC BERHAD**  
**(Incorporated in Malaysia)**

**SHARIAH COMMITTEE'S REPORT TO THE MEMBER OF AMBANK ISLAMIC BERHAD**

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

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

In carrying out our roles and responsibilities as members of the Shariah Committee ("the Committee") of AmBank Islamic Berhad ("the Bank") pursuant to the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia and in compliance with our letter of appointment, we are required to submit the following report:

We hereby confirm that we have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank during the financial year ended 31 March 2017.

Shariah advisory services were provided on various aspects to the Bank in order to ensure compliance with applicable Shariah principles as well as the relevant resolutions and rulings made by the Shariah Advisory Council of Bank Negara Malaysia ("SAC"). We have also conducted our review to form an opinion as to whether the Bank has complied with the Shariah principles and with the Shariah rulings issued by SAC, as well as Shariah decisions made by us.

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

Through our sub-committee, Shariah Oversight Committee ("SOC"), we have assessed the work carried out by Shariah review and Shariah audit which included examining, on a test basis, each type of transactions, the relevant documentation and procedures adopted by the Bank.

The reviews were planned and performed so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has complied with the Shariah principles.

**AMBANK ISLAMIC BERHAD**  
**(Incorporated in Malaysia)**

**SHARIAH COMMITTEE'S REPORT TO THE MEMBER OF AMBANK ISLAMIC BERHAD**  
**(CONT'D.)**

To the best of our knowledge based on the information provided to us, we are of the opinion that during the financial year ended 31 March 2017:

- a) The contracts, transactions and dealings entered into by the Bank and legal documents used by the Bank, that we have reviewed and assessed are in compliance with the Shariah principles;
- b) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles;
- c) The calculation of zakat is in compliance with Shariah principles; and
- d) No Shariah non-compliant incidents declared and consequently no earnings that were realised from sources or means prohibited by Shariah have been considered for disposal to charitable causes.

We, the members of the Shariah Committee of the Bank, do hereby confirm to the best of our knowledge that the operations of the Bank for the financial year ended 31 March 2017 have been conducted in conformity with the Shariah principles.


We beg Allah the Almighty to grant us all the success and straightforwardness and Allah knows best.

Company No. 295576-U

**AMBANK ISLAMIC BERHAD**  
(Incorporated in Malaysia)

**SHARIAH COMMITTEE'S REPORT TO THE MEMBER OF AMBANK ISLAMIC BERHAD**  
(CONT'D.)

On behalf of the Shariah Committee



**ASST. PROF. DR. TAJUL ARIS AHMAD BUSTAMI**  
Chairman of the Committee



**PROF. DR. AMIR HUSIN MOHD NOR**  
Member of the Committee

Kuala Lumpur, Malaysia  
30 May 2017

295576-U

**Independent auditors' report to the member of  
AmBank Islamic Berhad  
(Incorporated in Malaysia)**

**Report on the audit of the financial statements**

*Opinion*

We have audited the financial statements of AmBank Islamic Berhad, which comprise the statement of financial position as at 31 March 2017, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 35 to 186.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 March 2017, and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

*Basis for opinion*

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

*Independence and other ethical responsibilities*

We are independent of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and IESBA Code.

*Information other than the financial statements and auditors' report thereon*

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

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

295576-U

Independent auditors' report to the member of  
AmBank Islamic Berhad (cont'd.)  
(Incorporated in Malaysia)

*Information other than the financial statements and auditors' report thereon (cont'd.)*

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

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

*Responsibilities of the directors for the financial statements*

The directors of the Bank are responsible for the preparation of the financial statements of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 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 Bank that are free from material misstatement, whether due to fraud or error.

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

*Auditors' responsibilities for the audit of the financial statements*

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

295576-U

**Independent auditors' report to the member of  
AmBank Islamic Berhad (cont'd.)  
(Incorporated in Malaysia)**

*Auditors' responsibilities for the audit of the financial statements (cont'd.)*

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

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

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.

295576-U

Independent auditors' report to the member of  
AmBank Islamic Berhad (cont'd.)  
(Incorporated in Malaysia)

**Other matters**

This report is made solely to the member 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.



Ernst & Young  
AF: 0039  
Chartered Accountants

Kuala Lumpur, Malaysia  
30 May 2017



Chan Hooi Lam  
No. 2844/02/18(J)  
Chartered Accountant

**AMBANK ISLAMIC BERHAD**  
(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 MARCH 2017**

		<b>31 March</b>	<b>31 March</b>
		<b>2017</b>	<b>2016</b>
	<b>Note</b>	<b>RM'000</b>	<b>RM'000</b>
<b>ASSETS</b>			
Cash and short-term funds	6	2,286,658	4,098,552
Deposits and placements with banks and other financial institutions	7	635,000	500,000
Derivative financial assets	8	42,381	57,273
Financial assets held-for-trading	9	681,465	174,550
Financial investments available-for-sale	10	2,435,724	3,177,516
Financial investments held-to-maturity	11	1,278,221	1,263,639
Financing and advances	12	27,239,756	27,391,553
Receivables: Investments not quoted in active markets	13	814,720	468,141
Statutory deposit with Bank Negara Malaysia	14	810,000	842,000
Other assets	15	311,664	329,821
Property and equipment	16	320	351
Intangible assets	17	448	14
<b>TOTAL ASSETS</b>		<b>36,536,357</b>	<b>38,303,410</b>
<b>LIABILITIES AND EQUITY</b>			
Deposits from customers	18	26,891,697	28,383,783
Investment accounts of customers	19	24,374	18,411
Deposits and placements of banks and other financial institutions	20	1,346,337	1,443,510
Investment account due to licensed bank	21	1,600,000	1,000,000
Recourse obligation on financing sold to Cagamas Berhad	22	617,713	1,127,824
Derivative financial liabilities	8	47,870	67,685
Term funding	23	1,850,000	1,850,000
Subordinated Sukuk	24	979,679	1,399,528
Deferred tax liability	25	89	5,883
Other liabilities	26	274,296	354,525
Provision for zakat		1,286	1,343
<b>TOTAL LIABILITIES</b>		<b>33,633,341</b>	<b>35,652,492</b>
Share capital	27	1,187,107	462,922
Reserves	28	1,715,909	2,187,996
<b>Equity attributable to equity holder of the Bank</b>		<b>2,903,016</b>	<b>2,650,918</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>36,536,357</b>	<b>38,303,410</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	45	<b>9,860,517</b>	<b>8,365,766</b>
<b>NET ASSETS PER SHARE (RM)</b>		<b>6.27</b>	<b>5.73</b>

The accompanying notes form an integral part of the financial statements.

**AMBANK ISLAMIC BERHAD**  
(Incorporated in Malaysia)

**STATEMENT OF PROFIT OR LOSS**  
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017**

	Note	2017 RM'000	2016 RM'000
Income derived from investment of depositors' funds	29	1,665,395	1,813,128
Income derived from investment of investment account funds	30	68,007	69,554
Income derived from investment of shareholder's funds	31	90,860	102,208
Writeback of impairment on financing and advances	32	24,343	4,185
Writeback of provision for commitments and contingencies	26(a)	41	3,818
Transfer to profit equalisation reserve		-	(1,406)
Total distributable income		<u>1,848,646</u>	<u>1,991,487</u>
Income attributable to the depositors and others	33	(913,241)	(1,070,321)
Income attributable to investment account holders	34	<u>(60,643)</u>	<u>(62,224)</u>
Total net income		874,762	858,942
Other operating expenses	35	(415,594)	(408,604)
Finance cost	38	<u>(135,954)</u>	<u>(137,979)</u>
<b>Profit before zakat and taxation</b>		<b>323,214</b>	<b>312,359</b>
Zakat		(1,505)	(1,617)
Taxation	39	<u>(66,051)</u>	<u>(77,696)</u>
<b>Profit for the financial year</b>		<b><u>255,658</u></b>	<b><u>233,046</u></b>
<b>Basic earnings per share (sen)</b>	40	<u>55.23</u>	<u>50.34</u>

The accompanying notes form an integral part of the financial statements.

Company No. 295576-U

**AMBANK ISLAMIC BERHAD**  
**(Incorporated in Malaysia)**

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017**

	2017 RM'000	2016 RM'000
Profit for the financial year	<u>255,658</u>	<u>233,046</u>
Other comprehensive income/(loss) :		
<b>Items that may be reclassified subsequently to profit or loss :</b>		
Financial investments available-for-sale:		
Net change in revaluation	(2,228)	5,730
(Gain)/Loss transfer to statement of profit or loss upon disposal	(2,456)	853
Income tax relating to the components of other comprehensive income/(loss) (Note 25)	<u>1,124</u>	<u>(1,580)</u>
Other comprehensive income/(loss) for the financial year, net of tax	<u>(3,560)</u>	<u>5,003</u>
Total comprehensive income for the financial year	<u>252,098</u>	<u>238,049</u>

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

	Attributable to Equity Holder of the Bank									
	Non-distributable					Distributable				
	Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Regulatory reserve RM'000	Profit equalisation reserve RM'000	Available-for-sale deficit RM'000	Retained earnings RM'000	Total equity RM'000		
At 1 April 2015	462,922	724,185	483,345	-	3,904	(6,592)	745,114	2,412,878		
Profit for the financial year	-	-	-	-	-	-	233,046	233,046		
Other comprehensive income	-	-	-	-	-	5,003	-	5,003		
Total comprehensive income for the financial year	-	-	-	-	-	5,003	233,046	238,049		
Net utilisation of profit equalisation reserve for the financial year	-	-	-	-	(3,904)	-	3,904	-		
Transfer of AMMB Executive Share Scheme ("ESS") shares recharged - difference on purchase price of shares vested	-	-	-	-	-	-	(9)	(9)		
Transactions with owner and other equity movements	-	-	-	-	(3,904)	-	3,895	(9)		
At 31 March 2016	462,922	724,185	483,345	-	-	(1,589)	982,055	2,650,918		
At 1 April 2016	462,922	724,185	483,345	-	-	(1,589)	982,055	2,650,918		
Profit for the financial year	-	-	-	-	-	-	255,658	255,658		
Other comprehensive expense	-	-	-	-	-	(3,560)	-	(3,560)		
Total comprehensive income for the financial year	-	-	-	-	-	(3,560)	255,658	252,098		
Transfer to share capital	724,185	(724,185)	-	-	-	-	-	-		
Transfer to regulatory reserve	-	-	-	58,430	-	-	(58,430)	-		
Transactions with owner and other equity movements	724,185	(724,185)	-	58,430	-	-	(58,430)	-		
At 31 March 2017	1,187,107	-	483,345	58,430	-	(5,149)	1,179,283	2,903,016		

27, 28(a)  
28 (b)(ii)

The accompanying notes form an integral part of the financial statements.

**AMBANK ISLAMIC BERHAD**  
**(Incorporated in Malaysia)**

**STATEMENT OF CASH FLOWS**  
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017**

		2017	2016
			(Restated)
			(Note 52)
	Note	RM'000	RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before zakat and taxation		323,214	312,359
Adjustments for:			
Accretion of discount less amortisation of premium on securities		(56,329)	(94,542)
Allowance for impairment on financing and advances	32	94,396	105,563
Amortisation of intangible assets	35	44	7
Amortisation of issuance costs for Subordinated Sukuk		152	144
Depreciation of property and equipment	35	80	82
Net gain on disposal of financial assets held-for-trading	29	(2,584)	(554)
Net loss on revaluation of financial assets held-for-trading	29	957	8
Net (gain)/loss on disposal of financial investments available-for-sale	29, 31	(2,456)	853
Net (gain)/loss on revaluation of derivatives		(4,923)	3,390
Shares/options granted under AMMB ESS - (written back)/charge	35	(191)	57
Transfer to profit equalisation reserve		-	1,406
Unrealised loss/(gain) on revaluation of hedged item arising from fair value hedge	13	3,421	(4,159)
Writeback of provision for commitments and contingencies	26(a)	(41)	(3,818)
Operating profit before working capital changes		355,740	320,796
(Increase)/decrease in operating assets:			
Deposits and placements with banks and other financial institutions		-	750,000
Financial assets held-for-trading		(503,592)	(19,517)
Financing and advances		57,401	690
Statutory deposit with Bank Negara Malaysia		32,000	203,000
Other assets		7,445	6,933

**AMBANK ISLAMIC BERHAD**  
**(Incorporated in Malaysia)**

**STATEMENT OF CASH FLOWS**  
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017 (CONT'D.)**

		2017	2016
	Note	RM'000	(Restated) (Note 52) RM'000
Increase/(decrease) in operating liabilities:			
Deposits from customers		(1,492,085)	(1,371,093)
Investment accounts of customers		5,963	18,411
Deposits and placements of banks and other financial institutions		(97,173)	92,888
Investment account due to licensed bank		600,000	(363,442)
Other liabilities		(94,456)	9,598
Recourse obligation on financing sold to Cagamas Berhad		(510,111)	(308,951)
Cash used in operations		<u>(1,638,868)</u>	<u>(660,687)</u>
Zakat paid		(1,562)	(1,411)
Tax paid		(45,552)	(66,350)
Net cash used in operating activities		<u>(1,685,982)</u>	<u>(728,448)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Disposal of financial investments available-for-sale (net)		779,615	1,015,590
Purchase of intangible assets	17	(478)	(1)
Purchase of property and equipment	16	(49)	(271)
Purchase of receivables: Investments not quoted in active market		(350,000)	-
Net cash generated from investing activities		<u>429,088</u>	<u>1,015,318</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net (redemption)/issuance of Subordinated Sukuk	24(a), (b)	(420,000)	250,000
Net cash (used in)/generated from financing activities		<u>(420,000)</u>	<u>250,000</u>
Net (decrease)/increase in cash and cash equivalents		(1,676,894)	536,870
Cash and cash equivalents at beginning of financial year		<u>4,598,552</u>	<u>4,061,682</u>
Cash and cash equivalents at end of financial year		<u>2,921,658</u>	<u>4,598,552</u>
Cash and cash equivalents comprise:			
Cash and short-term funds		2,286,658	4,098,552
Deposits and placements with banks and other financial institutions with original maturity of less than 3 months		635,000	500,000
		<u>2,921,658</u>	<u>4,598,552</u>

The accompanying notes form an integral part of the financial statements.

**AMBANK ISLAMIC BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2017**

**1. CORPORATE INFORMATION**

AmBank Islamic Berhad (the "Bank") is a licensed Islamic banking institution providing Islamic retail and commercial banking products and services in accordance with Shariah principles. There have been no significant changes in these activities during the financial year.

The Bank is a licensed Islamic Bank under the Islamic Financial Services Act, 2013, incorporated and domiciled in Malaysia. The registered office of the Bank is located at 22nd Floor, Bangunan AmBank Group, No. 55, Jalan Raja Chulan, 50200 Kuala Lumpur. The principal place of business is located at Menara AmBank, Jalan Yap Kwan Seng, 50450 Kuala Lumpur.

The Bank is a wholly-owned subsidiary of AMMB Holdings Berhad ("AMMB"), a company incorporated in Malaysia. AMMB is listed on the Main Market of Bursa Malaysia Securities Berhad.

The financial statements of the Bank have been approved and authorised for issue by the Board of Directors on 26 April 2017.

**2. ACCOUNTING POLICIES**

**2.1 Basis of preparation**

The financial statements have been prepared on a historical cost basis unless otherwise indicated in the financial statements.

**2.2 Statement of compliance**

The financial statements of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the requirements of the Companies Act, 2016 in Malaysia.

**2.3 Presentation of financial statements**

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

The statements of financial position are presented in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date ("current") and more than 12 months after the reporting date ("non-current") is presented in Note 46.

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies

#### 2.4a Foreign currencies

(i) Functional and presentation currency

The Bank's financial statements are presented in RM, which is also the Bank's functional currency.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded by the Bank at its functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot exchange rate at the reporting date.

All differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Bank's net investment of a foreign operation (if any). These are recognised in other comprehensive income ("OCI") until the net investment is disposed, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on changes in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4b Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses. Such cost includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, as well as borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. When significant parts of property and equipment are required to be replaced at intervals, the Bank recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

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

Depreciation of property and equipment is calculated on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful lives of the assets.

The annual depreciation rates for the various classes of property and equipment are as follows:

Leasehold improvements	20%
Motor vehicles	20%
Computer equipment	20% - 33.33%
Office equipment, furniture and fittings	20% - 50%

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if the expectations differ from previous estimates.

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4c Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

##### (i) Bank as a lessee

Leases that transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item are classified as finance leases, and are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. The corresponding lease obligations, net of finance charges, are included in other short-term and long-term payables. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of profit on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an operating expense in profit or loss on a straight-line basis over the lease term. The aggregate benefits of incentives provided by the lessor are recognised as a reduction of rental expenses over the lease term on a straight line basis.

##### (ii) Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income is recognised over the term of the lease on a straight-line basis. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4d Intangible assets, other than goodwill arising from business combination

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

##### (i) Research and development costs

Research costs are expensed as incurred. Development expenditure on an individual software project are recognised as an intangible asset when the Bank can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset;
- the ability to measure reliably the expenditure during development;
- the ability to use the intangible asset generated.

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4d Intangible assets, other than goodwill arising from business combination (Cont'd.)

##### (i) Research and development costs (Cont'd.)

Following initial recognition of the software development expenditure as an asset, the asset is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised on a straight-line basis over the period of expected benefit of 3 to 7 years, except for certain major core infrastructure projects where the useful life has been determined to be 10 years. During the period of development, the asset is tested for impairment annually.

#### 2.4e Financial instruments – initial recognition and subsequent measurement

##### (i) Date of recognition

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

##### (ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

All financial liabilities are recognised initially at fair value and, in the case of borrowings and payables, net of directly attributable transaction costs.

##### (iii) Subsequent measurement

The subsequent measurement of financial instruments depends on their classification as described below:

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4e Financial instruments – initial recognition and subsequent measurement (Cont'd.)

##### (iii) Subsequent measurement (Cont'd.)

- a. Financial assets and financial liabilities at fair value through profit or loss: held-for-trading

Financial assets or financial liabilities held-for-trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in profit or loss.

Included in this classification are debt securities and equities that have been acquired principally for the purpose of selling or repurchasing in the near term.

- b. Financial assets and financial liabilities at fair value through profit or loss: designated as fair value through profit or loss.

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- the financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets and financial liabilities designated at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recognised in profit or loss.

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4e Financial instruments – initial recognition and subsequent measurement (Cont'd.)

##### (iii) Subsequent measurement (Cont'd.)

##### c. Financial assets and financial liabilities at fair value through profit or loss: derivatives

The Bank uses derivatives such as profit rate swap, forward foreign exchange contracts and options on commodities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised in profit or loss.

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

##### d. Financial investments available-for-sale ("AFS")

Financial investments AFS include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Bank has not designated any financing and advances as AFS.

After initial measurement, financial investments AFS are subsequently measured at fair value with unrealised gains or losses recognised in OCI in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in "other operating income", or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to profit or loss in "impairment losses on financial investments". Profit earned whilst holding financial investments AFS is reported under "finance income and hibah" using the effective profit method. Dividends earned whilst holding financial investments AFS are recognised in profit or loss as "other operating income" when the right to the payment has been established.

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4e Financial instruments – initial recognition and subsequent measurement (Cont'd.)

##### (iii) Subsequent measurement (Cont'd.)

##### d. Financial investments available-for-sale ("AFS") (Cont'd.)

The Bank evaluates whether the ability and intention to sell its financial investments AFS in the near term is still appropriate. When, in rare circumstances, the Bank is unable to trade these financial investments due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Bank may elect to reclassify these financial investments. Reclassification to financing and receivables is permitted when the financial investments meet the definition of financing and receivables and the Bank has the intent and ability to hold these investments for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial investments accordingly.

Equity instruments received as a result of financing and advances restructuring or financing and advances conversion which do not have a quoted market price in an active market that are carried at cost as their fair values cannot be reliably measured are also classified as financial investments AFS.

##### e. Financial investments held-to-maturity

Non-derivative financial instruments with fixed or determinable payments and fixed maturities are classified as financial investments held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. After initial measurement, financial investments held-to-maturity are measured at amortised cost using the effective profit method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective profit rate ("EPR"). The EPR amortisation is included in "finance income and hibah" in profit or loss. The losses arising from impairment are recognised in profit or loss in "impairment losses on financial investments".

If the Bank were to sell or reclassify more than an insignificant amount of financial investments held-to-maturity before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as financial investments AFS. Furthermore, the Bank would be prohibited from classifying any financial investments as held-to-maturity during the following two financial years.

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4e Financial instruments – initial recognition and subsequent measurement (Cont'd.)

##### (iii) Subsequent measurement (Cont'd.)

##### f. Financial assets at amortised cost - financing and receivables

Financing and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, such financial assets are subsequently measured at amortised cost using the effective profit method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EPR. The EPR amortisation is included in “finance income and hibah” in profit or loss. The losses arising from impairment are recognised in profit or loss in “allowance for impairment on financing and advances” for financing and advances or “impairment losses on doubtful receivables” for losses other than financing and advances.

##### g. Financial liabilities at amortised cost

Financial liabilities issued by the Bank, that are not designated at fair value through profit or loss, are classified as financial liabilities at amortised cost, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, term funding, debt capital and other borrowings are subsequently measured at amortised cost using the effective profit method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EPR.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned as the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4e Financial instruments – initial recognition and subsequent measurement (Cont'd.)

(iv) “Day 1” profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a “Day 1” profit or loss) in “other operating income”. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in profit or loss on a systematic and rational basis that reflects the nature of the instrument over its tenure.

(v) Reclassification of financial assets

The Bank may reclassify a non-derivative trading asset out of the “held-for-trading” category and “available-for-sale” category under rare circumstances and into the “financing and receivables” category if it meets the definition of financing and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EPR from the date of the change in estimate.

(vi) Derecognition of financial assets and financial liabilities

a. Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4e Financial instruments – initial recognition and subsequent measurement (Cont'd.)

##### (vi) Derecognition of financial assets and financial liabilities (Cont'd.)

###### a. Financial assets (Cont'd.)

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

###### b. Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amount of the original financial liability and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

#### 2.4f Sell and buy back agreements for Islamic securities

These are obligations of the Bank to perform its commitment to buy back specified Islamic securities at maturity. Gains and losses are recognised upon sale and shown as trading gain or loss from financial assets held-for-trading.

#### 2.4g Fair value measurement

The Bank measures financial instruments such as financial assets at fair value through profit or loss, financial investments AFS and derivatives at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4g Fair value measurement (Cont'd.)

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

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

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

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

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

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

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

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

The fair value hierarchies of:

- a) financial instruments that are measured at fair value.
- b) financial assets and financial liabilities that are not measured at fair value, but for which fair value is disclosed are presented on Note 49.

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4h Impairment of financial assets

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event"), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Financing and receivables are classified as impaired in accordance with the criteria as disclosed in Note 48.2 Credit risk management - Impairment: Definition of past due and impaired financing and advances.

##### (i) Financial assets carried at amortised cost - financing and receivables

For financial assets carried at amortised cost, the Bank first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EPR. If a financing has a variable profit rate, the discount rate for measuring any impairment loss is the current EPR. If the Bank has reclassified trading assets to financing and advances, the discount rate for measuring any impairment loss is the new EPR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4h Impairment of financial assets (Cont'd.)

(i) Financial assets carried at amortised cost - financing and receivables (Cont'd.)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Profit income continues to be accrued as “financing income on impaired financing” in profit or loss on the reduced carrying amount and is accrued using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss. Financing together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to “allowance for impairment on financing and advances” in profit or loss.

Financial assets which are not individually significant and that have been individually assessed but with no impairment loss are grouped together for collective impairment assessment. These financial assets are grouped based on the Bank’s internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics of the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that do not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows for a group of assets should reflect and be directionally consistent with changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4h Impairment of financial assets (Cont'd.)

##### (ii) Financial investments AFS

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

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

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

In the case of equity investments classified as AFS, objective evidence would include a "significant" or "prolonged" decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value; less any impairment loss on that investment previously recognised in profit or loss, is removed from OCI and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

##### (iii) Rescheduled and restructured financing

Where possible, the Bank seeks to restructure facilities rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new facility conditions. Once the terms have been rescheduled or restructured, any impairment is measured using the original EPR as calculated before the modification of terms. Management continually reviews impaired rescheduled or restructured facilities for a certain period to ensure all terms are adhered to and that future payments are likely to occur before reclassification back to performing status.

## **2. ACCOUNTING POLICIES (CONT'D.)**

### **2.4 Summary of significant accounting policies (Cont'd.)**

#### **2.4h Impairment of financial assets (Cont'd.)**

##### **(iv) Collateral valuation**

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's quarterly reporting schedule, however, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources. (See Note 48.2 for further analysis of collateral).

#### **2.4i Hedge accounting**

The Bank makes use of derivative instruments to manage exposures to profit rate, foreign currency and credit risks, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria.

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

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4i Hedge accounting (Cont'd.)

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognised in profit or loss. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

##### (i) Fair value hedges

The change in the fair value of a hedging derivative is recognised in profit or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in profit or loss.

For fair value hedges relating to items recorded at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective profit method. EPR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

##### (ii) Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the "cash flow hedge reserve", while any ineffective portion is recognised immediately in profit or loss.

Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as OCI are transferred to the initial carrying amount of the non-financial asset or liability.

## **2. ACCOUNTING POLICIES (CONT'D.)**

### **2.4 Summary of significant accounting policies (Cont'd.)**

#### **2.4i Hedge accounting (Cont'd.)**

##### **(ii) Cash flow hedges (Cont'd.)**

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in OCI remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

#### **2.4j Offsetting financial instruments**

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

#### **2.4k Impairment of non-financial assets**

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash - generating unit's ("CGU") fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

## **2. ACCOUNTING POLICIES (CONT'D.)**

### **2.4 Summary of significant accounting policies (Cont'd.)**

#### **2.4k Impairment of non-financial assets (Cont'd.)**

For assets excluding goodwill and intangible assets with indefinite useful lives, an assessment is made at each reporting date to determine whether there is any indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

The following asset has specific characteristics for impairment testing:

##### **(i) Intangible Assets**

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

#### **2.4l Cash and cash equivalents**

Cash and short-term funds in the statement of financial position comprise cash and bank balances with banks and other financial institutions, and short-term deposits maturing within one month.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term funds with original maturity of less than 3 months, excluding deposits and monies held in trust and net of outstanding bank overdrafts.

#### **2.4m Provisions**

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

## **2. ACCOUNTING POLICIES (CONT'D.)**

### **2.4 Summary of significant accounting policies (Cont'd.)**

#### **2.4n Contingent liabilities and contingent assets**

A contingent liability is a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation or in extremely rare cases whereby there is a liability that cannot be recognised because it cannot be measured with sufficient reliability. The contingent liability is not recognised but instead is disclosed in the financial statements. A possible obligation that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank is also disclosed as a contingent liability unless the probability of outflow of economic resources is remote.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. The Bank does not recognise contingent assets in the financial statements but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

#### **2.4o Financial guarantee contracts**

Financial guarantee contracts issued by the Bank are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified customer fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

#### **2.4p Recognition of income and expenses**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4p Recognition of income and expenses (Cont'd.)

The following specific recognition criteria must be met before revenue is recognised:

(i) Profit income and similar income and expense

For all financial assets and financial liabilities measured at amortised cost, profit-bearing financial investments classified as AFS and financial assets and financial liabilities designated at fair value through profit or loss, profit income or expense is recorded using the effective profit method. EPR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EPR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EPR and the change in carrying amount is recorded in profit or loss. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EPR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, profit income continues to be recognised using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss.

Income and expense are recognised in accordance with the principles of Shariah. This includes financing provided, deposits accepted and investment account under the following Shariah contracts:

#### Murabahah

This is a contract of sale of goods/assets at a mark-up price, which includes a profit margin as agreed by the contracting parties. The price, costs and profit margin in Murabahah shall be made transparent and agreed upon between buyer and seller. Income on financing is recognised on EPR basis over the period of the contract based on the principal amounts outstanding.

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4p Recognition of income and expenses (Cont'd.)

- (i) Profit income and similar income and expense (Cont'd.)

##### Bai' Bithaman Ajil

This is a contract of sale and purchase of an asset in which the payment of price is deferred either be paid in lump-sum or instalment basis within an agreed period of time. Income is recognised on EPR basis over the expected life of the contract based on principal amount outstanding.

The Islamic Negotiable Instruments ("INI") can also be structured along the concept of Bai' Bithaman Ajil for Negotiable Islamic Debt Certificate. Profit attributable to the buyer of the INI will be based on the fixed profit rate which is quoted on the placement date.

##### Bai' Inah

This is an arrangement that involves sale of an asset to the purchaser on a deferred basis and subsequent purchase of the asset at a cash price lower than the deferred sale price or vice versa, and which complies with the specific requirements of Bai' Inah. Income is recognised on EPR basis over the expected life of the contract based on principal amount outstanding.

##### Tawarruq

This is an arrangement that involves of two sale and purchase contracts. The first involves the sale of an asset by a seller to a purchaser on a deferred basis. Subsequently, the purchaser of the first sale will sell the same asset to a third party on a cash and spot basis. Income is recognised on EPR basis over the period of the contract based on the principal amounts outstanding.

For Commodity Murabahah term deposits placed by customers, profit attributable to the depositors based on the fixed profit rate which is quoted to the customer on the placement date. The commodity trading fee incurred in the Tawarruq arrangement is borne by the Bank and is recognised as an expense in profit or loss as incurred.

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4p Recognition of income and expenses (Cont'd.)

(i) Profit income and similar income and expense (Cont'd.)

Al-Ijarah Thumma Al-Bai'

This is a contract of lease ending with the transfer of ownership from the lessor to the lessee in the form of sale transaction based on agreed terms and conditions. There are two contracts in this arrangement. The first contract is ijarah where the lessee enjoys the usufruct of the assets for an agreed rental during an agreed period of time while the ownership remains with the lessor. The second contract is the sale contract which may take place at the end of the ijarah period or at any point of time during the period subject to the agreed terms and conditions between the contracting parties. Financing income is recognised on EPR basis over the lease term.

Mudarabah

This refers to a contract between the customer known as an investment account holder and the Bank where the customer agrees to participate in the financial activities undertaken by the Bank and shares the profit generated from financing and/or investment activities based on an agreed Profit Sharing Ratio ("PSR"). Profit is distributed according to the agreed PSR at the point of the contract. The profit attributable to Investment Account Holder is based on the indicative profit rate that may change based on the financial performance of the Bank.

Musharakah Mutanaqisah

In Musharakah Mutanaqisah financing, the customer and the Bank jointly acquire and own the asset. The Bank then leases its equity or share of asset to the customer on the basis of ijarah. The customer is given the right to acquire the Bank's equity in the asset periodically. Financing income is accounted for on the basis of the reducing balance on a time apportioned basis that reflects the effective yield of the asset.

Ujrah

Ujrah refers to fee for services rendered. Income is recognised based on a fee charged by the Bank in providing the credit card facility to credit card customers.

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4p Recognition of income and expenses (Cont'd.)

- (i) Profit income and similar income and expense (Cont'd.)

##### Wakalah

This refers to an "investment agency" contract where the Bank is appointed as an agent to undertake investment activities on behalf of the customer for a fee. The Bank acts in two capacities - as "Agent" in accepting funds from the customer who plans to invest, and as Investment Manager in carrying out Shariah compliant investment activities as agreed by both parties. The Bank, as an agent, does not guarantee the profit expected from the investments. Profit distributed is based on the expected profit rate which is quoted to the customer on placement date.

##### Wadiah (Yad Dhamanah)

A safe keeping contract whereby the custodian guarantees payment of the whole amount of deposits, or any part thereof, outstanding in the account of the depositors, when demanded. The depositors are not entitled to any share of the profits (generated from usage of the deposits by the custodian) but the custodian may provide returns to the depositors as a token of appreciation which is known as hibah.

- (ii) Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- a. Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period by reference to the stage of completion of the services. These fees include financing arrangement, commission income, asset management, custody and other management and advisory fees.

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4p Recognition of income and expenses (Cont'd.)

(ii) Fee and commission income (Cont'd.)

b. Fee income from providing transaction services

Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Investment and trading income

Results arising from trading activities include all gains and losses from changes in fair value for financial assets “held-for-trading”. This includes any ineffectiveness recorded in hedging transactions.

(iv) Customer loyalty programmes

Award credits under customer loyalty programmes are accounted for as a separately identifiable component of the transaction in which the award credits are granted. The fair value of the consideration received in respect of the initial sale is allocated between the award credits and the other components of the sale such that the award credits are recognised at their fair value. Revenue from the award credits is recognised when the award credits are redeemed or expired. The amount of revenue recognised when the award credits are redeemed is based on the number of award credits redeemed relative to the total number expected to be redeemed.

#### 2.4q Employee benefits

(i) Short-term benefits

Wages, salaries, bonuses and social security contributions that are expected to be settled wholly within 12 months after the end of the financial year in which the employees render the related service are recognised as an expense in the financial year in which the associated services are rendered by employees of the Bank and are measured at the amounts paid or expected to be paid when the liabilities are settled. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4q Employee benefits (Cont'd.)

(ii) Defined contribution pension plan

The Bank makes contributions to the Employee Provident Fund ("EPF") in Malaysia. Such contributions are recognised as an expense in profit or loss in the financial year to which they relate. Once the contributions have been paid, the Bank has no further payment obligations.

(iii) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

(iv) Share-based payment transactions

The holding company, AMMB, operates an equity-settled share-based compensation scheme wherein shares or options to subscribe for shares of AMMB are granted to eligible directors and employees of the AMMB Group based on the financial and performance criteria and such conditions as it may deem fit.

The Bank recognises the cost of this equity-settled share-based compensation (being the fair value at grant date) as prepayment made to the holding company on grant date, and amortised to profit or loss as "Personnel costs", over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date").

The estimated number of grants to be ultimately vested and its financial impact are reviewed quarterly and adjustments made accordingly to profit or loss to reflect changes in the non-market vesting conditions.

Upon vesting, any losses arising from differences of fair value at vesting date against fair value at grant date is recognised directly to the retained earnings of the Bank.

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4r Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholder. Interim dividends are deducted from equity when they are declared.

Dividends for the year that are approved between the end of the reporting period and the date the financial statements are authorised for issue are disclosed as an event after the reporting period.

#### 2.4s Taxes

##### (i) Current tax

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

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss. Current taxes relating to items recognised in OCI or directly in equity is recognised in OCI or equity respectively.

##### (ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

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

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

## 2. ACCOUNTING POLICIES (CONT'D.)

### 2.4 Summary of significant accounting policies (Cont'd.)

#### 2.4s Taxes (Cont'd.)

##### (ii) Deferred tax (Cont'd.)

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

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

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

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

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

## **2. ACCOUNTING POLICIES (CONT'D.)**

### **2.4 Summary of significant accounting policies (Cont'd.)**

#### **2.4s Taxes (Cont'd.)**

##### **(ii) Deferred tax (Cont'd.)**

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

#### **2.4t Zakat**

This represents business zakat payable by the Bank to comply with Shariah principles approved by the Bank's Shariah Committee. Zakat provision is calculated by reference to the zakat rate of 2.5% of the net profit after tax and is based on percentage of Muslim shareholders of the holding company. The Bank has fulfilled its obligation to pay business zakat to state zakat authorities and other identified beneficiaries (asnaf) comprising poor and needy students under student adoption programme, and charitable organisations.

#### **2.4u Earnings Per Share ("EPS")**

The Bank presents basic and diluted (where applicable) EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholder of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholder and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

## **2. ACCOUNTING POLICIES (CONT'D.)**

### **2.4 Summary of significant accounting policies (Cont'd.)**

#### **2.4v Segment reporting**

Segment reporting in the financial statements are presented on the same basis as is used by management internally for evaluating operating segment performance and in deciding how to allocate resources to operating segments. Operating segments are distinguishable components of the Bank about which separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Reportable segments are operating segments or aggregations of operating segments of similar economic characteristics that meet specific aggregation criteria.

The Bank's segmental reporting is based on the following operating segments: retail banking, wholesale banking and group funding and others, as disclosed in Note 51.

#### **2.4w Share capital and share issuance expenses**

An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all the liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs.

### 3. CHANGES IN ACCOUNTING POLICIES

#### 3.1 Adoption of Amendments and Annual Improvements to standards

The significant accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new standards and amendments to published standards which became effective for the first time for the Bank on 1 April 2016:

- MFRS 14 Regulatory Deferral Accounts
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to MFRS 116 and MFRS 138 )
- Agriculture: Bearer Plants (Amendments to MFRS 116 and MFRS 141)
- Investment Entities: Applying the Consolidation Exception (Amendments to MFRS 10, MFRS 12 and MFRS 128)
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to MFRS 11)
- Equity Method in Separate Financial Statements (Amendments to MFRS 127)
- Disclosure Initiative (Amendments to MFRS 101)
- Annual Improvements to MFRSs 2012-2014 Cycle

The adoption of these new standards and amendments to published standards did not have any material impact on the financial statements of the Bank. The Bank did not have to change its accounting policies or make retrospective adjustments as a result of adopting these new standards and amendments to published standards.

The nature of the new standards and amendments to published standards relevant to the Bank are described below:

#### **Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to MFRS 116 and MFRS 138)**

The amendments clarify the principle in MFRS 116 and MFRS 138 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of an asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The existing method of depreciation and amortisation applied by the Bank comply with these requirements.

#### **Disclosure Initiative (Amendments to MFRS 101)**

The amendments introduce five narrow-focus improvements to the disclosure requirements and ensure that entities are able to apply professional judgement in determining the extent of information to be disclosed in the financial statements. The amendments also clarify the requirements for presenting an entity's share of items of other comprehensive income of associates and joint ventures, whereby they are required to be grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Since the amendments only affect disclosures, the adoption of these amendments did not have any financial impact on the Bank.

### 3. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

#### 3.1 Adoption of Amendments and Annual Improvements to standards (Cont'd.)

##### Annual Improvements to MFRSs 2012-2014 Cycle

The Annual Improvements to MFRSs 2012-2014 Cycle include a number of amendments to various MFRSs, which are summarised below:

##### (i) MFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The amendment clarifies that a reclassification of an asset directly from being held for sale to being held for distribution to owners (or vice versa) is not a change to the disposal plan and shall be treated as a continuation of the original plan, and the change in disposal method does not change the date of classification as held for sale or held for distribution to owners. This amendment does not result in any impact as is no reclassification of asset between held for sale and held for distribution during the financial year ended 31 March 2017.

##### (ii) MFRS 7 Financial Instruments: Disclosures

The amendment clarifies that a servicing contract may constitute continuing involvement in a derecognised financial asset, and an entity shall assess the nature of the arrangement and the fees to determine whether disclosures are required. The amendment also clarifies that the disclosures in respect of offsetting of financial assets and financial liabilities are not required in condensed interim financial statements.

##### (iii) MFRS 119 Employee Benefits

The amendment clarifies that the depth of the market for high quality corporate bonds for the purpose of determining the rate used to discount post-employment benefit obligations shall be assessed based on the currency in which the obligation is denominated instead of the country where the obligation is located. The discount rate applied by the Bank to discount post-employment benefit obligations complies with this requirement.

##### (iv) MFRS 134 Interim Financial Reporting

The amendment clarifies that the selected information other than significant events and transactions shall be disclosed either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statements that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. The interim financial statements issued by the Bank complied with these requirements as such information of the Bank are disclosed in the interim financial statements.

### 3. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

#### 3.2 Standards issued but not yet effective

The following are standards issued but not yet effective up to the date of issuance of the Bank's financial statements. The Bank intends to adopt the relevant standards when they become effective.

Description	Effective for annual period beginning on or after
Disclosure Initiative (Amendments to MFRS 107)	1 January 2017
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to MFRS 112)	1 January 2017
Annual Improvements to MFRSs 2014-2016 Cycle	
- amendments to MFRS 12	1 January 2017
- amendments to MFRS 1 and MFRS 128	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts (Amendments to MFRS 4)	1 January 2018
Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
Transfers of Investment Property (Amendments to MFRS 140)	1 January 2018
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 16 Leases	1 January 2019
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 10 and MFRS 128)	To be determined by MASB

The nature of the standards that are issued and relevant to the Bank but not yet effective are described below. The Bank is assessing the financial effects of their adoption.

#### Standards effective for financial year ending 31 March 2018

##### Disclosure Initiative (Amendments to MFRS 107)

The amendments to MFRS 107 introduce an additional disclosure on changes in liabilities arising from financing activities. The disclosure requirement could be satisfied in various ways, and one method is by providing reconciliation between the opening and closing balances in the balance sheet for liabilities arising from financing activities.

The amendments are effective for annual periods beginning on or after 1 January 2017 with early adoption permitted.

### **3. CHANGES IN ACCOUNTING POLICIES (CONT'D.)**

#### **3.2 Standards issued but not yet effective (Cont'd.)**

##### **Standards effective for financial year ending 31 March 2018 (Cont'd.)**

###### **Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to MFRS 112)**

The amendments clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

The amendments are effective for annual periods beginning on or after 1 January 2017 with early adoption permitted. The amendments shall be applied retrospectively.

##### **Annual Improvements to MFRSs 2014-2016 Cycle**

The Annual Improvements to MFRSs 2014-2016 Cycle include minor amendments affecting 3 MFRSs, in which one of them is effective for annual periods beginning on or after 1 January 2017, as summarised below:

###### **(i) MFRS 12 Disclosure of Interests in Other Entities**

The amendment clarified that the disclosures requirement of MFRS 12 are applicable to interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities classified as held for sale except for summarised financial information. Previously, it was unclear whether all other MFRS 12 requirements were applicable for these interests.

##### **Standards effective for financial year ending 31 March 2019**

###### **Annual Improvements to MFRSs 2014-2016 Cycle**

The Annual Improvements to MFRSs 2014-2016 Cycle include minor amendments affecting 3 MFRSs, in which two of them is effective for annual periods beginning on or after 1 January 2018, as summarised below:

###### **(i) MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards**

The amendments deleted short-term exemptions covering transition provisions of MFRS 7, MFRS 10, and MFRS 119. These transition provisions were available to entities for past reporting periods and are therefore no longer applicable.

###### **(ii) MFRS 128 Investments in Associates and Joint Ventures**

MFRS 128 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss. The amendments clarified that this election should be made separately for each associate or joint venture at initial recognition.

### 3. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

#### 3.2 Standards issued but not yet effective (Cont'd.)

##### Standards effective for financial year ending 31 March 2019 (Cont'd.)

##### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IFRS 118 Revenue, IFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

##### **IFRS 9 Financial Instruments**

In November 2014, MASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Retrospective application is required, but comparative information is not compulsory.

IFRS 9 will require all financial assets, other than equity instruments and derivatives, to be classified on the basis of two criteria, namely the entity's business model for managing the assets, as well as the instruments' contractual cash flow characteristics. Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows that are solely payments of principal and interest. If the financial assets are held within a business model whose objective is achieved by both selling financial assets and collecting contractual cash flows that are solely payments of principal and interest, the assets shall be measured at fair value through other comprehensive income ("FVOCI"). Any financial assets that are not measured at amortised cost or FVOCI will be measured at fair value through profit or loss ("FVTPL"). IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI as FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments are normally measured at FVTPL; nevertheless entities are allowed to irrevocably designate equity instruments that are not held for trading as FVOCI, with no subsequent reclassification of gains or losses to the statement of profit or loss.

### 3. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

#### 3.2 Standards issued but not yet effective (Cont'd.)

##### Standards effective for financial year ending 31 March 2019 (Cont'd.)

##### **MFRS 9 Financial Instruments (Cont'd.)**

MFRS 9 will fundamentally change the financing loss impairment methodology. The standard will replace MFRS 139's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. The impairment requirements based on ECL approach is applicable for all financing and other debt financial assets not held at FVTPL, as well as financing commitments and financial guarantee contracts. The allowance for expected losses shall be determined based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the remaining lifetime of the asset.

The Bank has set up a multidisciplinary Programme Working Group ("PWG") to prepare for MFRS 9 Implementation with the involvement from Risk, Finance and Operations personnel, as well as the assistance from external consultants. The PWG regularly report to the Programme Steering Committee ("PSC") chaired by the Chief Financial Officer. The Programme has clear individual work streams for classification and measurement, impairment, hedge accounting and disclosures. The Bank has also engaged its external auditor to independently verify and validate the accounting policies and solution tools to be developed under the Programme and to report on whether they comply with the requirements of MFRS 9. The initial assessment and analysis stage was completed during the financial year. As the initial assessment was based on currently available information, the outcome is subject to changes arising from further analysis or additional information being made available in the future.

Having completed its initial assessment, the Bank expects that:

- The majority of financing and advances that are classified as financing and receivables under MFRS 139, as well as investments in debt securities classified as held to maturity under MFRS 139 are expected to be measured at amortised cost under MFRS 9.
- The majority of the debt securities classified as available-for-sale under MFRS 139 are expected to be measured at amortised cost or FVOCI. Some securities, however, will be classified as FVTPL.
- Financial assets and liabilities held for trading are expected to be continue to be measured at FVTPL.

The impairment requirements are expected to result in a higher allowance for impairment losses. The Bank will perform a detailed assessment in the financial year ending 31 March 2018 to determine the extent of the impact.

##### **Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)**

The amendments clarify the measurement basis and the effects of vesting conditions on the measurement of cash-settled share-based payments, as well as the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in MFRS 2 that will require an award to be treated as if it was wholly equity-settled when an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

### **3. CHANGES IN ACCOUNTING POLICIES (CONT'D.)**

#### **3.2 Standards issued but not yet effective (Cont'd.)**

##### **Standards effective for financial year ending 31 March 2019 (Cont'd.)**

##### **Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2) (Cont'd.)**

The amendments are effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The transition provisions specify that the amendments apply to awards that are not settled as at the date of first application or to modifications that happen after the date of first application, without restatement of prior periods. Notwithstanding this, the amendments can be applied retrospectively provided that this is possible without hindsight.

##### **IC Interpretation 22 Foreign Currency Transactions and Advance Consideration**

The Interpretation provides guidance on how to determine the date of the transaction when applying MFRS 121 in situations where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. For the purpose of determining the exchange rate to use on initial recognition of the related item, the Interpretation states that the date of the transaction shall be the date on which an entity initially recognises the non-monetary asset or liability arising from the advance consideration.

The amendments are effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. Entities can choose to apply the Interpretation retrospectively, prospectively to items that are initially recognised on or after the beginning of the reporting period in which the Interpretation is first applied, or prospectively from the beginning of a prior reporting period presented as comparative information.

##### **Standards effective for financial year ending 31 March 2020**

##### **MFRS 16 Leases**

MFRS 16 'Leases' supersedes MFRS 117 'Leases' and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with profit expense recognised in the statement of profit or loss.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early application permitted provided MFRS 15 is also applied. The Bank is in the process of assessing the financial implication for adopting MFRS 16.

#### **4. SIGNIFICANT CHANGES IN REGULATORY REQUIREMENTS - COMPANIES ACT, 2016**

Companies Act, 2016 ("CA 2016") was enacted to replace Companies Act, 1965 ("CA 1965"), and all of the provisions in CA 2016 other than Section 241 and Division 8 of Part III came into operations on 31 January 2017.

Amongst others, CA 2016 abolished the concept of par or nominal value of shares that was applied under CA 1965. Concepts tied to par value under CA 1965, such as authorised share capital, share premium and capital redemption reserve have similarly been abolished. Accordingly, the Bank is no longer required to maintain a share premium account from 31 January 2017, and any amount standing to the credit of the share premium account as of that date has become part of the Bank's share capital, as presented in the statement of changes in equity.

In addition, the disclosure requirements under the Ninth Schedule of CA 1965 have also been removed upon the commencement of CA 2016. This change is applicable to all financial statements for the financial year ending on or after 31 January 2017. Nevertheless, this change will not result in any significant impact to the financial statements of the Bank for the financial year ended 31 March 2017 as a majority of the disclosure requirements under the Ninth Schedule of CA 1965 are also required by the applicable approved accounting standards.

#### **5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the financial statements in accordance with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of revenues, expenses, assets and liabilities, the accompanying disclosures and the disclosure of contingent liabilities. Judgements, estimates and assumptions are continually evaluated and are based on past experience, reasonable expectations of future events and other factors. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Bank's accounting policies, management has made the following judgements, estimates and assumptions which have the most significant effect on the amounts recognised in the financial statements.

## **5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONT'D.)**

### **5.1 Allowance for impairment on financing and advances (Notes 12 and 32)**

The Bank reviews its individually significant financing and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of profit or loss. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Financing and advances that have been assessed individually and found not to be impaired and all individually insignificant financing and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether allowance should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the financing portfolio (such as levels of arrears, credit utilisation, financing to collateral ratios), and judgments on cover model risks (e.g. errors for design/development process, data quality, data extraction and transformation) and macro risks (such as covering economic, portfolio and procedural issues).

### **5.2 Impairment losses on financial investments AFS**

The Bank reviews its debt securities classified as financial investments AFS at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of financing and advances.

The Bank also records impairment loss on AFS equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

### **5.3 Deferred tax assets and income taxes (Notes 25 and 39)**

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

**5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONT'D.)**

**5.3 Deferred tax assets and income taxes (Notes 25 and 39) (Cont'd.)**

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

**5.4 Fair value measurement of financial instruments (Notes 8, 9, 10, 13, 29 and 31)**

When the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of financial models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, judgment is required to establish fair values. Judgments include considerations of liquidity and model inputs such as volatility for longer-dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities.

**6. CASH AND SHORT-TERM FUNDS**

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Cash and bank balances	24,658	25,552
Deposits and placements maturing within one month:		
Licensed banks	200,000	195,000
Bank Negara Malaysia	2,062,000	3,878,000
	<u>2,286,658</u>	<u>4,098,552</u>
Deposit and placements with original maturity of three months or less	<u>2,262,000</u>	<u>4,073,000</u>

**7. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Islamic banks	<u>635,000</u>	<u>500,000</u>
Deposit and placements with original maturity of three months or less	<u>635,000</u>	<u>500,000</u>

**8. DERIVATIVE FINANCIAL ASSETS/LIABILITIES**

The table below shows the Bank's derivative financial instruments as at the reporting date. The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative financial asset) and gross negative (derivative financial liability) fair values at the reporting date are analysed below:

	<b>Contract/ Notional Amount RM'000</b>	<b>Fair Value</b>	
		<b>Assets RM'000</b>	<b>Liabilities RM'000</b>
<b>2017</b>			
<b>Trading Derivatives</b>			
<u>Foreign exchange related contracts</u>			
One year or less	1,880,550	27,136	26,954
Over three years	696,535	7,797	5,504
<u>Profit rate related contracts</u>			
Over three years	570,000	7,448	7,448
<b>Hedging Derivatives</b>			
<u>Profit rate related contracts</u>			
Profit rate swap			
- Fair value hedge			
Over three years	350,000	-	7,964
<b>Total</b>	<u>3,497,085</u>	<u>42,381</u>	<u>47,870</u>

## 8. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONT'D)

2016	Contract/ Notional Amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000
<b>Trading Derivatives</b>			
<u>Foreign exchange related contracts</u>			
One year or less	1,679,198	55,282	54,407
<u>Profit rate related contracts</u>			
Over three years	900,000	1,991	1,991
<b>Hedging Derivatives</b>			
<u>Profit rate related contracts</u>			
Profit rate swap			
- Fair value hedge			
Over three years	350,000	-	11,287
<b>Total</b>	<b>2,929,198</b>	<b>57,273</b>	<b>67,685</b>

## 9. FINANCIAL ASSETS HELD-FOR-TRADING

	2017 RM'000	2016 RM'000
<b>At fair value:</b>		
Money market instruments:		
Malaysian Islamic Treasury bills	47,509	-
Government Investment Issues	494,074	84,166
	<u>541,583</u>	<u>84,166</u>
Unquoted securities:		
In Malaysia:		
Sukuk	139,882	90,384
	<u>681,465</u>	<u>174,550</u>

**10. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE**

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At fair value:</b>		
Money market instruments:		
Government Investment Issues	422,300	422,674
Islamic negotiable instruments of deposit	1,096,546	1,984,615
	<u>1,518,846</u>	<u>2,407,289</u>
Unquoted securities:		
In Malaysia:		
Sukuk	916,878	770,227
	<u>2,435,724</u>	<u>3,177,516</u>

During the current financial year, the Bank was appointed as Islamic Principal Dealer ("iPD") respectively for specified securities issued by the Government, BNM and BNM Sukuk Berhad for the period 1 January 2017 to 31 December 2018.

As iPD, the Bank is required to undertake certain obligations and was also accorded incentives. One of the incentives accorded was the eligibility to maintain specified amounts of the Statutory Reserve Requirements ("SRR") balances in the form of Malaysian Government Securities ("MGS") and/or Malaysian Government Investment Issues ("MGII") instead of cash. As at 31 March 2017, the Bank maintained a total carrying amount of RM79,743,000 in the form of MGII for SRR purposes.

In the previous financial year, the Bank reclassified securities amounting to RM7.6 million out of financial investments available-for-sale category to the financing and receivables category as the Bank had the intention to hold the securities until maturity.

As at 31 March 2017, the fair value gain that would have been recognised in other comprehensive income for the current financial year if the securities had not been reclassified amounted approximately to RM533,000 (31 March 2016: RM505,000).

**11. FINANCIAL INVESTMENTS HELD-TO-MATURITY**

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At amortised cost:</b>		
Unquoted securities:		
In Malaysia:		
Sukuk	1,278,221	1,263,639
	<u>1,278,221</u>	<u>1,263,639</u>

## 12. FINANCING AND ADVANCES

(a) Financing and advances by type and Shariah contracts are as follows:

31 March 2017

	Bai' Bithaman Ajil		Murabahah RM'000	Musharakah Mutanaqisah RM'000	Al-Ijarah Thummah Al -Bai' ("AITAB")		Bai' Inah RM'000	Others RM'000	Total RM'000
	RM'000	RM'000			RM'000	RM'000			
<b>At amortised cost:</b>									
Cash lines	-	12,471	-	-	-	-	1,054,583	-	1,067,054
Term financing	2,022,144	2,917,793	11,005	-	-	-	3,491,124	72,791	8,514,857
Revolving credit	72,161	2,704,642	-	-	-	-	2,494,580	-	5,271,383
Housing financing	2,917,596	379,211	52,052	-	-	-	-	-	3,348,859
Hire purchase receivables	4	-	-	-	7,595,444	-	-	-	7,595,448
Bills receivables	-	-	-	-	-	-	-	9,293	9,293
Credit card receivables	-	-	-	-	-	-	-	297,225	297,225
Trust receipts	-	93,655	-	-	-	-	-	-	93,655
Claims on customers under acceptance credits	-	1,160,474	-	-	-	-	-	149,829	1,310,303
Gross financing and advances*	5,011,905	7,268,246	63,057	7,595,444	7,040,287	529,138	-	-	27,508,077
Allowance for impairment on financing and advances									
- Individual allowance									(16,041)
- Collective allowance									(252,280)
Net financing and advances									<u>27,239,756</u>

## 12. FINANCING AND ADVANCES (CONT'D.)

(a) Financing and advances by type and Shariah contracts are as follows (Cont'd.):

31 March 2016

	Bai' Bithaman Ajil RM'000	Murabahah RM'000	Musharakah Mutanaqisah RM'000	Thummah AI -Bai' ("AITAB") RM'000	Bai' Inah RM'000	Others RM'000	Total RM'000
<b>At amortised cost:</b>							
Cash lines	-	-	-	-	1,048,140	-	1,048,140
Term financing	2,359,827	2,251,556	9,987	-	3,925,881	80,224	8,627,475
Revolving credit	191,617	1,585,145	-	-	3,045,921	-	4,822,683
Housing financing	2,113,486	-	47,256	-	-	-	2,160,742
Hire purchase receivables	4	-	-	9,455,955	-	-	9,455,959
Bills receivables	-	-	-	-	-	13,134	13,134
Credit card receivables	-	-	-	-	-	260,129	260,129
Trust receipts	-	152,071	-	-	-	-	152,071
Claims on customers under acceptance credits	-	1,114,116	-	-	-	130,211	1,244,327
Gross financing and advances*	4,664,934	5,102,888	57,243	9,455,955	8,019,942	483,698	27,784,660
Allowance for impairment on financing and advances - Individual allowance - Collective allowance	-	-	-	-	-	-	(63,715)
Net financing and advances	-	-	-	-	-	-	(329,392)
							<u>27,391,553</u>

\* Included in financing and advances are exposures to the Restricted Investment Account ("RIA") arrangements between the Bank and AmBank (M) Berhad ("AmBank") amounting to RM1,604.4 million (31 March 2016: RM1,004.0 million). Under the RIA contract, the profit is shared based on a pre-agreed ratio. AmBank is exposed to the risks and rewards on the RIA financing and it shall account for all allowance for impairment arising from the RIA financing. Further details of the RIA are disclosed in Note 21.

**12. FINANCING AND ADVANCES (CONT'D.)**

(b) Gross financing and advances analysed by type of customer are as follows:

	2017 RM'000	2016 RM'000 (Restated) (Note 52)
Domestic non-bank financial institutions	1,544,039	166,199
Domestic business enterprises		
- Small medium enterprises	4,582,846	4,361,640
- Others	8,582,585	9,280,002
Government and statutory bodies	300,962	863,368
Individuals	12,409,237	13,014,961
Other domestic entities	13,137	13,833
Foreign individuals and entities	75,271	84,657
	<u>27,508,077</u>	<u>27,784,660</u>

(c) All financing and advances reside in Malaysia.

(d) Gross financing and advances analysed by profit rate sensitivity are as follows:

	2017 RM'000	2016 RM'000 (Restated) (Note 52)
Fixed rate		
- Housing financing	223,038	238,581
- Hire purchase receivables	7,106,297	8,784,435
- Other financing	2,654,145	2,848,929
Variable rate		
- Base rate and base financing rate plus	6,122,200	5,071,921
- Cost plus	9,878,868	9,541,488
- Other variable rates	1,523,529	1,299,306
	<u>27,508,077</u>	<u>27,784,660</u>

**12. FINANCING AND ADVANCES (CONT'D.)**

(e) Gross financing and advances analysed by sector are as follows:

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
		<b>(Restated)</b>
		<b>(Note 52)</b>
Agriculture	2,027,331	1,649,749
Mining and quarrying	894,872	1,313,462
Manufacturing	3,022,927	2,652,251
Electricity, gas and water	105,722	129,373
Construction	1,121,287	1,923,570
Wholesale and retail trade and hotel and restaurants	1,238,007	1,027,913
Transport, storage and communication	1,578,905	997,961
Finance and insurance	1,544,039	166,293
Real estate	2,391,868	2,812,359
Business activities	385,129	421,800
Education and health	707,017	1,248,739
Household of which:	12,473,022	13,064,612
- Purchase of residential properties	3,326,314	2,153,470
- Purchase of transport vehicles	7,292,033	9,061,833
- Others	1,854,675	1,849,309
Others	17,951	376,578
	<u>27,508,077</u>	<u>27,784,660</u>

(f) Gross financing and advances analysed by residual contractual maturity are as follows:

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Maturing within one year	10,819,946	9,416,629
Over one year to three years	2,403,919	3,144,241
Over three years to five years	5,210,480	5,460,974
Over five years	9,073,732	9,762,816
	<u>27,508,077</u>	<u>27,784,660</u>

**12. FINANCING AND ADVANCES (CONT'D.)**

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

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Balance at beginning of the financial year	605,200	606,455
Impaired during the year	265,280	414,127
Reclassified as non-impaired	(92,536)	(59,820)
Recoveries	(70,415)	(126,010)
Amount written off	(218,829)	(229,552)
Balance at end of the financial year	<u>488,700</u>	<u>605,200</u>
Gross impaired financing and advances as % of gross financing and advances	<u>1.78%</u>	<u>2.18%</u>
Financing loss coverage (including regulatory reserve)	<u>66.9%</u>	<u>65.0%</u>

(h) All impaired financing and advances reside in Malaysia.

(i) Impaired financing and advances analysed by sector are as follows:

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
		<b>(Restated)</b>
		<b>(Note 52)</b>
Agriculture	206	150
Mining and quarrying	3,873	3,450
Manufacturing	6,137	29,832
Electricity, gas and water	7,863	16,233
Construction	10,550	4,842
Wholesale and retail trade and hotel and restaurants	13,820	4,959
Transport, storage and communication	5,302	7,017
Real estate	307,959	378,700
Business activities	2,064	2,489
Education and health	5,715	3,292
Household of which:	125,210	154,228
- Purchase of residential properties	28,549	22,163
- Purchase of transport vehicles	80,919	116,310
- Others	15,742	15,755
Others	1	8
	<u>488,700</u>	<u>605,200</u>

**12. FINANCING AND ADVANCES (CONT'D.)**

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

	2017 RM'000	2016 RM'000
<b>Individual allowance</b>		
Balance at beginning of the financial year	63,715	66,075
Allowance made during the year, net (Note 32)	16,108	27,588
Amount written off	<u>(63,782)</u>	<u>(29,948)</u>
Balance at end of the financial year	<u>16,041</u>	<u>63,715</u>
<b>Collective allowance</b>		
Balance at beginning of the financial year	329,392	458,453
Allowance made during the year, net (Note 32)	78,288	77,975
Transferred from AmBank*	-	17
Foreign exchange differences	9	(5)
Amount written off	<u>(155,409)</u>	<u>(207,048)</u>
Balance at end of the financial year**	<u>252,280</u>	<u>329,392</u>
Collective allowance (including regulatory reserve) as % of gross financing and advances (excluding RIA financing) less individual allowance	<u>1.20%</u>	<u>1.23%</u>

\* On 31 December 2015, the Bank entered into a RIA contract for the sum of RM300.0 million with AmBank. Arising from this contract, the Bank transferred collective allowance of approximately RM2.46 million for the financing funded to AmBank. On 15 March 2016, AmBank early redeemed the RIA and derecognised the collective allowance previously recognised in its financial statements of RM2.48 million.

\*\* As at 31 March 2017, the gross exposure and collective allowance relating to the RIA financing amounted to RM1,604.4 million and RM2.3 million respectively (31 March 2016: RM1,004.0 million and RM1.5 million respectively) are included in the Bank's collective allowance.

There was no individual allowance provided for the RIA financing. Further details of the RIA are disclosed in Note 21.

**13. RECEIVABLES: INVESTMENTS NOT QUOTED IN ACTIVE MARKETS**

	2017 RM'000	2016 RM'000
Unquoted sukuk in Malaysia	806,649	456,649
Fair value changes arising from fair value hedge	8,071	11,492
	<u>814,720</u>	<u>468,141</u>

In the previous financial year, the Bank had undertaken fair value hedge on the profit rate risk of unquoted securities of RM350.0 million using profit rate swap with AmBank. The gain/(loss) arising from the fair value hedge is as follows:

	2017 RM'000	2016 RM'000
Relating to hedged item	(3,421)	4,159
Relating to hedging instrument	3,322	(4,186)
	<u>(99)</u>	<u>(27)</u>

**14. STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA**

The non-profit bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009, the amount of which is determined as a set percentage of total eligible liabilities.

**15. OTHER ASSETS**

	Note	2017 RM'000	2016 RM'000
Other receivables, deposits and prepayments		5,667	15,867
Amount due from related companies	(a)	116,749	91,708
Amount due from originators	(b)	117,712	127,791
Profit receivable		35,683	31,603
Tax recoverable		-	10,903
Deferred charges		35,853	51,949
		<u>311,664</u>	<u>329,821</u>

(a) Amount due from related companies are unsecured, non-profit bearing and are repayable on demand.

(b) Amount due from originators represents personal financing acquired from originators for onward sale to Cagamas Berhad as mentioned in Note 22.

## 16. PROPERTY AND EQUIPMENT

	Leasehold improvements RM'000	Office equipment, furniture and fittings RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
<b>Cost</b>					
At 1 April 2015	343	114	523	600	1,580
Additions	-	11	75	185	271
Transfer to related company	-	-	-	(455)	(455)
At 31 March 2016	343	125	598	330	1,396
Additions	-	7	42	-	49
Disposals	-	-	(7)	-	(7)
Written off	-	(10)	-	-	(10)
Reclassification/Adjustments	-	-	(1)	-	(1)
At 31 March 2017	343	122	632	330	1,427
<b>Accumulated depreciation</b>					
At 1 April 2015	331	104	445	399	1,279
Depreciation for the financial year (Note 35)	4	7	36	35	82
Transfer to related company	-	-	-	(316)	(316)
At 31 March 2016	335	111	481	118	1,045
Depreciation for the financial year (Note 35)	4	7	43	26	80
Disposals	-	-	(7)	-	(7)
Written off	-	(10)	-	-	(10)
Reclassification/Adjustments	-	-	(1)	-	(1)
At 31 March 2017	339	108	516	144	1,107
<b>Carrying amount</b>					
At 31 March 2016	8	14	117	212	351
At 31 March 2017	4	14	116	186	320

**17. INTANGIBLE ASSETS**

The carrying amount of intangible assets are as follows:

	2017 RM'000	2016 RM'000
<b>Computer software</b>		
<b>Cost</b>		
Balance at beginning of the financial year	899	898
Additions	478	1
Balance at end of the financial year	<u>1,377</u>	<u>899</u>
<b>Accumulated amortisation</b>		
Balance at beginning of the financial year	885	878
Amortisation for the financial year (Note 35)	44	7
Balance at end of the financial year	<u>929</u>	<u>885</u>
<b>Carrying amount</b>	<u>448</u>	<u>14</u>

**18. DEPOSITS FROM CUSTOMERS**

	2017 RM'000	2016 RM'000
(i) By type of deposit:		
Savings deposit		
<i>Wadiah</i>	2,119,573	1,950,534
Demand deposit		
<i>Wadiah</i>	4,245,545	3,911,360
Term Deposit :		
Commodity Murabahah	20,008,971	21,802,175
Qard	462,608	713,318
Negotiable instruments of deposits		
<i>Bai' Bithaman Ajil</i>	-	6,396
Structured deposits		
<i>Murabahah</i>	55,000	-
Total	<u>26,891,697</u>	<u>28,383,783</u>

Included in deposits from customers are deposits of RM251.7 million (31 March 2016: RM216.2 million) held as collateral for financing and advances.

**18. DEPOSITS FROM CUSTOMERS (CONT'D.)**

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
(ii) The deposits are sourced from the following types of customers:		
Government and statutory bodies	5,505,230	7,074,020
Business enterprises	11,055,848	12,665,778
Individuals	9,634,498	6,994,982
Others	696,121	1,649,003
	<u>26,891,697</u>	<u>28,383,783</u>
(iii) The maturity structure of term deposits are as follows:		
Due within six months	13,020,116	17,909,235
Over six months to one year	6,293,829	3,040,322
Over one year to three years	645,709	1,505,779
Over three years to five years	566,925	66,553
	<u>20,526,579</u>	<u>22,521,889</u>

**19. INVESTMENT ACCOUNTS OF CUSTOMERS**

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Unrestricted investment accounts without maturity		
- Wakalah	24,374	18,411
	<u>24,374</u>	<u>18,411</u>
The investments accounts are sourced from the following types of customers:		
Business enterprises	443	197
Individuals	23,931	18,214
	<u>24,374</u>	<u>18,411</u>

**19. INVESTMENT ACCOUNTS OF CUSTOMERS (CONT'D.)**

	2017 RM'000	2016 RM'000
(a) Movement in the investment account is as follows:		
Balance at beginning of the financial year	18,411	-
<u>Funding inflows / outflows</u>		
New placement during the financial year	-	15,634
Net movement during the financial year	5,953	2,769
Income from investment	643	484
<u>Bank's share of profit</u>		
Profit distributed to mudarib	(633)	(476)
Balance at end of the financial year	24,374	18,411
Investment asset:		
Interbank placement	24,374	18,411
Total investment	24,374	18,411

For the current financial year, the Bank did not impose Wakalah fees on the Investment Account Holders.

- (b) Average Rate of Return and Average Performance Incentive Fee for the investment accounts are as follows:

	Investment account holder			
	2017		2016	
	Average rate of return (%)	Average Performance incentive fee (%)	Average rate of return (%)	Average Performance incentive fee (%)
Maturity :				
less than 3 months	0.05	3.03	0.05	3.18

**20. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	2017 RM'000	2016 RM'000
<u>Non-Mudarabah</u>		
Licensed Islamic banks	397,889	-
Licensed investment banks	350,022	280,646
Other financial institutions	580,679	1,140,837
Bank Negara Malaysia	17,747	22,027
	1,346,337	1,443,510

**21. INVESTMENT ACCOUNT DUE TO LICENSED BANK**

	Note	2017 RM'000	2016 RM'000
<u>Restricted investment account</u>			
- Mudarabah Muqayyadah	(a)	<u>1,600,000</u>	<u>1,000,000</u>

## Note:

- (a) A RIA contract is a contract based on the Shariah concept of Mudarabah between two parties, that is, capital provider and entrepreneur to finance a business venture where the business venture is managed solely by the Bank as the entrepreneur. The profit of the business venture is shared between both parties based on a pre-agreed ratio. Losses shall be borne solely by the capital provider. The capital provider for the RIA contracts is AmBank (M) Berhad ("AmBank"), a related company.

As at 31 March 2017, the tenure of the RIA contracts is for a period of 2 years to 4 years (31 March 2016: 4 years to 5 years).

- (b) Movement in the investment account is as follows:

Balance at beginning of the financial year		1,000,000	1,363,442
<u>Funding inflows / outflows</u>			
New placement during the financial year		1,000,000	1,300,000
Net movement during the financial year		(460,633)	(1,725,658)
Income from investment		67,364	69,070
<u>Bank's share of profit</u>			
Profit distributed to mudarib		(6,731)	(6,854)
Balance at end of the financial year		<u>1,600,000</u>	<u>1,000,000</u>
Investment asset:			
Financing		<u>1,600,000</u>	<u>1,000,000</u>
<b>Total investment</b>		<u>1,600,000</u>	<u>1,000,000</u>

- (c) Profit Sharing Ratio and Average Rate of Return for the investment account are as follows:

	Investment account holder		
		2017	2016
	<b>Profit sharing ratio</b>	<b>Average rate of return</b>	<b>Average rate of return</b>
	(%)	(%)	(%)
Maturity :			
between 3 to 12 months			
between 2 to 5 years	90	4.78	4.56

## 22. RECOURSE OBLIGATION ON FINANCING SOLD TO CAGAMAS BERHAD

Recourse obligation on financing sold to Cagamas Berhad represents the proceeds received from the Bank's financing sold directly or those acquired from the originators (as disclosed in Note 15(b) ) to Cagamas Berhad with recourse. Under this arrangement, the Bank undertakes to administer the financing on behalf of Cagamas Berhad and to buy back any financing, which are regarded as defective based on prudential criteria with recourse to the Bank. Under the back-to-back arrangement with the originators, the Bank acts as the intermediary financial institution and undertakes to administer the receivables on behalf of Cagamas Berhad and to buy back any receivables which are regarded as defective based on prudential criteria with recourse against the originators.

## 23. TERM FUNDING

	2017 RM'000	2016 RM'000
Senior Sukuk	<u>1,850,000</u>	<u>1,850,000</u>

In the financial year ended 31 March 2011, the Bank implemented a Senior Islamic securities issuance ("Senior Sukuk") programme under the Shariah principle of Musharakah with nominal value of up to RM3.0 billion. The Senior Sukuk was reaffirmed a rating of AA2/Stable by RAM.

- (a) On 20 September 2010, the Bank had issued RM550.0 million Senior Sukuk under this programme. The Senior Sukuk bears profit rate at 4.30% per annum and has a tenure of seven years.
- (b) On 5 November 2014, the Bank issued the second tranche of Senior Sukuk of RM100.0 million. This tranche bears profit rate of 4.40% per annum and has a tenure of five years.
- (c) On 6 March 2015, the Bank issued the third and fourth tranches of Senior Sukuk of RM300.0 million and RM900.0 million respectively. These tranches bear profit rate of 4.25% and 4.45% per annum and have a tenure of 2.5 years and 5 years respectively.

**24. SUBORDINATED SUKUK**

	Note	2017 RM'000	2016 RM'000
Sukuk Musharakah	(a)	130,000	800,000
Sukuk Murabahah (net of unamortised issuance costs of RM321,000; 2016: RM472,000)	(b)	849,679	599,528
		<u>979,679</u>	<u>1,399,528</u>

**(a) Subordinated Sukuk Musharakah**

On 30 September 2011, the Bank implemented a Subordinated Sukuk Musharakah programme ("Sukuk Musharakah") of up to RM2.0 billion. The purpose of the programme is to increase the Bank's Tier 2 Capital.

The Sukuk Musharakah is for a period of ten (10) years. The Bank may exercise its call option and redeem in whole (but not in part) the Sukuk Musharakah on the 5th anniversary of the issue date or on any anniversary date thereafter at 100% of the principal amount together with the expected profit payments.

On the same date, RM600.0 million ("First Tranche") of the Sukuk Musharakah was issued, which carries a profit rate of 4.40% per annum, and is payable on a semi-annual basis and has a tenure of ten years.

On 31 January 2012, RM200.0 million ("Second Tranche") of the Sukuk Musharakah was issued, which carries a profit rate of 4.35% per annum, and is payable on a semi-annual basis and has a tenure of ten years.

On 24 December 2012, RM200.0 million ("Third Tranche") of the Sukuk Musharakah was issued, which carries a profit rate of 4.45% per annum, and is payable on a semi-annual basis and has a tenure of ten years.

The Sukuk Musharakah qualify as Tier 2 Capital under BNM's capital adequacy framework. Effective 1 January 2013, the Sukuk Musharakah qualify as Tier 2 Capital as a capital instrument eligible for gradual phase-out treatment under the transitional arrangements of the Basel III accord.

The Bank had repurchased from the market and subsequently cancelled RM200.0 million of the Sukuk Musharakah between 19 December 2013 and 20 January 2014. The repurchases were granted prior approval by BNM and represent the portion of the Sukuk Musharakah that do not qualify for recognition as Tier 2 capital in the computation of capital adequacy ratio for the calendar years 2013 and 2014, under the Basel III pronouncements.

On 30 September 2016, the Bank early redeemed the First Tranche of the Sukuk Musharakah on its first call date with nominal value amounting to RM480.0 million.

On 31 January 2017, the Bank early redeemed the Second Tranche of the Sukuk Musharakah on its first call date with nominal value amounting to RM190.0 million.

## 24. SUBORDINATED SUKUK (CONT'D.)

### (b) Basel III Subordinated Sukuk Murabahah

On 28 February 2014, the Bank implemented a Subordinated Sukuk Murabahah programme of RM3.0 billion. The objective of the programme is to enable the issuance of Tier 2 capital from time to time, for the purpose of enhancing the Bank's total capital position. The programme is set-up in accordance to the requirements spelt out in the Capital Adequacy Framework for Islamic Banks (Capital Components) issued by BNM, and the securities issued under this programme qualified for recognition as Tier 2 Capital for the purpose of capital adequacy ratio computation.

The programme has a tenure of thirty (30) years from the date of the first issuance under the programme. Each issuance of Tier 2 Subordinated Sukuk under this programme shall have a tenure of at least five (5) years from the issue date, and is callable on any profit payment date after a minimum period of five (5) years from the date of issuance of each tranche. The Tier 2 Subordinated Sukuk have been assigned a credit rating of AA3 by RAM Rating Services Berhad ("RAM").

On 28 February 2014, the Bank had issued the first tranche of Tier 2 Subordinated Sukuk Murabahah of RM200.0 million under this programme. The profit rate of this tranche is at 5.07%, payable on a semi-annual basis and has a tenure of ten (10) years.

Subsequently, on 25 March 2014, the Bank had issued the second tranche of Tier 2 Subordinated Sukuk Murabahah of RM150.0 million under this programme. The profit rate of this tranche is at 5.05%, payable on a semi-annual basis and has a tenure of ten (10) years.

On 21 December 2015, the Bank had issued Tranche 3 of the Subordinated Sukuk amounting to RM250.0 million under this programme. The profit rate of this tranche is at 5.35% per annum, payable semi-annually and has a tenure of ten (10) years.

On 30 December 2016, the Bank had issued Tranche 4 of the Subordinated Sukuk amounting to RM10.0 million under this programme. The profit rate of this tranche is at 5.50% per annum, payable semi-annually and has a tenure of ten (10) years.

On 15 March 2017, the Bank had issued Tranche 5 of the Subordinated Sukuk amounting to RM240.0 million under this programme. The profit rate of this tranche is at 5.20% per annum, payable semi-annually and has a tenure of ten (10) years.

The full amount of all tranches issued qualify for recognition of Tier 2 capital in the capital adequacy ratio computation.

**25. DEFERRED TAX LIABILITY**

	2017 RM'000	2016 RM'000
Deferred tax liabilities	(89)	(5,883)

Deferred tax assets and liabilities prior to offsetting are summarised as follows:

	2017 RM'000	2016 RM'000
Deferred tax assets	8,546	6,610
Deferred tax liabilities	(8,635)	(12,493)
	(89)	(5,883)

The components and movements of deferred tax asset/(liability) during the financial year are as follows:

	Balance at beginning of the financial year RM'000	Recognised in statement of profit or loss RM'000	Recognised in other comprehensive income RM'000	Balance at end of the financial year RM'000
<b>Deferred tax assets</b>				
<b>2017</b>				
Other temporary differences	3,486	368	-	3,854
Deferred income	2,622	444	-	3,066
Available-for-sale deficit	502	-	1,124	1,626
	6,610	812	1,124	8,546
<b>2016</b>				
Profit equalisation reserve	403	(403)	-	-
Other temporary differences	3,258	228	-	3,486
Deferred income	-	2,622	-	2,622
Available-for-sale deficit	2,082	-	(1,580)	502
	5,743	2,447	(1,580)	6,610

## 25. DEFERRED TAX LIABILITY (CONT'D.)

	Balance at beginning of financial year RM'000	Recognised in statement of profit or loss RM'000	Recognised in other comprehensive income RM'000	Balance at end of financial year RM'000
<b>Deferred tax liabilities</b>				
<b>2017</b>				
Excess of capital allowance over depreciation	(25)	(5)	-	(30)
Deferred charges	(12,468)	3,863	-	(8,605)
	<u>(12,493)</u>	<u>3,858</u>	<u>-</u>	<u>(8,635)</u>
<b>2016</b>				
Excess of capital allowance over depreciation	(22)	(3)	-	(25)
Deferred charges	(16,561)	4,093	-	(12,468)
	<u>(16,583)</u>	<u>4,090</u>	<u>-</u>	<u>(12,493)</u>

**26. OTHER LIABILITIES**

	Note	2017 RM'000	2016 RM'000
Profit payable		195,442	297,896
Other creditors and accruals		49,749	42,531
Advance rentals		1,934	1,814
Amount due to related companies		1,384	681
Provision for commitments and contingencies	(a)	11,521	11,603
Provision for taxation		14,266	-
		<u>274,296</u>	<u>354,525</u>

Amount due to related companies are unsecured, non-profit bearing and are repayable on demand.

(a) The movements in provision for commitments and contingencies are as follows:

	2017 RM'000	2016 RM'000
Balance at beginning of the financial year	11,603	15,415
Writeback of provision during the financial year	(41)	(3,818)
Foreign exchange differences	(41)	6
Balance at end of the financial year	<u>11,521</u>	<u>11,603</u>

**27. SHARE CAPITAL**

	Number of ordinary shares		Amount	
	2017 Units'000	2016 Units'000	2017 RM'000	2016 RM'000
<b>Issued and fully paid:</b>				
Ordinary shares				
Balance at beginning of the financial year	462,922	462,922	462,922	462,922
Balance in share premium account transferred in as paid up share capital (Note 28 (a))	-	-	724,185	-
Balance at end of the financial year	<u>462,922</u>	<u>462,922</u>	<u>1,187,107</u>	<u>462,922</u>

**28. RESERVES**

	Note	2017 RM'000	2016 RM'000
Non-distributable reserves:			
Share premium	(a)	-	724,185
Other reserves	(b)	536,626	481,756
Total non-distributable reserves		<u>536,626</u>	<u>1,205,941</u>
Distributable reserve:			
Retained earnings	(c)	<u>1,179,283</u>	<u>982,055</u>
Total reserves		<u>1,715,909</u>	<u>2,187,996</u>

- (a) Share premium was used to record premium arising from new shares issued in the Bank under the Companies Act, 1965. Pursuant to the amendments in Section 74 of the Companies Act, 2016 ("CA 2016"), all shares issued before or upon commencement of CA 2016 shall have no par or nominal value i.e. any amount outstanding in the share premium account shall be part of the entity's paid up share capital upon commencement of CA 2016. Under the CA 2016, the Bank is given a transitional period of 24 months to utilise the balance of RM724,185,000 in the share premium account. As at the effective date of the CA 2016 on 31 January 2017, the entire balance of share premium has been transferred to paid up share capital of the Bank.

**28. RESERVES (CONT'D.)**

(b) Other reserves comprise the following:

	Note	2017 RM'000	2016 RM'000
Statutory reserve	(i)	483,345	483,345
Regulatory reserve	(ii)	58,430	-
Available-for-sale deficit	(iii)	(5,149)	(1,589)
		<u>536,626</u>	<u>481,756</u>

- (i) The statutory reserve is maintained in compliance with Section 57(2)(f) of the IFSA.
- (ii) Regulatory reserve is maintained in accordance with BNM's Policy Document on Classification and Impairment Provisions for Loans/Financing as an additional credit risk absorbent.
- (iii) Available-for-sale reserve/(deficit) is in respect of unrealised fair value gains/(losses) on financial investments AFS.

(c) The Bank can distribute dividends out of its entire retained earnings under the single-tier system.

**29. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS**

	Note	2017 RM'000	2016 RM'000
Income derived from investment of:			
General investment deposits	(a)	-	138,299
Other deposits	(b)	1,665,395	1,674,829
		<u>1,665,395</u>	<u>1,813,128</u>

**29. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS (CONT'D.)****(a) Income derived from investment of general investment deposits**

	2017 RM'000	2016 RM'000
<u>Finance income and hibah:</u>		
Financing and advances		
- Financing income	-	115,990
- Financing income on impaired financing	-	494
Financial assets held-for-trading	-	508
Financial investments available-for-sale	-	1,818
Financial investments held-to-maturity	-	4,363
Deposits and placements with banks and other financial institutions	-	11,755
Others	-	455
Total finance income and hibah	-	<u>135,383</u>
<u>Other operating income:</u>		
Fee and commission income:		
- Fees on financing, advances and securities	-	1,581
- Guarantee fees	-	762
- Remittances	-	6
- Service charges and fees	-	192
- Others	-	341
Foreign exchange	-	196
Gain from disposal of financial assets held-for-trading	-	301
Loss on revaluation of financial assets held- for-trading	-	(29)
Loss from disposal of financial investments available-for-sale	-	(23)
Net loss on derivatives	-	(419)
Others	-	8
Total other operating income	-	<u>2,916</u>
Total	-	<u>138,299</u>

**29. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS (CONT'D.)****(b) Income derived from investment of other deposits**

	2017 RM'000	2016 RM'000
<u>Finance income and hibah:</u>		
Financing and advances		
- Financing income	1,397,627	1,368,555
- Financing income on impaired financing	8,678	10,145
Financial assets held-for-trading	8,851	9,523
Financial investments available-for-sale	3,668	25,394
Financial investments held-to-maturity	55,888	51,128
Deposits and placements with banks and other financial institutions	99,011	140,927
Others	29,562	27,599
Total finance income and hibah	1,603,285	1,633,271
<u>Other operating income:</u>		
Fee and commission income:		
- Brokerage fees, commission and rebates	38	4
- Fees on financing, advances and securities	26,545	23,455
- Guarantee fees	10,426	9,158
- Remittances	88	82
- Service charges and fees	2,928	2,660
- Others	4,315	4,166
Foreign exchange	5,583	920
Gain from disposal of financial assets held-for-trading	2,584	253
(Loss)/Gain on revaluation of financial assets held-for-trading	(957)	21
Gain/(Loss) from disposal of financial investments available-for-sale	67	(30)
Net gain on derivatives	10,457	849
Others	36	20
Total other operating income	62,110	41,558
Total	1,665,395	1,674,829

**30. INCOME DERIVED FROM INVESTMENT OF INVESTMENT ACCOUNT FUNDS**

		2017 RM'000	2016 RM'000
Income derived from investment of:	Note		
Restricted investment account	(a)	67,364	69,070
Unrestricted investment accounts	(b)	643	484
		<u>68,007</u>	<u>69,554</u>

**(a) Income derived from investment of restricted investment account**

Finance income and hibah:

Financing and advances

- Financing income

67,364	69,070
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Total finance income and hibah

<u>67,364</u>	<u>69,070</u>
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**(b) Income derived from investment of unrestricted investment accounts**

Finance income and hibah:

Deposits and placements with banks and other  
financial institutions

643	484
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Total finance income and hibah

<u>643</u>	<u>484</u>
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**31. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS**

	2017 RM'000	2016 RM'000
<u>Finance income and hibah:</u>		
Financial investments available-for-sale	82,668	97,694
Total finance income and hibah	<u>82,668</u>	<u>97,694</u>
<u>Other operating income:</u>		
Fee and commission income:		
- Bancassurance commission	2,528	1,997
- Fees on financing, advances and securities	17	-
- Remittances	3,598	2,112
- Service charges and fees	2,249	2,741
- Others	1	-
Gain/(Loss) from disposal of financial investments available-for-sale	2,389	(800)
Unrealised loss on fair value hedge (Note 13)	(99)	(27)
Net loss on derivatives	(2,491)	(1,509)
Total other operating income	<u>8,192</u>	<u>4,514</u>
Total	<u>90,860</u>	<u>102,208</u>

**32. WRITEBACK OF IMPAIRMENT ON FINANCING AND ADVANCES**

	2017 RM'000	2016 RM'000
Allowance for impaired financing and advances:		
Individual allowance, net [Note 12(j)]	16,108	27,588
Collective allowance [Note 12(j)]	78,288	77,975
Impaired financing and advances recovered, net	(118,739)	(109,748)
	<u>(24,343)</u>	<u>(4,185)</u>

**33. INCOME ATTRIBUTABLE TO THE DEPOSITORS AND OTHERS**

	2017 RM'000	2016 RM'000
Deposits from customers		
- Mudarabah fund	-	63,072
- Non-Mudarabah fund	819,642	924,459
	<u>819,642</u>	<u>987,531</u>
Deposits and placements of banks and other financial institutions		
- Mudarabah fund	-	7,672
- Non-Mudarabah fund	59,978	41,023
	<u>59,978</u>	<u>48,695</u>
Others	<u>33,621</u>	<u>34,095</u>
	<u>913,241</u>	<u>1,070,321</u>

**34. INCOME ATTRIBUTABLE TO THE INVESTMENT ACCOUNT HOLDERS**

	2017 RM'000	2016 RM'000
<u>Unrestricted</u>		
Customers - transactional investment accounts	10	8
<u>Restricted</u>		
Licensed bank - investment account	<u>60,633</u>	<u>62,216</u>
	<u>60,643</u>	<u>62,224</u>

**35. OTHER OPERATING EXPENSES**

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Personnel costs:		
- Salaries, allowances and bonuses	11,325	6,843
- Amortisation for shares and options granted under AMMB ESS - charge/(written back)	(191)	57
- Contributions to EPF/Private Retirement Scheme	1,802	1,089
- Social security cost	62	42
- Others	2,326	829
	<u>15,324</u>	<u>8,860</u>
Establishment costs:		
- Amortisation of intangible assets (Note 17)	44	7
- Cleaning, maintenance and security	303	48
- Computerisation costs	635	397
- Depreciation of property and equipment (Note 16)	80	82
- Rental of premises	638	631
- Others	57	43
	<u>1,757</u>	<u>1,208</u>
Marketing and communication expenses:		
- Communication, advertising and marketing expenses	7,131	4,928
- Others	127	102
	<u>7,258</u>	<u>5,030</u>
Administration and general expenses:		
- Card operation charges from a related company	3,821	18,124
- Professional services	8,493	4,959
- Others (Note a)	32,850	75,644
	<u>45,164</u>	<u>98,727</u>
Service transfer pricing expenses (net)	346,091	294,779
	<u>415,594</u>	<u>408,604</u>

**35. OTHER OPERATING EXPENSES (CONT'D.)**

Note a :-

Included in the previous financial year was RM49.7 million administrative monetary penalty imposed by BNM pursuant to Section 245 of the IFSA 2013 with respect to non-compliance with certain regulations which are non-related to Shariah compliance. The AMMB Group had committed to set aside an average of RM25 million per annum for four years for investment in systems, infrastructure and training.

The above expenditure includes the following statutory disclosures:

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Auditors' remuneration		
- Audit	173	167
- Regulatory and assurance related	106	104

Personnel costs include salaries, bonuses, contributions to EPF and all other staff related expenses including remuneration of key management personnel (Note 36).

**36. CHIEF EXECUTIVE OFFICER'S AND DIRECTORS' REMUNERATION**

The total remuneration (including benefits-in-kind) of the Chief Executive Officer and Directors of the Bank are as follows:

2017	Salary RM'000	Fees RM'000	Bonus RM'000	Other emoluments RM'000	Benefits- in-kind RM'000	Total RM'000
	618	-	105	228	14	965
	618	-	105	228	14	965
<b>Key Management Personnel:</b>						
Chief Executive Officer						
Eqhwan Mokhzanee bin Muhammad (Appointed on 1 April 2015)						
<b>Non-Executive Directors:</b>						
Tan Sri Azman Hashim (resigned on 1.4.2017)						
Graham Kennedy Hodges (resigned on 1.7.2016)						
Wasim Akhtar Saifi						
Raja Anuar Raja Abu Hassan (appointed on 18.2.2016)						
Kevin Paul Corbally (appointed 1.7.2016 and resigned on 20.9.2016)						
	-	530	-	367	-	897
<b>Total remuneration</b>	618	530	105	595	14	1,862

## 36. CHIEF EXECUTIVE OFFICER'S AND DIRECTORS' REMUNERATION (CONT'D.)

2016	Salary RM'000	Fees RM'000	Bonus RM'000	Other emoluments RM'000	Benefits- in-kind RM'000	Total RM'000
<b>Key Management Personnel:</b>						
	Chief Executive Officer					
	Eqhwan Mokhzanee bin Muhammad (Appointed on 1 April 2015)					
	600	-	350	249	24	1,223
	600	-	350	249	24	1,223
<b>Non-Executive Directors:</b>						
	-	160	-	165	-	325
	-	150	-	65	-	215
	-	150	-	88	-	238
	-	18	-	9	-	27
	-	57	-	27	-	84
	-	80	-	28	-	108
	-	87	-	40	-	127
	-	702	-	422	-	1,124
<b>Total remuneration</b>	600	702	350	671	24	2,347

**37. SHARIAH COMMITTEE'S MEMBERS' REMUNERATION**

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

	Fees RM'000	Allowances RM'000	Total RM'000
<b>2017</b>			
Prof. Dr. Amir Husin Mohd Nor	34	4	38
Assoc. Prof. Datin Dr. Noor Naemah Abdul Rahman	33	5	38
Assoc. Prof. Dr. Adnan Yusoff	34	3	37
Asst. Prof. Dr. Tajul Aris Ahmad Bustami	42	6	48
Dr. Asmak Ab Rahman	34	5	39
	<b>177</b>	<b>23</b>	<b>200</b>
<b>2016</b>			
Prof. Dr. Amir Husin Mohd Nor	36	5	41
Assoc. Prof. Datin Dr. Noor Naemah Abdul Rahman	31	6	37
Assoc. Prof. Dr. Adnan Yusoff	30	5	35
Asst. Prof. Dr. Tajul Aris Ahmad Bustami	30	7	37
Dr. Asmak Ab Rahman	30	6	36
	<b>157</b>	<b>29</b>	<b>186</b>

### 38. FINANCE COST

Finance cost is mainly in respect of income attributable to investors of the Subordinated Sukuk and Senior Sukuk programmes.

### 39. TAXATION

Taxation consists of the following:

	2017 RM'000	2016 RM'000
Current tax :		
Estimated tax payable	74,202	83,642
(Over)/Under provision in prior financial years	(3,481)	591
	<u>70,721</u>	<u>84,233</u>
Deferred tax (Note 25) :		
Origination and reversal of temporary differences	(4,882)	(6,348)
Under/(Over) provision in prior financial years	212	(189)
	<u>(4,670)</u>	<u>(6,537)</u>
Taxation	<u>66,051</u>	<u>77,696</u>

Domestic income tax is calculated at the statutory tax rate of 24% (2016: 24%) on the estimated chargeable profit for the financial year.

### 39. TAXATION (CONT'D.)

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

	2017 RM'000	2016 RM'000
Profit before zakat and taxation	<u>323,214</u>	<u>312,359</u>
Taxation at Malaysian statutory tax rate	77,571	74,966
Expenses not deductible for tax purposes	1,935	12,336
Income not subject to tax	(9,919)	(9,755)
Tax recoverable recognised on income subject to tax remission	(268)	(253)
(Over)/Under provision of current tax in prior financial years	(3,481)	591
Under/(Over) provision of deferred tax in prior financial years	213	(189)
Taxation for the year	<u>66,051</u>	<u>77,696</u>

### 40. BASIC EARNINGS PER SHARE

	2017	2016
Net profit attributable to equity holder of the Bank (RM'000)	<u>255,658</u>	<u>233,046</u>
Number of ordinary shares at beginning and end of financial year ('000)	<u>462,922</u>	<u>462,922</u>
Basic Earnings per share (sen)	<u>55.23</u>	<u>50.34</u>

#### 41. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions; or if one party controls both parties.

The related parties of the Bank are:

(i) Related companies

These are subsidiaries of the holding company.

(ii) Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, either directly or indirectly. The key management personnel of the Bank includes the Chief Executive Officer and Non-Executive Directors of the Bank.

(iii) Joint ventures of the holding company ("Joint Ventures")

The Joint Ventures of the holding company are AmMetlife Takaful Berhad and AmMetlife Insurance Berhad.

(iv) Companies in which certain Directors have substantial financial interest

These are entities in which significant voting power in such entities; directly or indirectly resides with certain Directors of the Bank.

(v) Companies which have significant influence over the Bank

These are entities who are substantial shareholders of the holding company of the Bank.

## 41. RELATED PARTY TRANSACTIONS (CONT'D.)

(a) In addition to the transactions detailed elsewhere in the financial statements, the Bank had the following transactions with related parties during the financial year:

	Related companies		Key management personnel		Companies which certain Directors have substantial financial interest		Joint ventures of the holding company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<b>Income</b>								
Profit on deposits	-	16	33	-	-	-	-	-
Bancassurance commission	58	37	-	-	-	-	1,894	1,478
Net gain/(loss) on derivatives	4,555	(1,997)	-	-	-	-	-	-
Service transfer pricing income	2	220	-	-	-	-	-	-
Unrealised gain/(loss) on revaluation of derivatives	3,043	(4,186)	-	-	-	-	-	-
	<u>7,658</u>	<u>(5,910)</u>	<u>33</u>	-	-	-	<u>1,894</u>	<u>1,478</u>
<b>Expenses</b>								
Card operation charges	3,821	18,124	-	-	-	-	-	-
Insurance premium	-	-	-	-	-	245	462	-
Travelling expenses	-	-	-	-	40	46	-	-
Profit on deposits	688	19,425	143	167	-	-	-	-
Profit on investment account	60,633	62,216	-	-	-	-	-	-
Service transfer pricing expense	346,093	294,999	-	-	-	-	-	-
	<u>411,235</u>	<u>394,764</u>	<u>143</u>	<u>167</u>	<u>40</u>	<u>291</u>	<u>462</u>	-

## 41. RELATED PARTY TRANSACTIONS (CONT'D.)

(b) The significant outstanding balances of the Bank with its related parties are as follows:

	Related companies		Key management personnel		Companies which certain Directors have substantial financial interest		Companies in which certain Directors have substantial financial interest	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<b>Assets</b>								
Derivative financial assets	14,240	39,603	-	-	-	-	-	-
Financing and advances	-	-	2,489	790	-	-	-	-
Other receivables	116,749	91,708	-	-	-	-	-	-
Property and Equipment	-	-	-	-	-	-	-	185
	<u>130,989</u>	<u>131,311</u>	<u>2,489</u>	<u>790</u>	-	-	-	<u>185</u>
<b>Liabilities</b>								
Deposits and placements	531,450	514,080	4,742	9,272	-	-	5,913	10
Derivative financial liabilities	33,851	28,489	-	-	-	-	-	-
Investment account due to licensed bank	1,600,000	1,000,000	-	-	-	-	-	-
Other payables	1,383	681	-	-	-	-	-	-
Profit payable	2,780	4,469	-	-	-	-	-	-
	<u>2,169,464</u>	<u>1,547,719</u>	<u>4,742</u>	<u>9,272</u>	-	-	<u>5,913</u>	<u>10</u>
<b>Commitments and contingencies:</b>								
Contingent liabilities	5,000	5,000	-	-	-	-	-	-
Contract/Notional amount for derivatives	2,004,402	1,744,159	-	-	-	-	-	-
	<u>2,009,402</u>	<u>1,749,159</u>	-	-	-	-	-	-

**41. RELATED PARTY TRANSACTIONS (CONT'D.)**

(c) The transactions between the Bank and related parties took place at terms agreed between the parties during the year.

(d) Key management personnel compensation

The remuneration of the Chief Executive officer and the Directors, who are also the key management personnel, during the year is disclosed in Note 36.

**42. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES**

	2017	2016
Outstanding credit exposures with connected parties (RM'000)	580,950	523,176
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures (%)	1.92	1.76
Percentage of outstanding credit exposures with connected parties which is impaired or in default (%)	0.01	0.01

#### 42. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES (CONT'D.)

The disclosure on Credit Transaction and Exposures with Connected Parties above is presented in accordance with Paragraph 9.1 of Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties for Islamic Banks issued on 16 July 2014.

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

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

Credit transactions and exposures to connected parties disclosed includes the extension of credit facility and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and financing commitments. It also includes holdings of equities and sukuk issued by the connected parties.

#### 42. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES (CONT'D.)

The credit transactions with connected parties above are all transacted on an arm's length basis and on terms and conditions not more favourable than those entered into with other counterparties with similar circumstances and credit worthiness. Due care has been taken to ensure that the credit worthiness of the connected party is not less than that normally required of other persons.

#### 43. CAPITAL COMMITMENTS

The Bank has no capital commitments as at 31 March 2017 and 31 March 2016.

#### 44. OPERATING LEASE COMMITMENTS

The Bank has lease commitments in respect of rented premises and equipment on hire, all of which are classified as operating leases. The future minimum lease payments under non-cancellable operating leases, net of sub-leases are as follows:

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Within one year	604	521
Between one and five years	201	492
	<u>805</u>	<u>1,013</u>

The minimum lease rentals are not adjusted for operating expenses which the Bank is obligated to pay. These amounts are insignificant in relation to the minimum lease obligations. In the normal course of business, leases that expire will be renewed or replaced by leases on other properties, thus it is anticipated that future annual minimum lease commitments will not be less than rental expenses for the financial year.

**45. COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. The commitments and contingencies are not secured against the Bank's assets.

The principal/notional amounts of the commitments and contingencies of the Bank are as follows:

	2017 RM'000	2016 RM'000
<b>Contingent liabilities</b>		
Direct credit substitutes	231,275	235,448
Transaction related contingent items	812,765	746,826
Short-term self liquidating trade-related contingencies	50,029	121,004
Obligations under on-going underwriting agreements	65,000	-
	<u>1,159,069</u>	<u>1,103,278</u>
<b>Commitments</b>		
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	3,621,122	2,846,242
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	858,147	999,782
Unutilised credit card lines	715,072	476,806
Forward asset purchase	10,022	10,460
	<u>5,204,363</u>	<u>4,333,290</u>
<b>Derivative financial instruments</b>		
Foreign exchange related contracts:		
- One year or less	1,880,550	1,679,198
- Over one year to five years	696,535	-
Profit rate related contracts		
- Over one year to five years	370,000	900,000
- Over five years	550,000	350,000
	<u>3,497,085</u>	<u>2,929,198</u>
<b>Total</b>	<u>9,860,517</u>	<u>8,365,766</u>

**46. MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

The table below shows assets and liabilities analysed according to when they are expected to be recovered or settled.

	Up to 12 months RM'000	Over 12 months RM'000	Total RM'000
<b>2017</b>			
<b>ASSETS</b>			
Cash and short-term funds	2,286,658	-	2,286,658
Deposits and placements with banks and other financial institutions	635,000	-	635,000
Derivative financial assets	27,136	15,245	42,381
Financial assets held-for-trading	681,465	-	681,465
Financial investments available-for-sale	1,116,570	1,319,154	2,435,724
Financial investments held-to-maturity	196,287	1,081,934	1,278,221
Financing and advances	10,704,674	16,535,082	27,239,756
Receivables: Investments not quoted in active markets	-	814,720	814,720
Statutory deposit with Bank Negara Malaysia	-	810,000	810,000
Other assets	178,306	133,358	311,664
Property and equipment	-	320	320
Intangible assets	-	448	448
<b>TOTAL ASSETS</b>	<b>15,826,096</b>	<b>20,710,261</b>	<b>36,536,357</b>
<b>LIABILITIES</b>			
Deposits from customers	25,679,063	1,212,634	26,891,697
Investment accounts of customers	24,374	-	24,374
Deposits and placements of banks and other financial institutions	1,259,809	86,528	1,346,337
Investment account due to licensed bank	-	1,600,000	1,600,000
Recourse obligation on financing sold to Cagamas Berhad	9,661	608,052	617,713
Derivative financial liabilities	26,954	20,916	47,870
Term funding	850,000	1,000,000	1,850,000
Subordinated Sukuk	-	979,679	979,679
Deferred tax liability	-	89	89
Other liabilities	262,211	12,085	274,296
Provision for zakat	1,286	-	1,286
<b>TOTAL LIABILITIES</b>	<b>28,113,358</b>	<b>5,519,983</b>	<b>33,633,341</b>

**46. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONT'D.)**

	Up to 12 months RM'000	Over 12 months RM'000	Total RM'000
<b>2016</b>			
<b>ASSETS</b>			
Cash and short-term funds	4,098,552	-	4,098,552
Deposits and placements with banks and other financial institutions	500,000	-	500,000
Derivative financial assets	55,282	1,991	57,273
Financial assets held-for-trading	174,550	-	174,550
Financial investments available-for-sale	1,984,615	1,192,901	3,177,516
Financial investments held-to-maturity	-	1,263,639	1,263,639
Financing and advances	8,573,743	18,817,810	27,391,553
Receivables: Investments not quoted in active markets	-	468,141	468,141
Statutory deposit with Bank Negara Malaysia	-	842,000	842,000
Other assets	176,409	153,412	329,821
Property and equipment	-	351	351
Intangible assets	-	14	14
<b>TOTAL ASSETS</b>	<b>15,563,151</b>	<b>22,740,259</b>	<b>38,303,410</b>
<b>LIABILITIES</b>			
Deposits from customers	26,811,451	1,572,332	28,383,783
Investment accounts of customers	18,411	-	18,411
Deposits and placements of banks and other financial institutions	972,335	471,175	1,443,510
Investment account due to licensed bank	-	1,000,000	1,000,000
Recourse obligation on financing sold to Cagamas Berhad	510,337	617,487	1,127,824
Derivative financial liabilities	54,407	13,278	67,685
Term funding	-	1,850,000	1,850,000
Subordinated Sukuk	-	1,399,528	1,399,528
Deferred tax liability	-	5,883	5,883
Other liabilities	344,165	10,360	354,525
Provision for zakat	1,343	-	1,343
<b>TOTAL LIABILITIES</b>	<b>28,712,449</b>	<b>6,940,043</b>	<b>35,652,492</b>

#### 47. CAPITAL MANAGEMENT

The capital and risk management of the banking subsidiaries of the AMMB Group are managed collectively at Group level. The Group's capital management approach is driven by its desire to maintain a strong capital base to support the development of its businesses, to meet regulatory capital requirements at all times and to maintain good credit ratings.

Strategic, business and capital plans are drawn up annually covering a 3 year horizon and approved by the Board. The capital plan ensures that adequate levels of capital and an optimum mix of different components of capital are maintained by the Bank to support its strategy.

The capital plan takes the following into account:

- (a) Regulatory capital requirements; and
- (b) Capital requirement to support business growth, strategic objectives, buffer for material regulatory risks and stress test results.

The Bank uses internal models and other quantitative techniques in its internal risk and capital assessment. The models help to estimate potential future losses arising from credit, market and other risks, and using regulatory formulae to simulate the amount of capital required to support them. In addition, the models enable the Bank to gain a deeper understanding of its risk profile, e.g., by identifying potential concentrations, assessing the impact of portfolio management actions and performing what-if analysis.

Stress testing and scenario analysis are used to ensure that the Bank's internal capital assessment considers the impact of extreme but plausible scenarios on its risk profile and capital position. They provide an insight into the potential impact of significant adverse events on the Bank and how these events could be mitigated. The Bank's target capital levels are set taking into account its risk appetite and its risk profile under future expected and stressed economic scenarios.

The Bank's assessment of risk appetite is closely integrated with its strategy, business planning and capital assessment processes, and is used to form senior management's views on the level of capital required to support the Bank's business activities.

The Bank uses a capital model to assess the capital demand for material risks, and support its internal capital adequacy assessment. Each material risk is assessed, relevant mitigants considered, and appropriate levels of capital determined. The capital modelling process is a key part of the Bank's management disciplines.

#### 47. CAPITAL MANAGEMENT (CONT'D.)

The capital that the Bank is required to hold is determined by its statement of financial position, commitments and contingencies, counterparty and other risk exposures after applying collateral and other mitigants, based on the Bank's risk rating methodologies and systems. BNM has the right to impose further capital requirements on Malaysian Financial Institutions.

The Bank operates processes and controls to monitor and manage capital adequacy across the organisation. Capital is maintained on the basis of the local regulator's requirements. It is overseen by the Group Assets & Liabilities Committee ("GALCO"). GALCO is also responsible for managing the Bank's statement of financial position, capital and liquidity.

A strong governance and process framework is embedded in the capital planning and assessment methodology. Overall responsibility for the effective management of risk rests with the Board. The Risk Management Committee of Directors ("RMCD") is specifically delegated the task of reviewing all risk management issues including oversight of the Bank's capital position and any actions impacting the capital levels. The AEC reviews specific risk areas and the issues discussed at the key capital management committees.

GALCO proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. For the current financial year ended 31 March 2017 ("FY 2017"), these ranges are 8.5% to 10.5% for the Common Equity Tier 1 ("CET 1") Capital ratio, 9.6% to 11.6% for the Tier 1 Capital ratio, and 14.0% to 16.0% for the Total Capital ratio. The Bank has been generally operating within these ranges.

The Capital and Balance Sheet Management Department, is responsible for the on-going assessment of the demand for capital and the updating of the Bank's capital plan.

Appropriate policies are also in place governing the transfer of capital within the Bank. These ensure that capital is remitted as appropriate, subject to complying with regulatory requirements and statutory and contractual restrictions.

There are no current material, practical or legal impediments to the prompt transfer of capital resources in excess of those required for regulatory purposes or repayment of liabilities between AMMB and its group entities when due.

##### (a) Capital adequacy

The capital adequacy ratios of the Bank as at 31 March are as follows:

	Bank	
	2017	2016
Common Equity Tier 1 Capital ratio	10.498%	9.846%
Tier 1 Capital ratio	10.498%	9.846%
Total Capital ratio	15.069%	15.320%

#### 47. CAPITAL MANAGEMENT (CONT'D.)

(a) Capital adequacy (Cont'd.)

Notes:

- (i) The capital adequacy ratios are computed in accordance to BNM's guidelines on Capital Adequacy Framework (Capital Components) issued by the Prudential Financial Policy Department on 13 October 2015, which is based on the Basel III capital accord. The Bank has adopted the Standardised Approach for Credit and Market Risks and the Basic Indicator Approach for Operational Risk, based on BNM's Guidelines on Capital Adequacy Framework for Islamic Banks (Basel II - Risk Weighted Assets).
- (ii) With effect from 1 January 2016, pursuant to BNM's guidelines on Capital Adequacy Framework for Islamic Banks (Capital Components) issued on 13 October 2015, the minimum capital adequacy ratio to be maintained under the guidelines are 4.5% for CET1 Capital, 6.0% for Tier 1 Capital and 8% for Total Capital ratio. Banking institutions are also required to maintain capital buffers. The capital buffers shall comprise the sum of the following:
- (a) a Capital Conservation Buffer ("CCB") of 2.5%; and
- (b) a Countercyclical Capital Buffer ("CCyB") determined as the weighted-average of the prevailing CCyB rates applied in the jurisdictions in which the Bank has credit exposures.

The CCB requirements under transitional arrangements shall be phased-in starting from 1 January 2016 as follows:

	<b>CCB</b>
<b>Calendar year 2016</b>	0.625%
<b>Calendar year 2017</b>	1.25%
<b>Calendar year 2018</b>	1.875%
<b>Calendar year 2019 onwards</b>	2.5%

**47. CAPITAL MANAGEMENT (CONT'D.)**

(b) The components of Common Equity Tier 1 Capital, Tier 2 Capital and Total Capital of the Bank as at 31 March are as follows:

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
<b><u>Common Equity Tier 1 Capital</u></b>		
Ordinary shares	1,187,107	462,922
Share premium	-	724,185
Retained earnings	1,179,283	982,055
Available-for-sale deficit	(5,149)	(1,589)
Statutory reserve	483,345	483,345
Regulatory reserve	58,430	-
Less : Regulatory adjustments applied on CET1 Capital		
- Intangible assets	(448)	(14)
- Regulatory reserve attributable to financing	(58,430)	-
<b>CET1 Capital/Tier 1 Capital</b>	<b>2,844,138</b>	<b>2,650,904</b>
<b><u>Tier 2 Capital</u></b>		
Tier 2 Capital instruments meeting all relevant criteria for inclusion	850,000	600,000
Tier 2 Capital instruments (subject to gradual phase-out treatment)	130,000	600,000
Collective allowance	258,458	273,963
<b>Tier 2 Capital</b>	<b>1,238,458</b>	<b>1,473,963</b>
<b>Total Capital</b>	<b>4,082,596</b>	<b>4,124,867</b>

The breakdown of the RWA in various categories of risk are as follows:

	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Credit RWA	27,107,178	26,112,657
Less : Credit RWA absorbed by RIA	(1,604,369)	(1,003,979)
<b>Total Credit RWA</b>	<b>25,502,809</b>	<b>25,108,678</b>
Market RWA	178,976	296,231
Operational RWA	1,410,237	1,519,148
<b>Total Risk Weighted Assets</b>	<b>27,092,022</b>	<b>26,924,057</b>

## 48. RISK MANAGEMENT

### 48.1 GENERAL RISK MANAGEMENT

#### **Risk Management Framework**

The Risk Management Framework takes its lead from the Board's Approved Risk Appetite Framework that forms the foundation of the AMMB Group to set its risk/reward profile.

The Risk Appetite Framework is approved annually by the Board taking into account the AMMB Group's desired external rating and targeted profitability/return on equity ("ROE") and is reviewed periodically throughout the financial year by both the executive management and the Board to consider any fine tuning/amendments taking into account prevailing or expected changes to the environment that the AMMB Group operates in.

The Risk Appetite Framework provides portfolio limits/parameters/controls for Credit Risk, Traded Market Risk, Non-Traded Market Risk, Operational Risk and Regulatory Compliance incorporating, inter alia, limits/controls for countries, industries, single counterparty group, products, value at risk, stop loss, stable funding ratio, liquidity, operational risk and regulatory compliance.

#### **Board Approved Risk Appetite Statement**

The AMMB Group strategic goals are to sustain the top quartile ROE, and to maintain the credit rating of BBB+ or better (from international rating agencies) for the next one to two years. This is supported by sustainable asset quality and continued portfolio diversification within retail and non-retail businesses, with greater contribution from non-profit/profit income, complemented by robust management of liquidity, disciplined execution of profit rate risk/rate of return risk in the balance sheet, and with support from strong level of capital.

The AMMB Group intends to maintain sufficient quantity and quality of capital in excess of Basel III requirement for CET 1 Capital, Tier 1 Capital, and Total Capital. Our capital requirements are robustly tested over a three year period.

We adopt a conservative approach to liquidity management, maintaining stable and diversified funding base consistent with Basel III liquidity matrix (Net Stable Funds Ratio, and Liquidity Coverage Ratios). Our targeted unadjusted Financing Deposit Ratio is up to maximum 100% with continually improving current account and savings account ("CASA") deposit composition and market share.

## **48. RISK MANAGEMENT (CONT'D.)**

### **48.1 GENERAL RISK MANAGEMENT (CONT'D.)**

#### **Board Approved Risk Appetite Statement (Cont'd.)**

The AMMB Group manages operational risk by setting the operational risk appetite statements and measurements that the AMMB Group is willing to tolerate to support its business strategies and objectives. The AMMB Group manages its reputational risk by not engaging in any activity that has potential to result in a material event or loss that would be outside the expectations of its stakeholders. The AMMB Group also manages its regulatory compliance risk by setting positive compliance culture and ensuring that the letter and spirit of regulatory requirements, applicable laws, rules, and standards in the respective jurisdictions are complied with.

The AMMB Group manages Shariah risk by ensuring that its operations, business, affairs and activities are in compliance with rulings of the BNM's Shariah Advisory Council ("SAC") and the Bank's Shariah Committee.

The AMMB Group manages trading activities by instituting appropriate governance, culture, and controls to promote acceptable trading behaviour.

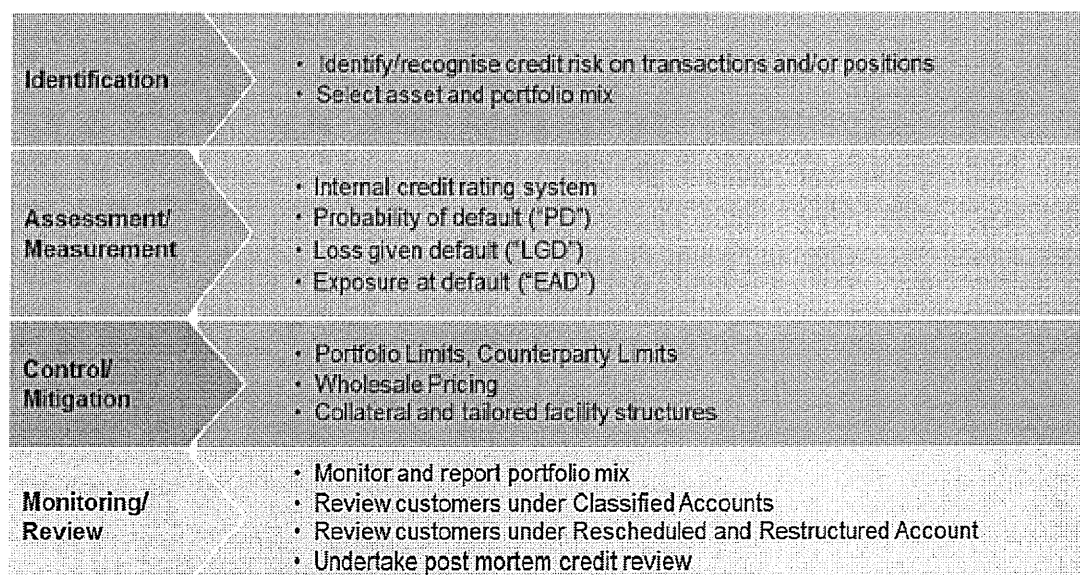
#### **Risk Management Governance**

The Board is ultimately responsible for the management of risks within the AMMB Group. The RMCD is formed to assist the Board in discharging its duties in overseeing the overall management of all risks covering market risk, liquidity risk, credit risk, operational risk and regulatory compliance risk.

The Board has also established the Management Risk Committees to assist it in managing the risks and businesses of the AMMB Group. The Management Risk Committee addresses all classes of risk within its Board delegated mandate: balance sheet risk, credit risk, legal risk, operational risk, market risk, Shariah risk, compliance risk, reputational risk, product risk and business and IT risk.

## 48. RISK MANAGEMENT (CONT'D.)

### 48.2 CREDIT RISK MANAGEMENT



Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its payment obligations. Exposure to credit risk arises from financing, securities and derivative exposures. The identification of credit risk is done by assessing the potential impact of internal and external factors on the Bank's transactions and/or positions as well as Shariah compliance risk. (Please refer to Note 48.8 for discussion on Shariah Governance Structure).

The primary objective of credit risk management is to maintain accurate risk recognition - identification and measurement, to ensure that credit risk exposure is in line with the Group Risk Appetite Framework ("GRAF") and related credit policies.

## 48. RISK MANAGEMENT (CONT'D.)

### 48.2 CREDIT RISK MANAGEMENT (CONT'D.)

For non-retail credits, risk recognition begins with an assessment of the financial standing of the customer or counterparty using credit rating model. The model consists of quantitative and qualitative scores that are then translated into rating grades. The assigned credit rating grade forms a crucial part of the credit analysis undertaken for each of the Bank's credit exposures.

For retail credits, credit-scoring systems to better differentiate the quality of customers are being used to complement the credit assessment and approval processes.

To support credit risk management, our rating models for major portfolios have been upgraded to facilitate:

- improvement in the accuracy of individual obligor risk ratings;
- enhancement to pricing models;
- financing loss provision calculation;
- stress - testing; and
- enhancement to portfolio management.

Financing activities are guided by internal credit policies and Risk Appetite Framework that are approved by the Board. The Bank's Risk Appetite Framework is refreshed at least annually and with regard to credit risk, provides direction as to portfolio management strategies and objectives designed to deliver the Bank's optimal portfolio mix. Credit risk portfolio management strategies include, amongst others:

- Concentration threshold/review trigger:
  - single counterparty credit;
  - industry sector; and
  - country.
- Setting financing to value limits for asset backed financing (i.e., property exposures and other collateral);
- Classified Account processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers;
- Rescheduled and Restructured ("R&R") Account Management sets out the controls in managing R&R financing pursuant to the BNM's revised policy on Classification and Impairment Provisions for Loans/Financing; and
- Setting Guidelines on Wholesale Pricing which serve as a guide to the minimum returns the Bank requires for the risk undertaken, taking into account operating expenses and cost of capital.

## **48. RISK MANAGEMENT (CONT'D.)**

### **48.2 CREDIT RISK MANAGEMENT (CONT'D.)**

Individual credit risk exposure exceeding certain thresholds are escalated to Credit and Commitments Committee ("CACC") for approval. In the event such exposure exceeds CACC authority it will be submitted to Board Credit Committee ("BCC") for review or approval, as the case may be. Portfolio credit risk is reported to the relevant management and board committees.

The Group Management Risk Committee ("GMRC") regularly meets to review the quality and diversification of the Bank's financing portfolio and review the portfolio risk profile against the GRAF, and recommend or approve new and amended credit risk policy.

Group Risk prepares monthly Risk Reports which detail important portfolio composition and trend analysis incorporating asset growth, asset quality, impairment, flow rates of financing delinquency buckets and exposures by industry sectors are reported monthly by Group Risk to executive management and to all meetings of the Board.

The Bank applies the Standardised Approach to determine the regulatory capital charge related to credit risk exposure.

#### **Credit Risk Exposure and Concentration**

The Bank's concentrations of risk are managed by industry sector, risk grade asset quality and single customer limit. The Bank applies single customer limits ("SCL") to monitor the large exposures to single counterparty risk.

For financial assets recognised in the statement of financial position, the maximum exposure to credit risk before taking account of any collateral held or other credit enhancements equals the carrying amount. For contingent exposures, the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the instrument is called upon. For committed facilities which are undrawn, the maximum exposure to credit risk is the full amount of the committed facilities.

The following tables show the maximum exposure to credit risk from financial instruments, including derivatives, by industry and by geography, before taking account of any collateral held or other credit enhancements.

48. RISK MANAGEMENT (CONT'D.)  
48.2 CREDIT RISK MANAGEMENT (CONT'D.)

## (i) Industry Analysis

2017	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and Restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Subtotal RM'000
Cash and short-term funds	-	-	-	-	-	-	-	221,665	221,665
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	635,000	635,000
Derivative financial assets	-	7,797	2,487	-	-	5	-	32,051	42,340
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-
- Money market securities	-	-	-	-	-	-	-	139,881	139,881
- Unquoted sukuk	-	-	-	-	-	-	-	139,881	139,881
Financial investments available- for-sale	-	-	-	-	-	-	-	-	-
- Money market securities	14,996	-	20,062	-	109,660	-	-	1,096,547	1,096,547
- Unquoted sukuk	14,996	-	20,062	-	109,660	-	75,252	481,248	701,218
Financial investments held-to-maturity	-	-	-	-	821,338	-	45,000	-	866,338
- Unquoted sukuk	-	-	-	-	-	-	-	-	-
Financing and advances	637	18	1,709	142	4,469	3,866	2,101	70	13,012
- Hire purchase	2,240	1,798	3,538	-	17,099	16,961	4,430	791	46,857
- Mortgage	-	-	-	-	-	-	-	-	-
- Credit card	-	-	-	-	-	-	-	-	-
- Others	8,663	853	24,456	1,328	25,856	53,775	13,025	281	128,237
- Corporate financing and advances: Term and bridging financing	1,283,747	839,344	1,236,386	20,133	669,869	279,978	632,952	-	4,962,409
Revolving credits	630,541	43,900	671,540	78,679	190,449	274,304	847,665	1,542,897	4,279,975
Cash lines	79,024	7,455	186,125	-	186,873	182,303	49,751	-	691,531
Trade	22,479	617	896,088	-	22,967	426,668	28,262	-	1,397,081
Less: Collective allowance	-	-	-	-	-	-	-	-	-
Receivables: Investments not quoted in active markets	2,027,331	893,985	3,019,842	100,282	1,117,582	1,237,855	1,578,186	1,544,039	11,519,102
Statutory deposit with Bank Negara Malaysia	-	708,071	-	-	7,649	-	-	-	715,720
Other financial assets	159	3,168	234	-	12,611	-	810	241,897	258,879
<b>Total financial assets</b>	<b>2,042,486</b>	<b>1,613,021</b>	<b>3,042,625</b>	<b>100,282</b>	<b>2,068,840</b>	<b>1,237,860</b>	<b>1,699,248</b>	<b>4,392,328</b>	<b>16,196,690</b>
Commitments	391,865	21,588	1,051,272	35,050	579,432	701,235	478,446	39,114	3,298,002
Contingent liabilities	1,304	7,305	201,171	16,545	509,373	119,357	127,183	70,000	1,052,238
<b>Total commitments and contingent liabilities</b>	<b>393,169</b>	<b>28,893</b>	<b>1,252,443</b>	<b>51,595</b>	<b>1,088,805</b>	<b>820,592</b>	<b>605,629</b>	<b>109,114</b>	<b>4,350,240</b>

48. RISK MANAGEMENT (CONT'D.)  
48.2 CREDIT RISK MANAGEMENT (CONT'D.)

## (i) Industry Analysis (Cont'd.)

2017	Subtotal from previous page	Government and Central Banks	Real estate	Business Activities	Education and Health	Household	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	221,665	2,064,993	-	-	-	-	-	2,286,658
Deposits and placements with banks and other financial institutions	635,000	-	-	-	-	-	-	635,000
Derivative financial assets	42,340	-	-	24	17	-	-	42,381
Financial assets held-for-trading	-	541,584	-	-	-	-	-	541,584
- Money market securities	139,881	-	-	-	-	-	-	139,881
- Unquoted sukuk	139,881	541,584	-	-	-	-	-	681,465
Financial investments available- for-sale	-	-	-	-	-	-	-	-
- Money market securities	1,096,547	422,299	-	-	-	-	-	1,518,846
- Unquoted sukuk	701,218	-	109,259	9,761	-	-	96,640	916,878
Financial investments held-to-maturity	1,797,765	422,299	109,259	9,761	-	-	96,640	2,435,724
- Unquoted sukuk	866,338	411,883	-	-	-	-	-	1,278,221
Financing and advances	-	-	-	-	-	-	-	-
- Hire purchase	13,012	-	136	2,270	3,352	7,306,268	303	7,325,341
- Mortgage	46,857	-	12,095	17,651	18,926	3,727,146	4,622	3,827,297
- Credit card	-	-	-	-	-	317,242	-	317,242
- Others	128,237	-	2,988	15,482	8,982	1,078,937	681	1,235,317
- Corporate financing and advances:	-	-	-	-	-	-	-	-
Term and bridging financing	4,962,409	-	1,400,327	238,480	485,410	33,925	12,344	7,132,895
Revolving credits	4,279,975	-	760,560	37,895	172,312	14	-	5,250,756
Cash lines	691,531	-	210,052	67,526	16,294	9,491	-	994,894
Trade	1,397,081	-	4,723	4,749	1,741	-	-	1,408,294
Less: Collective allowance	-	-	-	-	-	-	-	(252,280)
Receivables: Investments not quoted in active markets	11,519,102	-	2,390,881	384,063	707,017	12,473,023	17,950	27,239,756
Statutory deposit with Bank Negara Malaysia	715,720	-	99,000	-	-	-	-	814,720
Other financial assets	258,879	10,325	2,740	140	-	27	1,366	273,477
Total financial assets	16,196,690	4,261,084	2,601,880	383,988	707,034	12,473,050	115,956	36,497,402
Commitments	3,298,002	10,022	419,786	108,170	174,561	1,192,572	1,250	5,204,363
Contingent liabilities	1,052,238	-	60,582	45,598	651	-	-	1,159,069
Total commitments and contingent liabilities	4,350,240	10,022	480,368	153,768	175,212	1,192,572	1,250	6,363,432

## 48. RISK MANAGEMENT (CONT'D.)

## 48.2 CREDIT RISK MANAGEMENT (CONT'D.)

## (i) Industry Analysis (Cont'd.)

2016	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and Restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Subtotal RM'000
Cash and short-term funds	-	-	-	-	-	-	-	216,601	216,601
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	500,000	500,000
Derivative financial assets	-	-	425	-	258	9,754	-	46,217	56,654
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-
- Money market securities	-	-	-	-	-	-	-	49,898	49,898
- Unquoted sukuk	-	-	-	-	-	-	-	49,898	49,898
Financial investments available- for-sale	-	-	-	-	-	-	-	-	-
- Money market securities	9,948	-	20,142	-	175,877	-	-	1,984,615	1,984,615
- Unquoted sukuk	9,948	-	20,142	-	175,877	-	90,729	237,276	533,972
Financial investments held-to-maturity	-	-	-	-	-	-	90,729	2,221,891	2,518,587
- Unquoted sukuk	-	-	-	-	821,513	-	45,000	-	866,513
Financing and advances	1,552	45	3,256	349	8,559	8,139	5,085	104	27,089
- Hire purchase	2,202	1,878	5,294	-	14,018	18,001	4,315	1,478	47,186
- Mortgage	-	-	-	-	-	-	-	-	-
- Credit card	-	-	-	-	-	-	-	-	-
- Others	4,233	1,049	45,488	691	29,382	24,595	24,325	302	130,065
- Corporate financing and advances:	-	-	-	-	-	-	-	-	-
Term and bridging financing	796,379	1,248,077	964,425	29,485	770,105	228,290	649,374	57	4,686,192
Revolving credits	767,850	58,153	578,910	88,832	823,577	204,841	256,862	164,352	2,943,377
Cash lines	54,196	2,063	156,797	-	252,231	158,793	31,177	-	655,257
Trade	23,337	1,551	871,520	-	25,697	385,165	23,277	-	1,330,547
Less: Collective allowance	-	-	-	-	-	-	-	-	-
Receivables: Investments not quoted in active markets	1,649,749	1,312,816	2,625,690	119,357	1,923,569	1,027,824	984,415	166,283	9,819,713
Statutory deposit with Bank Negara Malaysia	-	361,492	-	-	7,649	-	-	-	369,141
Other financial assets	62	1,705	676	-	11,842	-	1,242	230,646	246,173
<b>Total financial assets</b>	<b>1,659,759</b>	<b>1,678,013</b>	<b>2,646,933</b>	<b>119,357</b>	<b>2,940,708</b>	<b>1,037,578</b>	<b>1,131,386</b>	<b>3,431,546</b>	<b>14,643,280</b>
Commitments	460,560	37,928	887,942	23,243	511,085	548,404	271,800	72,317	2,813,279
Contingent liabilities	1,682	3,675	197,720	17,082	559,166	177,884	43,627	5,000	1,005,846
<b>Total commitments and contingent liabilities</b>	<b>462,242</b>	<b>41,603</b>	<b>1,085,662</b>	<b>40,335</b>	<b>1,070,251</b>	<b>726,288</b>	<b>315,427</b>	<b>77,317</b>	<b>3,819,125</b>

## 48. RISK MANAGEMENT (CONT'D.)

## 48.2 CREDIT RISK MANAGEMENT (CONT'D.)

## (i) Industry Analysis (Cont'd.)

2016	Subtotal from previous page	Government and Central Banks	Real estate	Business Activities	Education and Health	Household	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	216,601	3,881,951	-	-	-	-	-	4,098,552
Deposits and placements with banks and other financial institutions	500,000	-	-	-	-	-	-	500,000
Derivative financial assets	56,654	-	-	-	619	-	-	57,273
Financial assets held-for-trading	-	84,166	-	-	-	-	-	84,166
- Money market securities	49,898	-	40,486	-	-	-	-	90,384
- Unquoted sukuk	49,898	84,166	40,486	-	-	-	-	174,550
Financial investments available-for-sale	-	-	-	-	-	-	-	-
- Money market securities	1,984,615	422,674	-	-	-	-	-	2,407,289
- Unquoted sukuk	533,972	-	109,396	9,770	-	-	117,089	770,227
Financial investments held-to-maturity	2,518,587	422,674	109,396	9,770	-	-	117,089	3,177,516
- Unquoted sukuk	866,513	397,126	-	-	-	-	-	1,263,639
Financing and advances	-	-	-	-	-	-	-	-
- Hire purchase	27,089	-	247	3,851	6,461	9,071,710	1,029	9,110,387
- Mortgage	47,186	-	13,013	18,589	23,464	2,444,485	9,328	2,556,065
- Credit card	-	-	-	-	-	280,760	-	280,760
- Others	130,065	-	493	31,343	22,609	1,147,333	2,579	1,334,422
- Corporate financing and advances:	-	-	-	-	-	-	-	-
Term and bridging financing	4,686,192	-	1,771,688	207,160	484,575	119,615	23,227	7,292,457
Revolving credits	2,943,377	-	780,220	35,692	692,383	-	340,414	4,792,086
Cash lines	655,257	-	221,713	79,639	17,779	710	-	975,098
Trade	1,330,547	-	2,129	45,526	1,468	-	-	1,379,670
Less: Collective allowance	-	-	-	-	-	-	-	(329,392)
Receivables: Investments not quoted in active markets	9,819,713	-	2,789,503	421,800	1,248,739	13,064,613	376,577	27,391,553
Statutory deposit with Bank Negara Malaysia	369,141	-	99,000	-	-	-	-	468,141
Other financial assets	-	842,000	-	-	-	-	-	842,000
Total financial assets	246,173	15,639	3,415	140	-	-	1,404	266,771
Contingent liabilities	14,643,280	5,643,556	3,041,800	431,710	1,249,358	13,064,613	495,070	38,239,995
Total commitments and contingent liabilities	2,813,279	10,460	430,981	141,115	43,537	872,796	21,122	4,333,290
	1,005,846	-	61,879	35,451	102	-	-	1,103,278
	3,819,125	10,460	492,860	176,566	43,639	872,796	21,122	5,436,568

## 48. RISK MANAGEMENT (CONT'D.)

## 48.2 CREDIT RISK MANAGEMENT (CONT'D.)

## (ii) Geographical Analysis

2017	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Cash and short-term funds	2,264,993	21,665	2,286,658
Deposits and placements with banks and other financial institutions	635,000	-	635,000
Derivative financial assets	42,381	-	42,381
Financial assets held-for-trading			
- Money market securities	541,584	-	541,584
- Unquoted sukuk	139,881	-	139,881
	681,465	-	681,465
Financial investments available-for-sale			
- Money market securities	1,518,846	-	1,518,846
- Unquoted sukuk	916,878	-	916,878
	2,435,724	-	2,435,724
Financial investments held-to- maturity			
- Unquoted sukuk	1,278,221	-	1,278,221
Financing and advances			
- Hire purchase	7,325,341	-	7,325,341
- Mortgage	3,827,297	-	3,827,297
- Credit card	317,242	-	317,242
- Others	1,235,317	-	1,235,317
- Corporate financing and advances:			
Term and bridging financing	7,132,895	-	7,132,895
Revolving credit	5,250,756	-	5,250,756
Cash lines	994,894	-	994,894
Trade	1,408,294	-	1,408,294
Less: Collective allowance	(252,280)	-	(252,280)
	27,239,756	-	27,239,756
Receivables: Investments not quoted in active markets	814,720	-	814,720
Statutory deposit with Bank Negera Malaysia	810,000	-	810,000
Other financial assets	273,477	-	273,477
<b>Total financial assets</b>	36,475,737	21,665	36,497,402
Commitments	5,204,363	-	5,204,363
Contingent liabilities	1,159,069	-	1,159,069
<b>Total commitments and contingent liabilities</b>	6,363,432	-	6,363,432

## 48. RISK MANAGEMENT (CONT'D.)

## 48.2 CREDIT RISK MANAGEMENT (CONT'D.)

## (ii) Geographical Analysis (Cont'd.)

2016	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Cash and short-term funds	4,076,951	21,601	4,098,552
Deposits and placements with banks and other financial institutions	500,000	-	500,000
Derivative financial assets	57,273	-	57,273
Financial assets held-for-trading			
- Money market securities	84,166	-	84,166
- Unquoted sukuk	90,384	-	90,384
	174,550	-	174,550
Financial investments available-for-sale			
- Money market securities	2,407,289	-	2,407,289
- Unquoted sukuk	770,227	-	770,227
	3,177,516	-	3,177,516
Financial investments held-to-maturity			
- Unquoted sukuk	1,263,639	-	1,263,639
Financing and advances			
- Hire purchase	9,110,387	-	9,110,387
- Mortgage	2,556,065	-	2,556,065
- Credit card	280,760	-	280,760
- Others	1,334,422	-	1,334,422
- Corporate financing and advances:			
Term and bridging financing	7,292,457	-	7,292,457
Revolving credits	4,792,086	-	4,792,086
Cash lines	975,098	-	975,098
Trade	1,379,670	-	1,379,670
Less: Collective allowance	(329,392)	-	(329,392)
	27,391,553	-	27,391,553
Receivables: Investments not quoted in active markets	468,141	-	468,141
Statutory deposit with Bank Negara Malaysia	842,000	-	842,000
Other financial assets	266,771	-	266,771
<b>Total financial assets</b>	<b>38,218,394</b>	<b>21,601</b>	<b>38,239,995</b>
Commitments	4,333,290	-	4,333,290
Contingent liabilities	1,103,278	-	1,103,278
<b>Total commitments and contingent liabilities</b>	<b>5,436,568</b>	<b>-</b>	<b>5,436,568</b>

## **48. RISK MANAGEMENT (CONT'D.)**

### **48.2 CREDIT RISK MANAGEMENT (CONT'D.)**

#### **Main Types of Collateral Taken by The Bank**

Collateral is generally taken as security for credit exposure as a secondary source of payment in case the counterparty cannot meet its contractual payment obligations from cash flow generation. Types of collateral typically taken by the Bank include:

- Cash and term deposits;
- Exchange traded shares, sukuk and marketable securities;
- Non-exchange traded debt securities/sukuk;
- Unit trusts (including Amanah Saham Nasional, Amanah Saham Bumiputera and mutual funds);
- Non-exchange traded shares;
- Residential and non-residential property;
- Plantation land, mining land, quarry land and vacant land;
- Passenger vehicle, commercial vehicle, construction vehicle and vessel; and
- Plant and machineries.

The Bank can only accept Shariah-approved assets as collateral.

Where the customer risk profile is considered very sound (or by nature of the product, for instance small limit products such as credit cards), a transaction may be provided on an “unsecured” basis, that is, not supported by collateral.

In addition to rating the customer’s probability-of-default via an internal risk rating system, the Bank uses Security Indicators (“SIs”) in its non-retail portfolio to assess the strength of collateral supporting its exposures.

The AMMB Group Collateral Policy is the internally recognised collateral framework for financing purposes as well as for regulatory capital.

#### **Processes for Collateral Management**

To support the development of processes around collateral valuation and management, the concept of legal enforceability and certainty are central to collateral management. In order to achieve legal enforceability and certainty, the Bank has standard collateral instruments, and where applicable, security interests are registered.

## **48. RISK MANAGEMENT (CONT'D.)**

### **48.2 CREDIT RISK MANAGEMENT (CONT'D.)**

#### **Guarantee Support**

Guarantee support for financing proposals are an integral component in transaction structuring for the Bank. The guarantee of a financially strong party can help improve the risk grade of a transaction through its explicit support of the customer, where the customer's risk grade will be enhanced with the guarantor's risk grade.

Guarantees that are recognised for risk grading purposes may be provided by parties that include associated entities, banks or sovereigns. Credit policies provide threshold parameters to determine acceptable counterparties in achieving risk grade enhancement of the transaction. Guarantee by a counterparty with lower rating than the customer is not recognised as part of the risk grade enhancement.

#### **Use of Credit Derivatives and Netting for Risk Mitigation**

Currently, the Bank does not use credit derivatives and netting for risk mitigation.

#### **Transaction Structuring to Mitigate Credit Risk**

Besides tangible security and guarantee support described above, credit risk mitigation techniques are used in structuring transactions. These include duration limits managing the number of years the financing is extended, amortisation schedules and financing covenants. These assist in managing credit risk and in providing early warning signals, whereby should financing covenants be breached, the Bank and the customer can work together to address the underlying causes and as appropriate, restructure facilities.

#### **Concentrations of Credit Risk Mitigation**

The Bank carefully monitors collateral concentrations via portfolio management reporting and amendments as necessary to its Risk Appetite Framework and related policies governing Financing to Value metrics.

The main types of collateral undertaken by the Bank are properties, motor vehicles and exchange traded shares.

**48. RISK MANAGEMENT (CONT'D.)****48.2 CREDIT RISK MANAGEMENT (CONT'D.)****Credit Quality**

The credit quality of financial assets are analysed based on broad categories. Internal credit rating grades assigned to corporate and retail financing business are currently aligned to 8 rating categories (seven for non-defaulted and one for those that have defaulted) in accordance with the Capital Adequacy Framework (Basel II – Risk-Weighted Assets). The following categories based on the descriptions appended below.

**Description of the Categories for Retail Banking**

Risk Grade	Category	PD Range	Description
1 to 6	Exceptionally Strong	0.0001% to 0.0737%	<ul style="list-style-type: none"> <li>• Exceptionally good credit risk profile.</li> <li>• Very strong willingness to meet its financial commitments.</li> <li>• Exhibits high degree resilience to adverse development.</li> </ul>
7 to 12	Very strong	0.0738% to 0.5942%	<ul style="list-style-type: none"> <li>• Very Good credit risk profile.</li> <li>• Strong willingness to meet its financial commitments.</li> <li>• Exhibits high degree resilience to adverse development.</li> </ul>
13 to 14	Strong	0.5943% to 1.0159%	<ul style="list-style-type: none"> <li>• Good credit risk profile.</li> <li>• Exhibit willingness to meet its financial commitments.</li> <li>• Generally in a position to withstand adverse development.</li> </ul>
15 to 16	Satisfactory	1.0160% to 2.2722%	<ul style="list-style-type: none"> <li>• Satisfactory credit risk profile.</li> <li>• Adequate willingness to meet its financial commitments.</li> <li>• Generally in a position to resolve any apparent shortcoming within an acceptable time frame.</li> </ul>
17 to 18-	Moderate	2.2723% to 4.1028%	<ul style="list-style-type: none"> <li>• Moderate credit risk profile.</li> <li>• Willingness to meet its financial commitments would be uncertain in normal circumstances and economic conditions.</li> </ul>
19+ to 20-	Marginal	4.1029% to 8.2931%	<ul style="list-style-type: none"> <li>• Marginal credit risk profile.</li> <li>• Willingness to meet its financial commitments would be uncertain under normal circumstances and economic conditions.</li> </ul>

**48. RISK MANAGEMENT (CONT'D.)****48.2 CREDIT RISK MANAGEMENT (CONT'D.)****Credit Quality (Cont'd.)****Description of the Categories for Retail Banking**

Risk Grade	Category	PD Range	Description
21 to 24	Substandard	>= 8.2932%	<ul style="list-style-type: none"> <li>• Substandard credit risk profile.</li> <li>• Exhibit less willingness to meet its financial commitments under normal circumstances and economic conditions.</li> </ul>
99	Impaired	100%	<ul style="list-style-type: none"> <li>• Classified as impaired as per the Policy on Definition of Default/Impaired for Credit Facility.</li> </ul>

**Description of the categories for Wholesale Banking**

Credit Quality Classification	Description
Exceptionally strong	<p>Highest rating, for exceptionally strong government institutions and a small number of very large multinational institutional clients. The key characteristics are:-</p> <ul style="list-style-type: none"> <li>- Exceptionally solid and stable operating and financial performance. Debt servicing capacity has been exceptionally strong over the long term.</li> <li>- All available information, of which there is a substantial quantity of extremely high quality, supports the view that these historical performance standards will be maintained for the foreseeable future.</li> <li>- Highly unlikely to be adversely affected by foreseeable events.</li> </ul>
Very Strong	<p>Strong government institutions or institutional clients, with identifiably higher, albeit modest, long term risk but still demonstrating solid and stable operating and financial performance. The key characteristics are:-</p> <ul style="list-style-type: none"> <li>- Based on their activities, financial profile and past capacity to repay, counterparties with this rating carry a small, but clearly identifiable degree of risk.</li> <li>- Debt servicing capacity in previous period has been substantial and solid, and is projected to continue over the medium term but may be more vulnerable to changes in business, economic and financial conditions than is the case for stronger ratings.</li> </ul>

**48. RISK MANAGEMENT (CONT'D.)**

**48.2 CREDIT RISK MANAGEMENT (CONT'D.)**

**Credit Quality (Cont'd.)**

**Description of the categories for Wholesale Banking**

Credit Quality	Description
Strong	<p>Counterparties demonstrate medium to long-term operational and financial stability and consistency but they are identifiably susceptible to cyclical trends or variability in earnings. The key characteristics are:-</p> <ul style="list-style-type: none"> <li>- Counterparties present an identifiable degree of generally acceptable risk, possibly expressing itself as variability in financial and/or operating performance.</li> <li>- Debt servicing capacity is quite good but adverse changes in circumstances and economic conditions are more likely to impair this capacity.</li> </ul>
Satisfactory	<p>Counterparties demonstrate adequate medium term operational and financial stability. Protection factors are considered sufficient for prudent investment. The key characteristics are:-</p> <ul style="list-style-type: none"> <li>- Counterparties present a mostly satisfactory risk that requires mitigation, possibly expressing itself as variability in financial and/ or operating performance.</li> <li>- Debt servicing capacity is satisfactory but adverse changes in circumstances and economic condition may impair this capacity.</li> <li>- Counterparty's financial and/ or non-financial profile provides a limited buffer to mitigate the negative impact of any future adverse changes in circumstances and economic conditions.</li> </ul>
Moderate	<p>Counterparties demonstrate limited operational and financial stability and may have a track record of fluctuating and poor earnings and profitability evidencing their past susceptibility to cyclical trends. The key characteristics are:-</p> <ul style="list-style-type: none"> <li>- Capacity for timely fulfillment of financial obligations exists.</li> <li>- Adverse economic condition or changing business environment is more likely to lead to weakened capacity to meet timely repayment in the long run.</li> <li>- Overall credit quality may be more volatile within this category.</li> </ul>

**48. RISK MANAGEMENT (CONT'D.)**

**48.2 CREDIT RISK MANAGEMENT (CONT'D.)**

**Credit Quality (Cont'd.)**

**Description of the categories for Wholesale Banking**

Credit Quality	Description
Marginal	<p>Counterparties demonstrate sustained operational and financial instability. The key characteristics are:-</p> <ul style="list-style-type: none"> <li>- Erratic performance with one or more recent loss periods, increased borrowings or patchy account conduct.</li> <li>- Debt servicing capacity is marginal.</li> <li>- Often under strong, sustained competitive pressure.</li> <li>- Variability and uncertainty in profitability and liquidity is projected to continue over the short and possibly medium term.</li> <li>- Significant changes and instability in senior management may be observed.</li> </ul>
Substandard	<p>Lowest rating for counterparties that continuously demonstrate operational and financial instability. The key characteristics are:-</p> <ul style="list-style-type: none"> <li>- Mediocre financials with consistent loss periods, increased borrowings and/or poor account conduct.</li> <li>- Current and expected debt servicing capacity is inadequate.</li> <li>- Financial solvency is questionable and/or financial structure is weak.</li> <li>- Deteriorating state of business and require significant changes in strategies or practices to return business to sustainable state.</li> <li>- Experiencing difficulties, which may result in default in the next one to two years.</li> </ul>
Impaired	<p>Impaired account. The key characteristic is that the counterparty has been classified as “impaired” as per the Classified Account Management Policy for Credit Facility.</p>

## 48. RISK MANAGEMENT (CONT'D.)

### 48.2 CREDIT RISK MANAGEMENT (CONT'D.)

#### Impairment

#### Definition of Past Due and Impaired Financing and advances

All financing and advances are categorised as either:

- Neither past due nor impaired;
- Past due but not impaired; or
- Impaired

An asset is considered past due when any payment (whether principal and/or profit) due under the contractual terms are received late or missed.

A financing is classified as impaired under the following circumstances:

- (a) When the principal or profit or both is past due<sup>1</sup> or the amount outstanding is in excess of approved limit (for revolving facilities), each for more than 90 days or 3 months on any material obligation<sup>2</sup>; or
- (b) For financing where repayments are scheduled on intervals of 3 months or longer, the financing is to be classified as impaired 1+30 days or 1 day+1 month past due (the 30-days grace period is to allow for exclusion of administrative default<sup>3</sup>); or
- (c) For trade bills/facilities, an account is deemed defaulted and impaired when the past due is 90 days from due date of the bill.

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<sup>1</sup> For credit card facilities, an account is "past due" when the card member fails to settle the minimum monthly repayment due before the next billing date.

<sup>2</sup> Material obligation as determined by Management. Current "material" threshold is set at more than RM200.00.

<sup>3</sup> Administrative defaults include cases where exposures become overdue because of oversight on the part of the obligor and/or the banking institution. Instances of administrative defaults may be excluded from the historical default count, subject to appropriate policies and procedures established by the banking institution to evaluate and approve such cases.

## 48. RISK MANAGEMENT (CONT'D.)

### 48.2 CREDIT RISK MANAGEMENT (CONT'D.)

#### Impairment (Cont'd.)

#### Definition of Past Due and Impaired Financing (Cont'd.)

(d) A financing may also be classified as impaired:

- i. If it is probable that the bank will be unable to collect all amounts due (including both profit and principal) according to the contractual terms of the agreement; or
- ii. Due to cross-default. Cross-default occurs when:
  - a default of a financing obligation of a customer triggers a default of another financing obligation of the same customer; or
  - a default of a financing obligation of a customer triggers a default of a financing obligation of other customers within the same customer group.

The CACC is allowed to waive the declaration of cross-default across all accounts of the same customer or accounts of all customers within the same customer group; or

- iii. If deemed appropriate by the Watchlist Committee.

(e) Debt instruments (for example, corporate bond and sukuk, debt converted instruments etc.) shall be classified as impaired.

- i. When the coupon/profit payment or face/nominal value redemption is one (1) day past due after the grace period, where there is a stipulated grace period within the contractually agreed terms; or
- ii. When an event of default ("EOD") has been declared by the Trustee/Facility Agent<sup>4</sup> for reasons other than payment in default (as outlined in the Trust Deeds Guidelines issued by the Securities Commission of Malaysia); or
- iii. Where it is deemed appropriate to classify as impaired and approved by the Watchlist Committee.

(f) The financing is deemed impaired when it is classified as R & R in the Central Credit Reference Information System ("CCRIS").

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<sup>4</sup> In cases where the bond/sukuk holdings are not governed by a Trust Deed, the Facility Agent may declare, if so requested in writing by the bond/sukuk holders by way of Special Resolution that an EOD has occurred (subject to the Agency Agreement between issuers and facility agent), notwithstanding the stated maturity of the bond/sukuk.

## 48. RISK MANAGEMENT (CONT'D.)

## 48.2 CREDIT RISK MANAGEMENT (CONT'D.)

## Credit Quality By Class of Financial Assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system.

2017	Exceptionally strong			Very strong			Strong			Satisfactory			Neither past due nor impaired			Past due but not impaired		Gross amount individually impaired		Individual allowance 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	RM'000	RM'000	
Cash and short-term funds	21,665	2,264,993	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,286,658	-	-
Deposits and placements with banks and other financial institutions	-	635,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	635,000	-	-
Derivative financial assets	-	37,201	-	-	2,169	-	216	2,770	-	-	-	-	25	-	-	-	-	42,381	-	-
Financial assets held-for-trading	-	541,584	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	541,584	-	-
- Money market securities	-	134,905	-	-	-	-	4,976	-	-	-	-	-	-	-	-	-	-	139,881	-	-
- Unquoted sukuk	-	676,489	-	-	-	-	4,976	-	-	-	-	-	-	-	-	-	-	681,465	-	-
Financial investments available-for-sale	-	1,518,846	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,518,846	-	-
- Money market securities	-	671,468	-	-	50,107	-	135,097	-	-	-	-	-	-	-	-	-	-	916,878	-	-
- Unquoted sukuk	-	2,190,314	-	-	50,107	-	135,097	-	-	-	-	-	-	-	-	-	-	2,435,724	-	-
Financial investments held-to-maturity	-	1,278,221	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,278,221	-	-
- Unquoted sukuk	-	1,278,221	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,278,221	-	-
Gross financing and advances	364	2,907,451	941,641	765,233	242,369	78,900	75,599	2,231,699	82,085	7,325,341	-	-	-	-	-	-	-	3,827,323	263	(26)
- Hire purchase	-	845,506	680,941	477,239	180,366	96,671	539,864	38,332	4,747	317,242	-	-	-	-	-	-	-	1,235,464	953	(147)
- Mortgage	-	20,317	12,760	926,906	33,146	29,197	46,334	167,645	13,263	7,139,241	-	-	-	-	-	-	-	5,250,756	-	-
- Credit card	-	6,213	1,272,875	1,377,596	515,355	234,066	184,391	60,436	325,204	7,139,241	-	-	-	-	-	-	-	1,003,350	15,543	(8,456)
- Others	-	3,164,880	1,364,907	1,037,170	385,945	38,899	127,702	3,055,137	488,700	27,508,077	-	-	-	-	-	-	-	340,843	1,162	(1,066)
- Corporate financing and advances:	4,438	2,281,116	1,364,907	1,037,170	385,945	38,899	127,702	3,055,137	488,700	27,508,077	-	-	-	-	-	-	-	340,843	1,162	(1,066)
Term and bridging financing	15,017	216,132	64,383	343,469	217,184	79,166	60,700	22,316	2,753	1,409,360	-	-	-	-	-	-	-	15,543	1,162	(1,066)
Revolving credits	-	303,259	457,482	477,730	131,219	17,718	16,326	635,398	488,700	27,508,077	-	-	-	-	-	-	-	340,843	1,162	(1,066)
Cash lines	2,873	9,744,874	5,109,186	5,680,349	2,068,333	703,408	635,398	3,055,137	488,700	27,508,077	-	-	-	-	-	-	-	340,843	1,162	(1,066)
Trade	22,692	350,000	7,649	457,071	-	-	-	-	-	814,720	-	-	-	-	-	-	-	814,720	-	-
Receivables: investments not quoted in active markets	-	350,000	7,649	457,071	-	-	-	-	-	814,720	-	-	-	-	-	-	-	814,720	-	-
Statutory deposit with Bank Negara Malaysia	-	810,000	-	-	-	-	-	-	-	810,000	-	-	-	-	-	-	-	810,000	-	-
Other financial assets	-	262,092	3,025	5,120	-	-	442	2,798	-	273,477	-	-	-	-	-	-	-	273,477	-	-
Total financial assets	44,357	18,249,184	5,172,136	6,282,829	2,071,103	703,408	696,046	2,823	3,055,137	36,765,723	488,700	635,398	2,798	442	2,798	488,700	36,765,723	340,843	1,162	(1,066)

Note : The amounts presented above are gross of impairment allowances.

## 48. RISK MANAGEMENT (CONT'D.)

## 48.2 CREDIT RISK MANAGEMENT (CONT'D.)

## Credit Quality By Class of Financial Assets (Cont'd.)

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system.

	Exceptionally strong RM'000	Very strong RM'000	Strong RM'000	Neither past due nor impaired				Sub-standard RM'000	Unrated RM'000	Past due		Total RM'000	Gross amount individually impaired RM'000	Individual allowance RM'000
				Satisfactory risk RM'000	Moderate risk RM'000	Marginal risk RM'000	Impaired RM'000			but not impaired RM'000	Impaired RM'000			
2016	21,601	4,076,951	-	-	-	-	-	-	-	-	-	4,098,552	-	-
Cash and short-term funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits and placements with banks and other financial institutions	-	500,000	-	-	-	-	-	-	-	-	-	500,000	-	-
Derivative financial assets	-	46,565	1,097	231	9,333	47	-	-	-	-	-	57,273	-	-
Financial assets held-for-trading	-	84,166	-	-	-	-	-	-	-	-	-	84,166	-	-
- Money market securities	-	90,384	-	-	-	-	-	-	-	-	-	90,384	-	-
- Unquoted sukuk	-	174,550	-	-	-	-	-	-	-	-	-	174,550	-	-
Financial investments available-for-sale	-	2,407,289	-	-	-	-	-	-	-	-	-	2,407,289	-	-
- Money market securities	-	770,227	-	-	-	-	-	-	-	-	-	770,227	-	-
- Unquoted sukuk	-	3,177,516	-	-	-	-	-	-	-	-	-	3,177,516	-	-
Financial investments - held-to-maturity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Unquoted sukuk	-	1,263,639	-	-	-	-	-	-	-	-	-	1,263,639	-	-
Gross financing and advances	788	4,815,259	36,217	1,029,663	295,828	128,596	106,711	-	2,578,480	118,845	9,110,387	356,475	(32,292)	
- Hire purchase	-	58,229	749,448	294,344	866,844	50,621	169,383	-	342,651	24,577	2,556,097	273	(32)	
- Mortgage	-	25,314	33,587	70,120	49,125	29,107	19,748	-	49,500	4,259	280,760	-	-	
- Credit card	-	2,606	1,851	1,028,048	49,258	29,307	22,275	-	182,933	18,206	1,334,484	387	(62)	
- Others	-	3,531,100	645,798	1,033,161	960,178	578,798	113,402	-	77,300	385,012	7,324,749	356,475	(32,292)	
- Corporate financing and advances:	41,813	2,003,432	1,158,734	498,052	395,724	63,625	630,706	-	-	-	4,792,086	-	-	
Term and bridging financing	-	206,389	78,210	343,458	183,288	124,996	17,424	-	-	29,769	983,534	12,027	(8,436)	
Revolving credits	-	356,522	316,766	531,644	125,364	31,742	14,135	-	1,858	24,532	1,402,563	22,985	(22,893)	
Cash lines	42,601	10,998,851	3,020,611	4,828,490	2,925,609	1,036,792	1,093,784	-	3,232,722	605,200	27,784,660	392,147	(63,715)	
Trade	-	-	-	-	-	-	-	-	-	-	-	-	-	
Receivables: Investments not quoted in active markets	-	-	-	-	-	-	-	-	468,141	-	468,141	-	-	
Statutory deposit with Bank Negara Malaysia	-	842,000	-	-	-	-	-	-	-	-	842,000	-	-	
Other financial assets	2,783	109,185	9,638	441	128,051	-	-	-	16,673	-	266,771	-	-	
Total financial assets	66,985	21,189,257	3,031,346	4,829,162	3,062,993	1,036,839	1,093,784	484,814	3,232,722	605,200	38,633,102	392,147	(63,715)	

Note : The amounts presented above are gross of impairment allowances.

**48. RISK MANAGEMENT (CONT'D.)****48.2 CREDIT RISK MANAGEMENT (CONT'D.)****Aging Analysis of Past Due But Not Impaired Financial Assets****2017**

	Up to 1 month RM'000	> 1 month to 3 months RM'000	Total RM'000
Gross financing and advances			
- Hire purchase	1,895,833	335,866	2,231,699
- Mortgage	432,414	107,450	539,864
- Credit card	40,175	15,318	55,493
- Others	125,013	42,632	167,645
- Corporate financing and advances:			
Term and bridging financing	48,556	11,880	60,436
	<u>2,541,991</u>	<u>513,146</u>	<u>3,055,137</u>

**2016**

	Up to 1 month RM'000	> 1 month to 3 months RM'000	Total RM'000
Gross financing and advances			
- Hire purchase	2,090,255	488,225	2,578,480
- Mortgage	250,338	92,313	342,651
- Credit card	34,768	14,732	49,500
- Others	133,101	49,832	182,933
- Corporate financing and advances:			
Term and bridging financing	60,541	16,759	77,300
Trade	1,858	-	1,858
	<u>2,570,861</u>	<u>661,861</u>	<u>3,232,722</u>

## 48. RISK MANAGEMENT (CONT'D.)

## 48.2 CREDIT RISK MANAGEMENT (CONT'D.)

## Estimated value of collateral for financial assets

The following table summarises the financial effects of collateral received from financing and advances:

	Gross exposure to credit risk		Financial effects of collateral		Unsecured portion of credit exposure	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Gross financing and advances						
- Hire purchase	7,325,341	9,110,387	6,991,652	8,521,944	333,689	588,443
- Mortgage	3,827,323	2,556,097	3,821,306	2,513,529	6,017	42,568
- Credit card	317,242	280,760	2,657	2,141	314,585	278,619
- Others	1,235,464	1,334,484	80,388	36,917	1,155,076	1,297,567
- Corporate financing and advances:						
Term and bridging financing	7,139,241	7,324,749	3,818,914	3,709,992	3,320,327	3,614,757
Revolving credits	5,250,756	4,792,086	1,027,424	2,031,939	4,223,332	2,760,147
Cash lines	1,003,350	983,534	624,782	607,366	378,568	376,168
Trade	1,409,360	1,402,563	456,334	385,150	953,026	1,017,413
	<u>27,508,077</u>	<u>27,784,660</u>	<u>16,823,457</u>	<u>17,808,978</u>	<u>10,684,620</u>	<u>9,975,682</u>

## 48. RISK MANAGEMENT (CONT'D.)

### 48.2 CREDIT RISK MANAGEMENT (CONT'D.)

#### Collateral Repossessed

There was no collateral taken into possession during the financial year and held as at the end of year.

#### Methodology for Determination of Individual and Collective Allowances

An assessment is performed to determine whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant or not individually impaired.

#### Individual Assessment

Individual assessment is divided into 2 main processes – detection of an event(s) and an assessment of impairment:

(a) Trigger management

In trigger management, financial assets which are above the pre-set individual assessment threshold are assessed using the relevant impairment triggers for objective evidence of impairment.

(b) Valuation of assets

Financial assets which are triggered by the impairment triggers will be measured for evidence of high likelihood of impairment, that is, estimated recoveries (based on the discounted cash flow projection method and taking into account economic conditions) is less than carrying value or fair value is less than the carrying value.

#### Collective Assessment

Financing and advances, and commitments and contingencies below the significant threshold and those not assessed to be individually impaired, will be subject to collective assessment and a collective allowance will be computed accordingly. The collective impairment assessment and provisioning methodology uses historical loss data to derive the level of provisions. The collective provisions are computed after making the necessary adjustments to reflect current economic conditions.

With effect from 31 December 2015, the Bank is required to maintain, in aggregate, collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding financing<sup>5</sup> net of individual impairment.

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<sup>5</sup> Excluding financing with an explicit guarantee from the Government of Malaysia.

## 48. RISK MANAGEMENT (CONT'D.)

### 48.3 LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that the organisation either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can only access these financial resources at an unreasonable cost. Liquidity risk exposure arises mainly from the deposit taking and financing activities and market disruption, and to a lesser extent, significant drawdown of funds from previously contracted financing and purchase commitments. Funding management is the ongoing ability to raise sufficient funds to finance actual and proposed business activities at a reasonable cost. Improper funding management may lead to liquidity problem. On the other hand, insufficient liquidity risk management may also give rise to funding risk.

The liquidity risk management process is depicted in the table below:

<b>Identification</b>	<ul style="list-style-type: none"> <li>• Identify liquidity risk within existing and new business activities.</li> <li>• Review market-related information such as market trend and economic data.</li> <li>• Keep abreast with regulatory requirements.</li> </ul>
<b>Assessment/ Measurement</b>	<ul style="list-style-type: none"> <li>• Liquidity Coverage Ratio ("LCR")</li> <li>• Depositor Concentration Ratios</li> <li>• Financing to Deposit Ratios</li> <li>• Other Detailed Management Controls</li> </ul>
<b>Control/ Mitigation</b>	<ul style="list-style-type: none"> <li>• LCR Limits</li> <li>• Depositor Concentration Ratios</li> <li>• Financing to Deposit Ratio ("FDR") Limits</li> <li>• Other Detailed Management Limits</li> </ul>
<b>Monitoring/ Review</b>	<ul style="list-style-type: none"> <li>• Monitor limits</li> <li>• Periodical review and reporting</li> </ul>

The liquidity risk management of the Bank is aligned with both BNM's Liquidity Coverage Ratio ("LCR") issued by BNM on 31 March 2015. The primary objective of the Bank's liquidity risk management is to ensure the availability of sufficient funds at a reasonable cost to honour all financial commitments when they fall due. This objective is partly managed through maintenance of a portfolio of high-quality liquid assets to protect against adverse funding conditions and support day-to-day operations. The secondary objective is to ensure an optimal funding structure and to balance the key liquidity risk management objectives, which includes diversification of funding sources, customer base and maturity period.

## 48. RISK MANAGEMENT (CONT'D.)

### 48.3 LIQUIDITY RISK MANAGEMENT (CONT'D.)

The Board provides the liquidity risk management oversight while the GALCO and/or GMRC is the responsible governing body that approves the Bank's liquidity management and strategies policies, and is responsible for setting liquidity limits, proposing liquidity risk policies and contingency funding plan, and practices to be in compliance with local regulatory requirements, and monitor liquidity on an on going basis. The Capital and Balance Sheet Management Department and Group Risk Management and Investment Banking and Markets Risk ("IBMR") propose and oversee the implementation of policies and other controls relating to the above risks.

The AMMB Group has put in place a Contingency Funding Plan to identify early warning signals of possible liquidity problem. The Contingency Funding Plan also sets out the detailed responsibilities among the relevant departments in the event of actual liquidity crises occurring to ensure orderly execution of procedures to restore the liquidity position and confidence in the organisation.

The Bank has in place various liquidity measurements that provide the Bank with visibility from volatility of customer's deposits to the concentration ratio of chunky deposits. IBMR is responsible for monitoring the controls and limits while the Capital and Balance Sheet Management Department is responsible to ensure the controls and limits are within the thresholds.

Stress testing is undertaken to assess and plan for the impact for various scenarios which may put the Bank's liquidity at risk. The Bank further stresses the importance of customer deposit accounts as a source of funds to finance financing to customers. They are monitored using the unadjusted financing to deposit ratio, which compares financing and advances to customers as a percentage of customer deposit accounts.

As conservative liquidity management practice, part of the Bank's medium term assets are funded by medium term liabilities. Medium term is defined by the Bank as remaining term to maturity in excess of one year.

In preparation to the impending implementation of BNM's Basel III Net Stable Funding Ratio ("NSFR"), the Bank is already monitoring the NSFR and continues to pursue strategies to ensure the availability of cost effective liquidity.

## 48. RISK MANAGEMENT (CONT'D.)

## 48.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (CONT'D.)

## Analysis of Assets and Liabilities By Remaining Contractual Maturities

The table below summarises the maturity profile of the Bank's assets and liabilities.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

2017	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 5 years RM'000	Over 5 years RM'000	Non Specific Maturity RM'000	Total RM'000
<b>Assets</b>								
Cash and short-term funds	2,288,959	-	-	-	-	-	-	2,288,959
Deposits and placements with banks and other financial institutions	-	638,132	-	-	-	-	-	638,132
Derivative financial assets	13,227	1,749	11,222	10,993	17,469	2,561	-	57,221
Financial assets held-for-trading	1,537	285,936	182,693	4,480	163,614	129,529	-	767,789
Financial investments available-for-sale	202,027	912,212	33,810	27,560	678,603	1,056,748	-	2,910,960
Financial investments held-to-maturity	-	-	20,488	220,813	415,344	1,495,856	-	2,152,501
Financing and advances	1,648,672	2,050,892	4,232,679	3,574,584	16,254,364	20,786,905	-	48,548,096
Receivables: Investments not quoted in active markets	1,965	1,945	11,704	14,253	192,534	764,268	-	986,669
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	810,000	-	810,000
Other assets	119,751	2,758	3,428	104,818	45,679	-	-	276,434
Property and equipment	-	-	-	-	-	-	320	320
Intangible assets	-	-	-	-	-	-	448	448
<b>Total Undiscounted Assets</b>	<b>4,276,138</b>	<b>3,893,624</b>	<b>4,496,024</b>	<b>3,957,501</b>	<b>17,767,607</b>	<b>25,045,867</b>	<b>768</b>	<b>59,437,529</b>
<b>Liabilities</b>								
Deposits from customers	11,353,468	5,293,268	3,183,662	6,438,361	1,240,481	-	-	27,509,240
Investment accounts of customers	24,411	-	-	-	-	-	-	24,411
Deposits and placements of banks and other financial institutions	828,102	452,804	14	10,130	88,515	-	-	1,379,565
Investment account due to licensed bank	5,772	9,550	15,091	29,653	1,730,561	-	-	1,790,617
Derivative financial liabilities	13,115	1,627	12,510	13,197	20,481	2,561	-	63,491
Recourse obligation on financing sold to Cagamas Berhad	891	12,934	2,787	102,979	545,156	-	-	664,747
Term funding	-	2,158	888,539	22,091	1,088,998	-	-	2,001,786
Subordinated Sukuk	-	9,844	15,097	154,863	959,979	-	-	1,139,783
Deferred tax liability	-	-	-	-	-	-	89	89
Other liabilities	29,732	16,925	4,810	18,077	11,929	156	-	81,629
Provision for zakat	-	-	-	1,286	-	-	-	1,286
<b>Total Undiscounted Liabilities</b>	<b>12,255,491</b>	<b>5,799,110</b>	<b>4,122,500</b>	<b>6,790,637</b>	<b>5,686,100</b>	<b>2,717</b>	<b>89</b>	<b>34,656,644</b>
<b>Net Undiscounted Assets/(Liabilities)</b>	<b>(7,979,353)</b>	<b>(1,905,486)</b>	<b>373,524</b>	<b>(2,833,136)</b>	<b>12,081,507</b>	<b>25,043,150</b>	<b>679</b>	<b>24,780,885</b>

## 48. RISK MANAGEMENT (CONT'D.)

## 48.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (CONT'D.)

## Analysis of Assets and Liabilities By Remaining Contractual Maturities (Cont'd.)

The table below summarises the maturity profile of the Bank's assets and liabilities.

2016	Up to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 12 months	>1 year to 5 years	Over 5 years	Non Specific Maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Assets</b>								
Cash and short-term funds	4,102,825	-	-	-	-	-	-	4,102,825
Deposits and placements with banks and other financial institutions	-	504,623	-	-	-	-	-	504,623
Derivative financial assets	6,040	10,935	12,983	37,516	55	557	-	68,086
Financial assets held-for-trading	50,000	1,020	6,604	2,520	31,551	115,584	-	207,279
Financial investments available-for-sale	404,058	1,601,350	13,334	23,899	677,643	801,551	-	3,521,835
Financial investments held-to-maturity	-	-	20,596	20,827	615,331	1,537,171	-	2,193,925
Financing and advances	1,112,536	2,268,997	2,445,495	4,291,289	17,081,785	11,577,785	-	38,777,887
Receivables: Investments not quoted in active markets	-	1,945	11,887	14,294	197,609	437,095	-	662,830
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	842,000	-	842,000
Other assets	96,933	3,241	2,555	42,006	153,412	-	-	298,147
Property and equipment	-	-	-	-	-	-	351	351
Intangible assets	-	-	-	-	-	-	14	14
<b>Total Undiscounted Assets</b>	<b>5,772,392</b>	<b>4,392,111</b>	<b>2,513,454</b>	<b>4,432,351</b>	<b>18,757,386</b>	<b>15,311,743</b>	<b>365</b>	<b>51,179,802</b>
<b>Liabilities</b>								
Deposits from customers	12,477,484	8,170,626	3,737,053	3,119,056	1,612,947	-	-	29,117,166
Investment accounts of customers	18,411	-	-	-	-	-	-	18,411
Deposits and placements of banks and other financial institutions	779,377	216,721	659	696	483,346	-	-	1,480,799
Investment account due to licensed bank	4,441	6,422	9,903	20,006	1,137,371	-	-	1,178,143
Derivative financial liabilities	5,985	10,198	13,894	39,907	9,816	-	-	79,800
Recourse obligation on financing sold to Cagamas Bernad	11,130	12,762	2,531	526,815	664,521	-	-	1,217,759
Term funding	-	2,194	38,330	40,153	2,001,785	-	-	2,082,462
Subordinated Sukuk	-	9,543	503,663	212,727	824,631	-	-	1,550,564
Deferred tax liability	-	-	-	-	-	-	5,883	5,883
Other liabilities	24,106	16,262	6,016	4,287	9,127	1,233	-	61,031
Provision for zakat	-	-	-	1,343	-	-	-	1,343
<b>Total Undiscounted Liabilities</b>	<b>13,320,934</b>	<b>8,444,728</b>	<b>4,312,049</b>	<b>3,964,990</b>	<b>6,743,544</b>	<b>1,233</b>	<b>5,883</b>	<b>36,793,361</b>
<b>Net Undiscounted Assets/(Liabilities)</b>	<b>(7,548,542)</b>	<b>(4,052,617)</b>	<b>(1,798,595)</b>	<b>467,361</b>	<b>12,013,842</b>	<b>15,310,510</b>	<b>(5,518)</b>	<b>14,386,441</b>

**48. RISK MANAGEMENT (CONT'D.)****48.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (CONT'D.)****Analysis of Financial Assets and Liabilities By Remaining Contractual Maturities (Cont'd.)**

The table below shows the contractual expiry by maturity of the Bank's commitments and contingent liabilities. It should be noted that this is not how the Bank manages its liquidity risk for commitments and contingencies.

2017	Up to 1	>1 month	>3 months	>6 months	>1 year	Over	Total
	month	to 3 months	to 6 months	to 12 months	to 5 years	5 years	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Contingent liabilities</b>							
Direct credit substitutes	3,209	8,012	40,672	114,397	64,985	-	231,275
Transaction-related contingent items	22,741	30,738	68,299	194,700	490,284	6,003	812,765
Short-term self liquidating trade-related contingencies	21,091	24,971	3,967	-	-	-	50,029
Obligations under underwriting agreements	-	-	-	65,000	-	-	65,000
<b>Commitments</b>							
Other commitments, such as formal standby facilities and credit lines	367,530	219,842	214,510	507,665	809,561	2,360,161	4,479,269
Unutilised credit card lines	715,072	-	-	-	-	-	715,072
Forward asset purchase	10,022	-	-	-	-	-	10,022
<b>Total commitments and contingent liabilities</b>	<b>1,139,665</b>	<b>283,563</b>	<b>327,448</b>	<b>881,762</b>	<b>1,364,830</b>	<b>2,366,164</b>	<b>6,363,432</b>

**48. RISK MANAGEMENT (CONT'D.)****48.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (CONT'D.)****Analysis of Financial Assets and Liabilities By Remaining Contractual Maturities (Cont'd.)**

The table below shows the contractual expiry by maturity of the Bank's commitments and contingent liabilities. It should be noted that this is not how the Bank manages its liquidity risk for commitments and contingencies.

2016	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 5 years RM'000	Over 5 years RM'000	Total RM'000
<b>Contingent liabilities</b>							
Direct credit substitutes	1,800	8,716	30,250	161,184	33,498	-	235,448
Transaction-related contingent items	36,787	63,257	91,380	124,273	360,822	70,307	746,826
Short-term self liquidating trade-related contingencies	95,660	24,318	1,026	-	-	-	121,004
<b>Commitments</b>							
Other commitments, such as formal standby facilities and credit lines	137,200	366,732	488,174	459,742	769,607	1,624,569	3,846,024
Unutilised credit card lines	476,806	-	-	-	-	-	476,806
Forward asset purchase	10,460	-	-	-	-	-	10,460
<b>Total commitments and contingent liabilities</b>	<b>758,713</b>	<b>463,023</b>	<b>610,830</b>	<b>745,199</b>	<b>1,163,927</b>	<b>1,694,876</b>	<b>5,436,568</b>

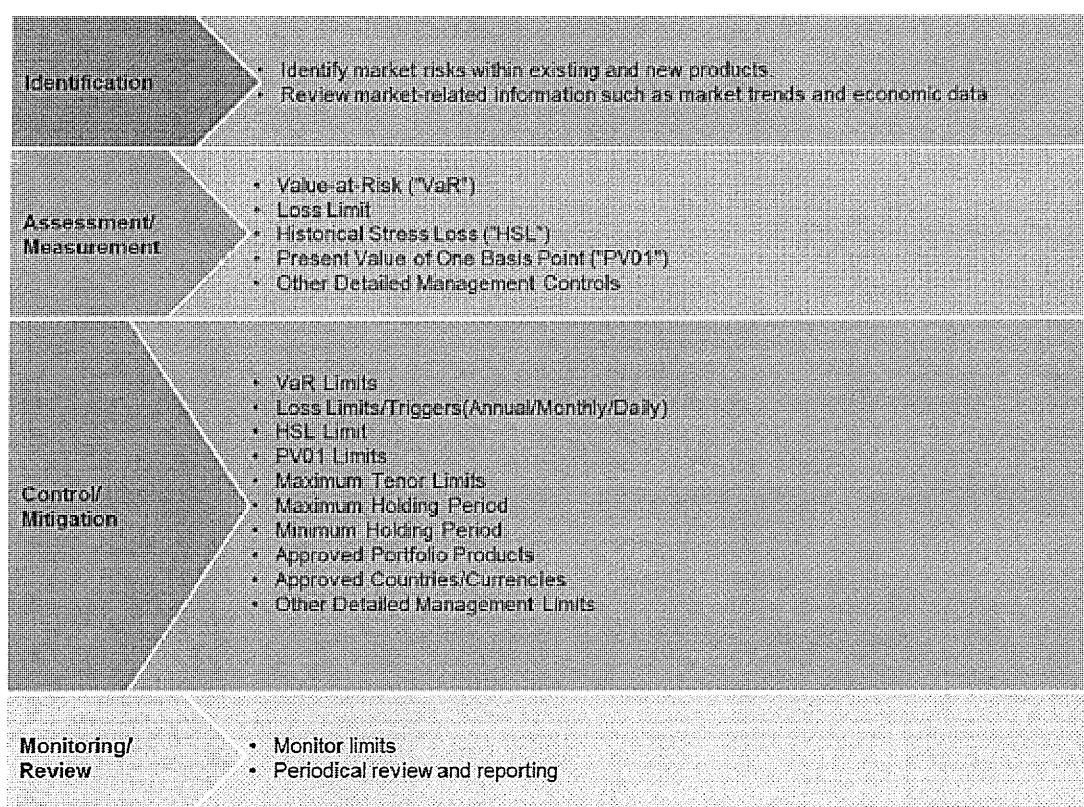
## 48. RISK MANAGEMENT (CONT'D.)

### 48.4 MARKET RISK MANAGEMENT

Market risk is the risk of losses due to adverse changes in the level or volatility of market rates or prices, such as profit rates, credit spreads, equity prices and foreign exchange rates. The Bank differentiates between two types of market risk: Traded Market Risk ("TMR") and Non-Traded Market Risk ("NTMR"). Assessing, controlling and monitoring of these risks are the responsibilities of IBMR.

#### Traded Market Risk

The TMR management process is depicted in the table below.



TMR arises from transactions in which the Bank acts as principal with clients or the market. It involves taking positions in fixed income, equity, foreign exchange, commodities and/or derivatives. The objectives of TMR management are to understand, accurately measure and to work with the business to ensure exposures are managed within the Board and GMRC approved limit structures and risk appetite. This is done via robust traded market risk measurement, limit setting, limit monitoring and collaboration and agreement with business units.

## 48. RISK MANAGEMENT (CONT'D.)

### 48.4 MARKET RISK MANAGEMENT (CONT'D.)

#### Traded Market Risk (Cont'd.)

VaR, ALL, HSL and other detailed management controls are used to measure, monitor and control TMR exposures. VaR is a quantitative measure which applies recent historic market conditions to estimate potential losses in market value, at a certain confidence level and over a specified holding period. Loss limits serve to alert management on the need to take relevant and appropriate action once they are triggered.

To complement VaR, HSL is used as a measure of the potential impact on portfolio values due to more extreme, albeit plausible, market movements. In addition, HSL is used to gauge and ensure that the Bank is able to absorb extreme, unanticipated market movements.

Apart from VaR, ALL and HSL, additional sensitivity controls (e.g. Greek Limits/PV01) and indicators are used to monitor changes in portfolio value due to changes in risk factors under different market conditions.

IBMR monitors and reports risk exposures against limits on a daily basis. Portfolio market risk positions are also reported to GMRC, RMCD and the Board. Furthermore, policies and procedures are in place to ensure prompt action is taken in the event of non-adherence to limits. Business Units exposed to TMR are required to maintain risk exposures within approved risk limits. Business Units are required to provide an action plan to address any non-adherence to limits. The action plan must be approved by Senior Management.

The Bank adopts the Standardised Approach for market risk capital charge computation. The capital charge serves as a buffer against losses from potential adverse market movements.

IBMR is committed to on-going improvements in market risk processes and systems, and allocates substantial resources to this endeavour.

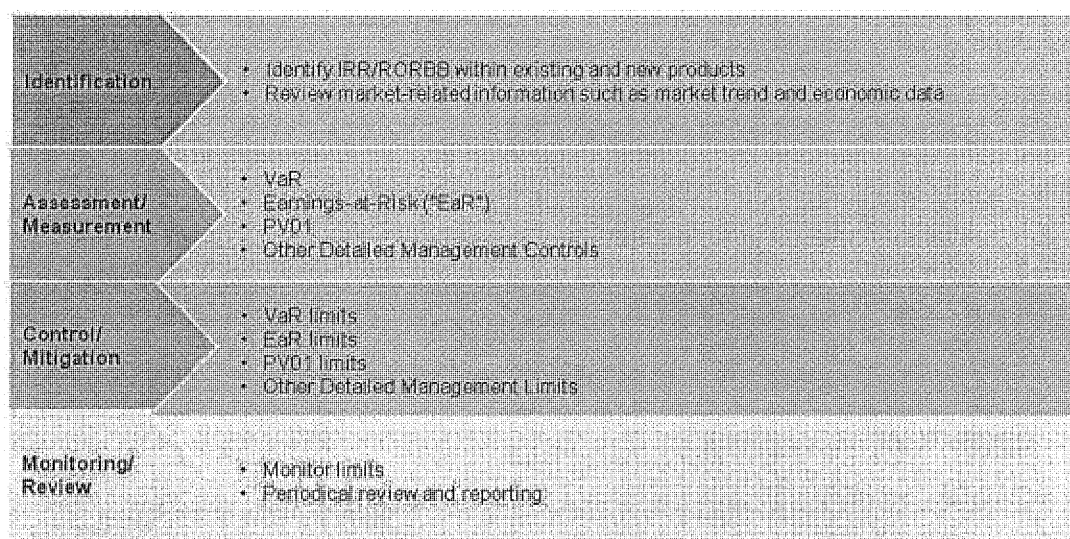
## 48. RISK MANAGEMENT (CONT'D.)

### 48.4 MARKET RISK MANAGEMENT (CONT'D.)

#### Non-Traded Market Risk

#### Rate of Return Risk in Banking Book ("RORBB")

The RORBB risk management process is depicted in the table below:



RORBB arises from changes in market profit rates that impact core net profit income, future cash flows or fair values of financial instruments. This risk arises from mismatches between repricing dates of assets and liabilities, changes in yield curves, volatilities in profit margins and implied volatilities on profit rate options. The provision of retail and wholesale banking products and services (primarily financing and deposit-taking activities) creates profit rate sensitive positions in the Bank's statement of financial position.

The principal objectives of balance sheet risk management are to manage profit income sensitivity while maintaining acceptable levels of RORBB and funding risk, and to manage the economic value of the Bank's capital.

The Board's oversight of RORBB is supported by the GALCO and/or GMRC. GALCO and/or GMRC is responsible for the alignment of Bank-wide risk appetite and funding needs, taking into consideration Bank-wide business strategies. GALCO and/or GMRC consistently oversees the Bank's gapping positions, asset growth and liability mix against the profit rate outlook. It also reviews strategies to ensure a comfortable level of RORBB is maintained. The Bank has successfully engaged long-term borrowings and written profit rate swaps to manage RORBB and maintained an acceptable gapping profile as a result. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are employed to ensure risk exposures are maintained within Board-established limits.

## **48. RISK MANAGEMENT (CONT'D.)**

### **48.4 MARKET RISK MANAGEMENT (CONT'D.)**

#### **Non-Traded Market Risk (Cont'd.)**

##### **Rate of Return Risk in Banking Book ("RORBB") (Cont'd.)**

The Bank measures the risk of losses arising from potential adverse movements in market profit rates and volatilities using VaR. VaR is a quantitative measure of RORBB which applies recent historic market conditions to estimate the potential loss in economic value, at a certain confidence level and over a specified holding period.

The Bank complements VaR by stress testing RORBB exposures to highlight potential risk that may arise from extreme market events that are rare but plausible.

Key assumptions in the gap and sensitivity analysis relate to the behaviour of profit rates and spreads, changes in financing and deposit product balances due to behavioural characteristics under different profit rate environments. Material assumptions include the repricing characteristics and the stickiness of indeterminate or non-maturity deposits and financing.

The profit rate scenarios may include rapid ramping of profit rates, gradual ramping of profit rate, and narrowing or widening of spreads. Usually each analysis incorporates what management deems the most appropriate assumptions about customer behaviour in a profit rate scenario. However, in certain cases, assumptions are deliberately changed to test the Bank's exposure to a specified event.

The Bank's strategy seeks to optimise exposure to RORBB within Board-approved limits. This is achieved through the ability to reposition the profit rate exposure of the statement of financial position using dynamic product and funding strategies, supported by MFRS 139-compliant profit rate hedging activities using profit rate swaps and other derivatives. These approaches are governed by the Bank's policies in the areas of product and liquidity management as well as the banking book policy statements and hedging policies.

RORBB exposures are monitored by IBMR and positions reported to GALCO and/or GMRC, RMCD and Board.

**48. RISK MANAGEMENT (CONT'D.)****48.4 MARKET RISK MANAGEMENT (CONT'D.)****Market Risk Sensitivity****(i) Rate of Return Risk**

Rate of return risk is that the value of a financial instrument will fluctuate due to changes in market profit rate and is managed through gap and sensitivity analysis. Profit rate movements also affect the Bank's income and expense from assets and liabilities as well as capital fund. The Bank has adopted profit rate risk hedging measures to cushion the profit rate volatility.

The following table demonstrates the sensitivity of the Bank's profit before zakat and taxation and equity to a reasonable possible change in profit rate with all the other variables remaining constant.

**Traded Market Risk:**

	2017		2016	
	Rate of Return + 100 bps (RM'000)	Rate of Return - 100 bps (RM'000)	Rate of Return + 100 bps (RM'000)	Rate of Return - 100 bps (RM'000)
	Impact on profit before zakat and taxation	(14,105)	15,463	(6,071)

**Non-Traded Market Risk:**

	2017		2016	
	Rate of Return (RM'000)	Rate of Return (RM'000)	Rate of Return (RM'000)	Rate of Return (RM'000)
	Impact on profit before zakat and taxation	155,586	(155,596)	137,058
Impact on equity	(61,379)	67,034	(55,291)	60,142

**48. RISK MANAGEMENT (CONT'D.)****48.4 MARKET RISK MANAGEMENT (CONT'D.)****(ii) Foreign Exchange Risk**

Foreign exchange risk arises from changes in foreign exchange rates to exposure on the Bank's financial instruments denominated in currencies other than the functional currency of the transacting entity. Position limits are imposed to prevent the Bank from exposure to excessive foreign exchange risk.

The following table demonstrates the sensitivity of the Bank's profit before zakat and taxation to a reasonable possible change in exchange rates with all other variables remaining constant.

Currency	2017		2016	
	Exchange rate	Exchange rate	Exchange rate	Exchange rate
	+ 10 %	- 10 %	+ 10 %	- 10 %
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
USD	1,508	(1,508)	5,062	(5,062)
SGD	72	(72)	28	(28)
EUR	-	-	4	(4)
JPY	-	-	(1)	1
Others	199	(199)	217	(217)

There is no impact to equity for 2017 and 2016 in respect of foreign exchange risk.

## 48. RISK MANAGEMENT (CONT'D.)

### 48.4 MARKET RISK MANAGEMENT (CONT'D.)

#### (iii) Equity Price Risk

Equity price risk arises from the adverse movements in the price of equities. Equity price risk is controlled via position size, loss limits and VaR limits.

There is no impact to profit before zakat and taxation and equity for 2017 and 2016 in respect of equity price risk.

### 48.5 OPERATIONAL RISK MANAGEMENT

The operational risk management process is depicted in the table below:

<b>Identification</b>	<ul style="list-style-type: none"> <li>Identify and analyse risks in key processes/activities within Business and Functional Lines (including new products)</li> </ul>
<b>Assessment/ Measurement</b>	<ul style="list-style-type: none"> <li>Incident Management and Data Collection</li> <li>Risk and Control Self Assessment</li> <li>Key Risk Indicators</li> <li>Key Control testing</li> <li>Risk Treatment Plan</li> </ul>
<b>Control/ Mitigation</b>	<ul style="list-style-type: none"> <li>Policies addressing control and governance requirements to mitigate specific operational risk</li> <li>Advisory on establishment of internal control</li> <li>Contingency planning</li> </ul>
<b>Monitoring/ Review</b>	<ul style="list-style-type: none"> <li>Monitoring and reporting of loss incidents by Event Type, Portfolio and Line of Business and entity, reporting of operational risk board and management triggers, risk profile status, key risk indicator breaches and key control testing exceptions.</li> <li>Periodical review of risk profile within Line of Business</li> </ul>

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external incidents which includes but is not limited to legal risk and Shariah compliance risk. It excludes strategic, systemic and reputational risk.

## 48. RISK MANAGEMENT (CONT'D.)

### 48.5 OPERATIONAL RISK MANAGEMENT (CONT'D.)

Operational Risk Appetite (“ORA”) is set as part of overall GRAF, which sets the acceptable tolerance levels of operational risk that the Bank is willing to accept, taking into consideration of the relevant financial and non-financial risk or return attributes in order to support the achievement of Bank’s strategic plan and business objectives. The ORA statements and measurements are classified based on operational loss event types, which are grouped into five (5) categories as below and monitored via Incident Management and Data Collection, Key Risk Indicator and Key Control Testing.

- Fraud (internal and external);
- Employment Practices and Workplace Safety;
- Client, Products and Business Practices;
- Business Disruption, System Failures and Damage to Physical Assets; and
- Execution, Delivery and Process Management.

The strategy for managing operational risk in the Bank is anchored on the three lines of defence concept which are as follows:

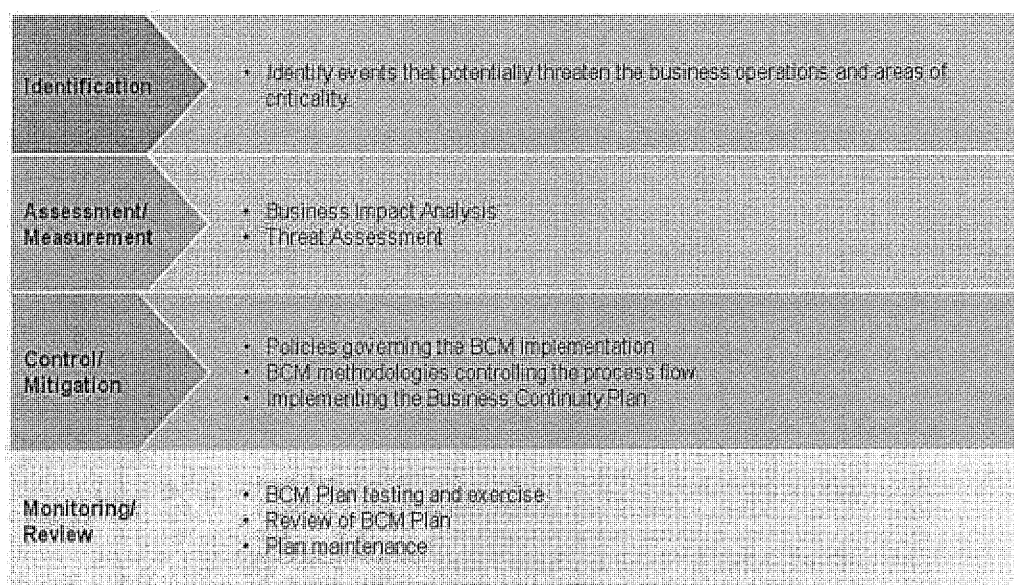
- The first line of defence (“FLOD”) is responsible for the management of operational risk in order that accountability and ownership is as close as possible to the activity that creates the risk and ensuring that effective action is taken to manage them. Enhanced First Line of Defence provides a business specific focus on the implementation of operational risk management activities and supports more effective day-to-day monitoring of operational risks.
- In the second line, Group Operational Risk is responsible for exercising governance over operational risk through the management of the operational risk framework, policy development, quality assurance of internal controls, operational risk measurement, validation of FLOD effectiveness and capital allocation, fraud strategy and reporting of operational risk issues to GMRC, RMCD and Board.
- Group Internal Audit acts as the third and final line of defence by providing independent assurance on the internal control effectiveness through periodic audit programme.

## 48. RISK MANAGEMENT (CONT'D.)

### 48.5 OPERATIONAL RISK MANAGEMENT (CONT'D.)

#### i. Business Continuity Management

The Business Continuity Management (“BCM”) process is depicted in the table below:



The BCM function forms an integral part of Operational Risk Management. It places the importance of maintaining a BCM framework and policies to identify events that could potentially threaten the Bank’s operations and establishment of critical functions recovery against downtimes. BCM builds the resilience and recovery capability to safeguard the interest of Bank’s stakeholders by protecting our brand and reputation.

The BCM process complements the effort of the recovery team and specialist units to ensure the Bank has the required critical capabilities and resources, such as IT system disaster recovery, alternate workspace and effective communication during interruptions.

The Bank is continuously reviewing the level of business operations resiliency and conduct periodical testing to enhance the BCM capability throughout all critical departments and branches across the region. Training is an on-going agenda to heighten the BCM awareness and inculcate a business resilience culture.

## **48. RISK MANAGEMENT (CONT'D.)**

### **48.6 LEGAL RISK**

In all the jurisdictions that the Bank conducts its business, it is subject to legal risks arising from potential breaches of applicable laws, unenforceability of contracts, lawsuits, or adverse judgement, failure to respond to changes in regulatory framework and failure to protect assets (including intellectual properties) owned by the Bank which may lead to incurrence of losses, disruption or otherwise impact on the Bank's financials or reputation.

Legal risk is overseen by GMRC, upon advice by internal legal counsel and, where necessary, in consultation with external legal counsel to ensure that such risk is appropriately managed.

### **48.7 REGULATORY COMPLIANCE RISK**

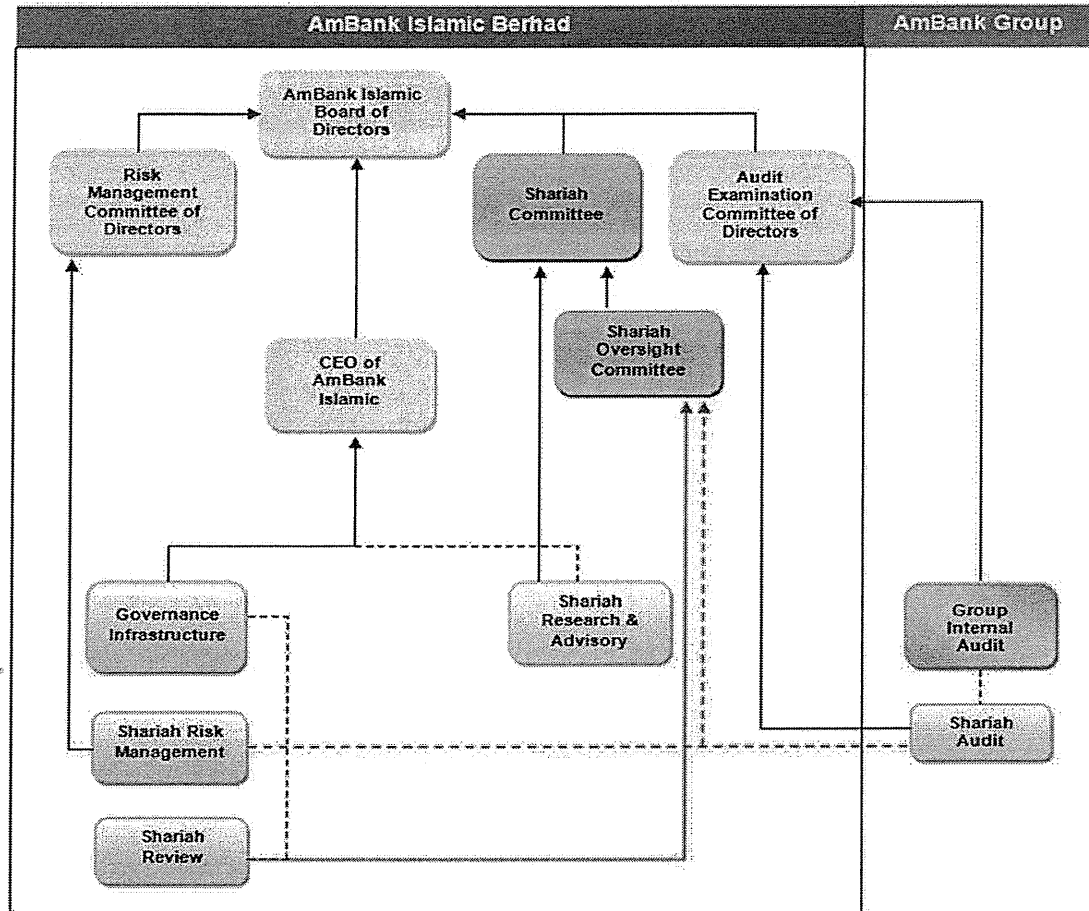
The AMMB Group has in place a compliance framework to promote the safety and soundness of the AMMB Group by minimising financial, reputational and operational risks arising from regulatory non-compliance.

The AMMB Group believes in and embraces a stronger compliance culture to reflect a corporate culture of high ethical standards and integrity where the Board and Senior Management lead by example.

The AMMB Group continues to exercise and enhance its due diligence governance process and remains vigilant towards emerging risk as well as sensitive towards heightened regulatory surveillance and enforcement.

48. RISK MANAGEMENT (CONT'D.)

48.8 SHARIAH RISK



The AMMB Group has established the Shariah governance structure for its Islamic banking operations in accordance with the requirements of BNM's "Shariah Governance Framework for Islamic Financial Institutions". This is to ensure that the operations and business activities of the Bank comply with Shariah principles and its requirements as prescribed by the Islamic Financial Services Act, 2013.

## **48. RISK MANAGEMENT (CONT'D.)**

### **48.8 SHARIAH RISK (CONT'D.)**

Apart from Shariah Research & Advisory, Shariah Risk Management and Shariah Review functions which reside in the Bank, the Bank's Shariah governance structure leverages on the AMMB Group platform of Group Internal Audit Division for Shariah Audit function.

#### **Board of Directors**

The Board is accountable and responsible for the overall oversight on the Shariah governance and Shariah compliance, including the assessment, appointment and remuneration of the Shariah Committee members. The Board performs its oversight through various committees such as AEC, RMCD and Shariah Committee.

#### **Audit Examination Committee of Directors**

AEC is a Board committee responsible for assisting the Board in ensuring Islamic Banking operations of the AMMB Group are Shariah compliant through oversight of the Shariah Audit function performed by Group Internal Audit.

#### **Risk Management Committee of Directors**

RMCD is a Board committee responsible for assisting the Board in ensuring risk management and control process are in place and functioning, including Shariah risk management.

#### **Shariah Committee**

The Shariah Committee is responsible and accountable on matters related to Shariah. This includes advising the Board and Management on Shariah matters and endorsing and validating products and services, Shariah policies and the relevant documentation in relation to Islamic Banking operation. The Shariah Committee also provides advice and guidance on management of zakat fund, charity and other social programs or activities.

## **48. RISK MANAGEMENT (CONT'D.)**

### **48.8 SHARIAH RISK (CONT'D.)**

#### **Shariah Oversight Committee**

The Shariah Oversight Committee, which is a sub-committee to the Shariah Committee, performs an oversight function on banking from Shariah perspective. The Committee provides guidance and advice on matters pertaining to Shariah non-compliant incidences as well as treatment of Shariah non-compliant income (if any).

#### **Management/Chief Executive Officer**

Management/Chief Executive Officer ("CEO") is responsible to make reference to the Shariah Committee and/or the Shariah Oversight Committee on Shariah matters and to take necessary measures for implementation. The Management/CEO is also responsible in setting the infrastructure and providing the environment and adequate resources to support the Shariah governance structure. This includes putting in place adequate systems and controls in order to ensure compliance with Shariah and to mitigate Shariah non-compliance risk.

#### **Shariah Research and Advisory**

The Shariah Research and Advisory Department is accountable to the Shariah Committee and is responsible for providing day-to-day Shariah advisory, including Shariah legal aspects, conducting Shariah research, formulating Shariah policies and acting as Secretariat to the Shariah Committee and the Shariah Oversight Committee.

#### **Shariah Risk Management**

The Shariah Risk Management ("SRM") function is accountable to the RMCD. The SRM is a function to systematically identify, measure, monitor and control of Shariah non-compliance risks to mitigate any possible non-compliance events.

The Shariah Risk Management is executed through the three lines of defence in managing Shariah risk. The three lines of defence are: 1<sup>st</sup> - The Business Units and Functional Lines; 2<sup>nd</sup> - Shariah Risk Management, Shariah Review, Shariah Research and Advisory; 3<sup>rd</sup> - Shariah Audit.

## **48. RISK MANAGEMENT (CONT'D.)**

### **48.8 SHARIAH RISK (CONT'D.)**

#### **Shariah Review**

The Shariah Review Section is accountable to the Shariah Oversight Committee. The objective of the Shariah review function is to provide reasonable self-assurance for the Bank in its daily activities and operations thus to add value and improve the degree of Shariah awareness and compliance.

#### **Shariah Audit**

The Shariah Audit Section is accountable to the AEC. A designated team within the Group Internal Audit Department is responsible to conduct independent assessment on the level of Shariah compliance of Islamic banking business and operations. The Shariah audit covers all activities particularly the operational components of the Bank (including functions outsourced to AmBank (M) Berhad or AmInvestment Bank Berhad) that are subjected to the risk of Shariah non-compliance including but not limited to products, operational processes, the technology supporting the operations, the people involved in key areas of risk, documentation and contracts, policies and procedures and other activities that require the adherence to Shariah principles.

#### **Shariah Non-Compliant Income**

There were no Shariah non-compliant incidents and income during the financial year ended 31 March 2017 (there were eight Shariah non-compliant incidents for the financial year ended 31 March 2016 amounting to approximately RM9.7 million attributable to transactions which originated prior to financial year ended 31 March 2016, which was subsequently purified).

#### **49. FAIR VALUES OF FINANCIAL INSTRUMENTS**

Financial instruments are contracts that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than a forced or liquidated sale. The information presented herein represents best estimates of fair values of financial instruments at the reporting date.

Where available, quoted and observable market prices 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 number 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.

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

**49. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONT'D.)**

- a) Financial instruments not measured at fair value (excluding those financial instruments where the carrying amounts are reasonable approximation of their fair values).

	2017		2016	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
<b>Financial assets</b>				
Financial investments held-to				
-maturity	1,278,221	1,261,006	1,263,639	1,259,213
Financing and advances *	6,947,483	7,047,928	8,604,394	8,757,762
Receivables : Investments not quoted in active markets	814,720	824,749	468,141	467,884
	<u>9,040,424</u>	<u>9,133,683</u>	<u>10,336,174</u>	<u>10,484,859</u>
<b>Financial liabilities</b>				
Recourse obligation on financing sold to Cagamas Berhad	617,713	623,391	1,127,824	1,191,669
Term funding	1,850,000	1,852,141	1,850,000	1,849,380
Subordinated Sukuk	979,679	989,342	1,399,528	1,404,654
	<u>3,447,392</u>	<u>3,464,874</u>	<u>4,377,352</u>	<u>4,445,703</u>

**Note**

- \* excluding financing and advances of RM20,292,273,000 (2016: RM18,787,159,000) where the carrying amounts are reasonable approximation of their fair values.

**49. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONT'D.)**

- b) The following table provides the fair value measurement hierarchy of the Bank's assets and liabilities.

	Valuation techniques			Total RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
<b>2017</b>				
<b>Financial assets measured at fair value</b>				
Derivative financial assets	-	42,381	-	42,381
Financial assets held-for-trading				
- Money market securities	-	541,583	-	541,583
- Unquoted sukuk	-	139,882	-	139,882
Financial investments available-for-sale				
- Money market securities	-	1,518,846	-	1,518,846
- Unquoted sukuk	-	916,878	-	916,878
<b>Assets for which fair values are disclosed</b>				
Financial investments held-to-maturity	-	1,261,006	-	1,261,006
Financing and advances	-	7,047,928	-	7,047,928
Receivables : Investments not quoted in active markets	-	815,325	9,424	824,749
	-	12,283,829	9,424	12,293,253
<b>Financial liabilities measured at fair value</b>				
Derivative financial liabilities	-	47,870	-	47,870
<b>Financial liabilities for values are disclosed</b>				
Recourse obligation of financing sold to Cagamas Berhad	-	623,391	-	623,391
Term funding	-	1,852,141	-	1,852,141
Subordinated Sukuk	-	989,342	-	989,342
	-	3,512,744	-	3,512,744

**49. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONT'D.)**

- b) The following table provides the fair value measurement hierarchy of the Bank's assets and liabilities (Cont'd.).

	<b>Valuation techniques</b>			<b>Total RM'000</b>
	<b>Level 1 RM'000</b>	<b>Level 2 RM'000</b>	<b>Level 3 RM'000</b>	
<b>2016</b>				
<b>Financial assets measured at fair value</b>				
Derivative financial assets	-	57,273	-	57,273
Financial assets held-for-trading				
- Money market securities	-	84,166	-	84,166
- Unquoted sukuk	-	90,384	-	90,384
Financial investments available-for-sale				
- Money market securities	-	2,407,289	-	2,407,289
- Unquoted sukuk	-	770,227	-	770,227
<b>Assets for which fair values are disclosed</b>				
Financial investments held-to-maturity	-	1,259,213	-	1,259,213
Financing and advances	-	8,757,762	-	8,757,762
Receivables : Investments not quoted in active markets	-	458,993	8,891	467,884
	-	13,885,307	8,891	13,894,198
<b>Financial liabilities measured at fair value</b>				
Derivative financial liabilities	-	67,685	-	67,685
<b>Liabilities for which fair values are disclosed</b>				
Recourse obligation of financing sold to Cagamas Berhad	-	1,191,669	-	1,191,669
Term funding	-	1,849,380	-	1,849,380
Subordinated Sukuk	-	1,404,654	-	1,404,654
	-	4,513,388	-	4,513,388

#### **49. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONT'D.)**

##### **Determination of fair value**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

##### **(a) Assets for which fair value approximates carrying value**

For financial assets and financial liabilities that have a short-term maturity (less than six months), demand deposits and savings accounts without a specific maturity, the carrying amounts approximate to their fair value. For other variable rate instruments, an adjustment is also made to reflect the change in required credit spread since the instrument was initially recognised.

##### **(b) Fixed rate financial instruments**

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market profit rates when they were initially recognised with current market rates for similar financial instruments. The estimated fair value of fixed profit bearing deposits is based on discounted cash flows using prevailing money market profit rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on quoted market prices. For notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current profit rate yield curve appropriate for the remaining term to maturity and credit spreads to the extent such observable inputs are available, or based on indicative rate of return of the instrument with similar credit risk if relevant observable inputs are not available.

##### **(c) Financial investments available-for-sale**

Financial investments available-for-sale are valued using valuation techniques or pricing models primarily consist of unquoted sukuk.

#### 49. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONT'D.)

**(d) Recourse obligation on financing sold to Cagamas Berhad**

The fair values for recourse obligation on financing sold to Cagamas Berhad are determined based on discounted cash flows of future installment payments at prevailing rates quoted by Cagamas Berhad as at reporting date.

**(e) Contingent liabilities and undrawn credit facilities**

The fair value of contingent liabilities and undrawn credit facilities are not readily ascertainable. These financial instruments are presently not sold or traded. They generate fees that are in line with market prices for similar arrangements. The estimated fair value may be represented by the present value of the fees expected to be received, less associated costs and potential loss that may arise should these commitments crystallise. The Bank assesses that their respective fair values are unlikely to be significant given that the overall level of fees involved is not significant.

#### **Determination of fair value hierarchy**

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 : Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 : Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3 : Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial assets and liabilities measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets and liabilities for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Bank's own models whereby the majority of assumptions are market observable.

**49. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONT'D.)**

**Determination of fair value hierarchy (Cont'd.)**

Non market observable inputs means that fair values are determined, in whole or in part, using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument, nor are they based on available market data. The main asset classes in this category are unlisted equity investments and debt instruments. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Bank. Therefore, unobservable inputs reflect the Bank's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Bank's own data.

**50. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements excluding financial assets not subject to offset and that are only subject to collateral arrangements (e.g. financing and advances) are as follows:

	Gross amount of recognised financial assets/liabilities RM'000	Gross amounts offset in the statement of financial position RM'000	Amounts presented in the statement of financial position RM'000	Amount not offset in the statement of financial position		Net amount RM'000
				Financial instruments RM'000	Cash collateral received/pledged RM'000	
<b>2017</b>						
Derivative financial assets (Note 8)	42,381	-	42,381	(9,852)	-	32,529
Derivative financial liabilities (Note 8)	47,870	-	47,870	(9,852)	-	38,018
<b>2016</b>						
Derivative financial assets (Note 8)	57,273	-	57,273	(33,592)	-	23,681
Derivative financial liabilities (Note 8)	67,685	-	67,685	(33,592)	-	34,093

## 51. BUSINESS SEGMENT ANALYSIS

### Business segment analysis

Segment information is presented in respect of the Bank's business segments. The business segment information is prepared based on internal management reports, which are regularly reviewed by the chief operating decision-maker in order to allocate resources to a segment and to assess its performance.

The Bank comprises the following main business segments:

#### (a) Retail Banking

Retail Banking will focus on building emerging affluent and small business customers and the mass market. Retail banking offers products and financial solutions which includes auto financing, mortgage and personal financing, credit cards, small business financing, priority banking services, wealth management, remittance services and deposits.

#### (b) Wholesale Banking

Wholesale Banking comprises Corporate and Commercial Banking and Markets:

##### (i) Corporate and Commercial Banking

Corporate and Commercial Banking offers a full range of products and services of corporate lending, trade finance, and cash management solutions to wholesale banking clients.

##### (ii) Global Markets

Global Markets includes proprietary trading as well as providing full range of Shariah compliant products and services relating to treasury activities, including foreign exchange, derivatives and fixed income. It also offers Shariah compliant customised investment solutions for customers.

##### (iii) Islamic Capital Markets

Islamic Capital Markets offer Islamic advisory services and a wide range of Shariah-compliant financial and investment solutions that include sukuk origination, Islamic equity or equity related capital markets offerings, Islamic structured finance and Islamic syndicated financing.

#### (c) Group Funding and Others (previously known as Operating Segments)

Group Funding and Others comprise activities to maintain the liquidity of the Bank as well as support operations of its main business units and non-core operations of the Bank.

## 51. BUSINESS SEGMENT ANALYSIS (CONT'D.)

### Measurement of Segment Performance

The segment performance is measured on income, expenses and profit basis. These are shown after allocation of certain centralised costs, funding income and expenses directly associated with each segment. Transactions between segments are recorded within the segment as if they are third party transactions and are eliminated on aggregation.

### Operating Revenue

Operating revenue of the Bank comprises all type of revenue derived from the business segments.

### Major Customers

No revenue from one single customer amounted to greater than 10% of the Bank's revenue for the current and previous financial year.

### Note:

The revenue generated by a majority of the operating segments substantially comprise finance income. The Chief Operating Decision Maker relies primarily on the net finance income information to assess the performance of, and to make decisions about resources to be allocated to these operating segments.

## 51. BUSINESS SEGMENT ANALYSIS

2017

	Wholesale banking						Total
	Retail banking RM'000	Corporate and Commercial Banking RM'000	Global Markets RM'000	Islamic Capital Markets RM'000	Group Funding and Others RM'000	RM'000	
External revenue	747,903	765,848	85,380	1,968	223,163	1,824,262	
Revenue from other segments	(121,050)	77,813	(44,184)	(246)	87,667	-	
Total operating revenue	626,853	843,661	41,196	1,722	310,830	1,824,262	
Net finance income	326,838	232,612	15,049	98	74,230	648,827	
Other income	21,750	30,186	7,591	1,624	4,446	65,597	
Net income	348,588	262,798	22,640	1,722	78,676	714,424	
Other operating expenses of which:	(268,976)	(69,728)	(7,224)	(43)	(69,623)	(415,594)	
Depreciation of Property and Equipment	(1)	-	-	-	(79)	(80)	
Amortisation of Intangible Assets	(3)	-	-	-	(41)	(44)	
Profit before impairment losses	79,612	193,070	15,416	1,679	9,053	298,830	
Provisions:							
(Allowance)/Writeback for impairment losses on financing and advances	(49,265)	2,147	-	-	71,461	24,343	
Writeback of provision for commitments and contingencies	(392)	433	-	-	-	41	
Profit/(Loss) before zakat and taxation	29,955	195,650	15,416	1,679	80,514	323,214	
Zakat and taxation	(7,189)	(46,956)	(3,700)	(403)	(9,308)	(67,556)	
Profit/(Loss) for the financial year	22,766	148,694	11,716	1,276	71,206	255,658	
<b>Other information</b>							
Total segment assets	12,630,404	15,220,773	2,264,849	20,254	6,400,077	36,536,357	
Total segment liabilities	13,184,667	14,757,037	185,537	-	5,506,100	33,633,341	
Cost to income ratio	77.2%	26.5%	31.9%	2.5%	88.5%	58.2%	
Gross financing and advances	12,744,696	14,802,707	-	-	(39,326)	27,508,077	
Net financing and advances	12,594,240	14,749,079	-	-	(103,563)	27,239,756	
Impaired financing and advances	138,426	350,274	-	-	-	488,700	
Deposits	13,098,803	14,486,490	135,000	-	517,741	28,238,034	
Additions to:							
Property and Equipment	-	-	-	-	49	49	
Intangible assets	57	-	-	-	421	478	

## 51. BUSINESS SEGMENT ANALYSIS (CONT'D.)

2016

	Wholesale banking					Total
	Retail banking RM'000	Corporate and Commercial Banking RM'000	Global Markets RM'000	Islamic Capital Markets RM'000	Group Funding and Others RM'000	
External revenue	841,185	761,011	77,692	895	304,107	1,984,890
Revenue from other segments	(175,986)	224,662	(49,688)	(633)	1,645	-
Total operating revenue	665,199	985,673	28,004	262	305,752	1,984,890
Net finance income	354,310	224,736	11,765	137	72,433	663,381
Other income	19,354	29,009	3,507	125	(1,010)	50,985
Net income	373,664	253,745	15,272	262	71,423	714,366
Other operating expenses of which:	(246,852)	(60,074)	(4,603)	(15)	(97,060)	(408,604)
Depreciation of Property and Equipment	(1)	-	-	-	(81)	(82)
Amortisation of Intangible Assets	-	-	-	-	(7)	(7)
Profit before impairment losses	126,812	193,671	10,669	247	(25,637)	305,762
(Allowance)/Writeback for impairment losses on financing and advances	(5,592)	(10,170)	-	-	19,947	4,185
Writeback of provision for commitments and contingencies	1,225	2,593	-	-	-	3,818
Transfer to profit equalisation reserve	-	-	-	-	(1,406)	(1,406)
Profit before zakat and taxation	122,445	186,094	10,669	247	(7,096)	312,359
Zakat and taxation	(29,387)	(44,721)	(2,561)	-	(2,644)	(79,313)
Profit for the financial year	93,058	141,373	8,108	247	(9,740)	233,046
<b>Other information</b>						
Total segment assets	13,246,122	14,513,369	1,692,634	414	8,850,871	38,303,410
Total segment liabilities	10,462,842	19,344,669	519,769	-	5,325,212	35,652,492
Cost to income ratio	66.1%	23.7%	30.1%	5.7%	135.9%	57.2%
Gross financing and advances	13,334,493	14,502,931	-	-	(52,764)	27,784,660
Net financing and advances	13,194,379	14,384,595	-	-	(187,421)	27,391,553
Impaired financing and advances	165,887	439,313	-	-	-	605,200
Deposits	10,380,055	18,980,442	450,000	-	16,796	29,827,293
Additions to:						
Property and Equipment	5	-	-	-	266	271
Intangible assets	-	-	-	-	1	1

## Note:

- The financial information by geographical segment is not presented as the Bank's activities are principally conducted in Malaysia.
- Operating revenue of the Bank comprise financing income and hibah and other operating income.

**52. RESTATEMENT OF COMPARATIVE INFORMATION**

- (a) For the purpose of the statement of cash flows, the Bank has restated deposits and placements with banks and other financial institutions with original maturity of less than 3 months to conform with current financial year of presentation.

The effects arising from the restatement of comparative information is as follows:

- (i) The comparatives of statement of cash flows were restated to conform with the changes in presentation as follows:

	<b>As previously reported RM'000</b>	<b>Reclassification RM'000</b>	<b>As restated RM'000</b>
<b>As at 31 March 2016</b>			
(Increase)/decrease in operating assets:			
Deposits and placements with banks and other financial institutions	250,000	500,000	750,000

- (b) During the financial year, the Bank had realigned its Financial Institutions Statistical System ("FISS") reporting of gross financing and advances analysed by sector, by type of customer and by profit rate sensitivity to BNM Central Credit Reference Information System ("CCRIS") reporting on financing and advances. Consequently, the Bank had restated the abovementioned disclosures for gross financing and advances and impaired financing and advances to conform with current financial year's classification. This restatement did not have any effect on reported cashflows from operations, financial position and performance of the Bank.