Building a better working world

# AMBANK ISLAMIC BERHAD

(295576-U)

(Incorporated in Malaysia)

## Directors' Report and Audited Financial Statements

31 March 2016

Company No. 295576–U

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**(Incorporated in Malaysia)**

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## 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 2016.

## 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

| | RM'000 |
|---|---|
| Profit for the financial year | 233,046 |

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 other than as disclosed in Note 34 to financial statements.

## DIVIDENDS

The Directors do not proposed any final dividends for the current financial year.

**BUSINESS PLAN AND STRATEGY**

Financial year 2016 ("FY 2016") was a challenging year for the AMMB Holding Berhad ("the AMMB Group") as it reached the end of a period of de-risking its portfolio. Beginning Financial Year 2017 ("FY 2017"), the AMMB Group's new strategic growth plan is to be a key player amongst the top banking groups by the year 2020 by embarking on a new growth trajectory and strengthening its franchise value.

The AMMB Group plans to capture opportunities in the domestic market by building a business that delivers sustainable return and growth which in turn creates significant value creation for our stakeholders. The strategic aim is to gain market leadership in target growth segments, being retail, SME and wholesale. There will be a focus on winning in faster growing segments and attaining market leadership in key products. To support our strategic priorities, a broader people agenda has been developed to ensure we are amongst the best domestic employer.

Using multiple growth strategies, the AMMB Group plans to expand its market share in selected target segments while growing in line with the market in other segments. An immediate strategy is to unlock latent values across the organisation leveraging on our customer bases and internal collaboration opportunities. Using digital technology and data, the AMMB Group's strategy is to compete in niche ways in under-penetrated segments or "whitespaces" that have not been served well.

The AMMB Group will implement its strategic growth plan under two streams and with clear targets and milestones to measure its progress. Emphasis would be on building up business momentum and showing early progressive results. "The Run the Group/Bank Better" strategic phase targets value creation across the business, prioritizing on quick wins, monetising collaboration opportunities, improving funding cost, attracting top talent to build up people capability and increasing efficiency by streamlining operations and improving distribution productivity.

The second stream, "Changing the Group/Bank" strategy will center on delivering unique "segment-of-one" value proposition to preferred customer segments. The AMMB Group will focus on harnessing the power of digital transformation and leveraging analytics to capture new sources of competitive advantage, reviewing front-back office operating models and capital structure efficiency, enhancing marketing capabilities whilst continuously emphasizing on people development and culture.

The Bank's strategic direction would be in tandem with the AMMB Group's. Whilst the Bank would continue to operate in its existing market segments, the Bank aspires to add further value to the AMMB Group by penetrating into niche market segments which were hitherto untapped by the AMMB Group. This would be in line with the AMMB Group's strategic intent of moving into under-penetrated segments or "whitespaces" that have not been served well. The Bank would also enhance the manner in which it serves the market via inter alia streamlined marketing efforts, simplified processes and documentation, and improved speed and responsiveness to its customers. In order to further compete in the increasingly challenging business environment, the Bank is embarking on initiatives to introduce Islamic specific offerings over the medium term.

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

As an Islamic bank, the adherence to Shariah norms and requirements is of the utmost importance. To this end, the Bank will continuously review the effectiveness of its Shariah governance framework, and ensure that its business and operations comply with Shariah requirements. Given the increasingly complex operating environment, the Bank will also work more closely with the AMMB Group's independent control functions to ensure the effectiveness and integrity of the Bank's non-Shariah related compliance, risk management and internal audit functions.

Capacity building would be an integral focus of the Bank in order to have the right skills set, optimal level of resources and a succession plan. The Bank has revamped its training approaches whereby training modules are tailored to meet the specific requirements of the business. In addition, training on Islamic banking is provided in a systematic manner to ensure consistent and relevant delivery throughout the AMMB Group. These are vital to ensure the sustainability of the Bank's business and operations.

**Performance review for the financial year ended 31 March 2016**

The banking industry continued to face margin compression and weaker profitability amid slower economic growth, heightened competition for deposits and rising credit costs. Faced with these challenges, the Bank adopted a more prudent balance sheet management by growing its auto financing portfolio in a selective manner and controlling the growth of its wholesale banking portfolio. As part of the need to rebalance its financing book and create a more sustainable earnings stream, the Bank had focused to substantially grow its mortgage portfolio.

The challenging external environment was compounded by the administrative monetary penalty ("AMP") of RM49.7 million which was imposed by Bank Negara Malaysia for regulatory breaches in respect of transactions which occurred in previous financial years. To prevent the recurrence of such major breaches, the Bank would be part of the AMMB Group's efforts to improve the AMMB Group's overall compliance programme.

Notwithstanding the challenging external environment and the need to manage the legacy regulatory breaches, the Bank managed to continuously improve the quality of its asset portfolio and implement its new strategy of prudent balance sheet management and strengthening its foundation, which resulted in the Bank achieving a commendable profit after tax and zakat ("PAT") of RM233 million. If the AMP was excluded, the Bank would achieve PAT of RM282 million, an increase in PAT by almost 20% compared to the previous financial year.

To meet its business growth requirements and to have adequate buffer in light of the more challenging and complex economic environment, the Bank had raised RM250 million of Tier-II capital in December 2015.

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

### Business Highlights

*New CEO and Senior Management*

After more than one year without a chief executive officer ("CEO"), En Eqhwan Mokhzanee joined the Bank as its CEO at the beginning of the financial year. One of his priorities was to recruit new talent onto the Bank's management team as part of the Bank's on-going efforts to strengthen its human capital capabilities. Amongst the key recruitment included the Head of Wholesale Banking Department, Head of Distribution Management, Head of Shariah Review and Head of Shariah Risk Management.

*Branding*

In order to align the linkage of the Islamic brand under the umbrella brand of the AMMB Group, the "AmIslamic Bank" brand was rebranded to "AmBank Islamic" and the logo colours were harmonised with the AMMB Group brand colours of red and yellow on 18 May 2015. Correspondingly, the legal entity name was changed from AmIslamic Bank Berhad to AmBank Islamic Berhad.

In view of the rebranding exercise, the Bank continued to foster stronger brand recognition by making a presence in various national and international events namely:

- The 12th Kuala Lumpur Islamic Finance Forum (KLIFF) 2015
- The International Finance News (IFN) conference in 2015
- The 6th OIC World BIZ 2015

*IFSA2013 and Products*

In compliance with the Islamic Financial Services Act 2013 ("IFSA") which distinguishes Islamic deposit and investment products, all Islamic deposit products which adopted the Shariah contracts of Mudarabah and Wakalah bi al-istithmar were classified as investment products.

Pursuant there to, the Bank also relaunched a number of products to adopt the Shariah contracts of Commodity Murabahah, Wadi'ah Yad Dhamanah and Wakalah bi al-istithmar. The products which were relaunched during the financial year were:

- **Term Deposit** - based on the Shariah contract of Commodity Murabahah, these included Term Deposit-i, Afdhal Term Deposit-i, Am50Plus Term Deposit-i, AmQuantum Term Deposit-i and ValuePlus Term Deposit-i. These products enable the customers to enjoy fixed profit rates and at the same time, these deposits are guaranteed by Malaysia Deposit Insurance Corporation ("PIDM").

- **Family First Solution-i** -the conversion from adopting the Shariah contract of Mudarabah (profit sharing) to Wadi'ah Yad Dhamanah (savings with guarantee) was carried-out and subsequent thereto, the profit distribution based on a profit sharing ratio would no longer be applicable but instead, the Bank may distribute hibah (gift) at the Bank's absolute discretion.

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

- **HomeLink and PropertyLink Investment Account-i** - based on the Shariah contract of Wakalah bi al-istithmar (agency for investment) whereby the customer as the principal shall appoint the Bank as an agent for the purpose of investment where an indicative expected return rate will be made available and the actual returns, if any, will be automatically credited into customer's new account(s) on a monthly basis.

In addition, the Bank had introduced the following products:

- **Restricted Investment Account-i** - based on the Shariah contract of Mudarabah whereby Investment Account Holders agree to participate in the specific financial/ investment activities undertaken by the Bank and share the profit generated from the financing and/or investment activities based on an agreed profit sharing ratio.

- **Hire Purchase Variable Rate** - based on the Shariah contract of Ijarah and was reintroduced by the Bank.

*Shariah Governance*

The Bank further strengthened its Shariah governance framework by formally establishing three independent Shariah functions being Shariah Risk Management, Shariah Review and Shariah Research & Advisory. The Shariah Audit function is part of Group Internal Audit Department.

With the strengthening of Shariah risk management capabilities, the Bank was able to conduct an enhanced Shariah risk management profiling exercise. Further thereto, the Bank has aligned the focus of Shariah review to the areas which have been identified by Shariah risk management to have significant risk of Shariah non-compliance ("SNC"). The objective was to identify any lapses in controls or processes which could lead to SNC incidents.

The Bank had also embarked on the review on a number of business areas to consciously identify weaknesses vis-à-vis Shariah requirements. As a result of the exercise, a number of transactions which originated in previous years were discovered to be Shariah non-compliant within the financial year. Pursuant to these incidents, the Bank has enhanced controls to mitigate against recurrences, including improvements in systems, documentation, and process flows as well as manuals and guides. Moving forward, the Bank would draw from the lessons learnt from the review exercise to continue strengthening its processes to minimise the recurrences of SNC incidents.

*Senior Management Oversight*

To further strengthen the oversight by the Bank's senior management, the Bank had formally established AmBank Islamic's Heads of Department Committee and Oversight Committee. The Heads of Department Committee discusses the strategic, financial performance, human resource, industry development, product, and other business and organisation matters. The Oversight Committee focuses on Shariah, risk management, compliance, internal audit, liquidity and other control issues.

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

*Training Programme*

The Bank also commenced implementing the 2016/2017 training programme which had been endorsed by the Board. The training programme included a systematic and targeted training for Board members, Shariah Committee members, management and staff of the AMMB Group who are involved in Islamic banking business.

### Corporate Social Responsibility

Similar to previous years, the Bank has maintained its commitment in serving the community through distribution of business zakat. For the current financial year, total business zakat amounting to RM1,411,036 was distributed, out of which RM380,400 was paid to state zakat collection centres whilst the balance of RM1,030,636 was distributed to eligible recipients such as associations, foundations and charity homes throughout Malaysia. Out of the RM1,030,636 distributed, RM250,000 was distributed to Yayasan Pelajaran Mara for the on-going Student Adoption Programme which is going into its fifth year of a planned 10-year programme.

## OUTLOOK FOR NEXT FINANCIAL YEAR

For calendar year 2016, the AMMB Group forecasts a moderate annual Gross Domestic Product (GDP) growth of circa 4.2% led by domestic demand mainly from private expenditure and counter balanced by softer exports from lower commodity prices.

Inflation is projected to accelerate to 2.8% in 2016 from 2.1% in 2015 driven by upward adjustments in several administered prices and the weak ringgit exchange rate. However, the inflationary pressure will be mitigated by lower commodity prices, slower demand and high base effect in 2H2016. Against the backdrop of a challenging and uncertain global environment with downside risk still on the table, monetary policy will remain supportive and accommodative of economic activity.

The banking sector is poised to experience slower growth as the economy expands at a more moderate pace and subdued business sentiment. Despite the potential headwinds in the economy, there are still some bright spots and opportunities such as the SME sector which has consistently outpaced the GDP growth since 2005, and still has room for growth. The recalibrated Budget 2016 has also provided some impetus to the domestic consumption, as well as emphasis on affordable homes and implementation of infrastructure projects.

## ISSUANCE OF SHARES AND DEBENTURES

On 21 December 2015, the Bank issued the third tranche of RM250.0 million Tier 2 Subordinated Sukuk Murabahah under its Subordinated Sukuk Murabahah programme of RM3.0 billion.

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.

## 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.

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 income statement, statement of other comprehensive income and statement of financial position 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 income statement, statement of other comprehensive income and statement of financial position 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 date of the last report and at the date of this report are:

Tan Sri Azman Hashim
Graham Kennedy Hodges
Wasim Akhtar Saifi
Raja Anuar Raja Abu Hassan (appointed on 18.2.2016)
Tan Sri Datuk Clifford Francis Herbert (retired on 19.8.2015)
Cheah Tek Kuang (resigned on 13.10.2015)
Chin Yuen Yin (resigned on 30.10.2015)

## DIRECTORS' INTERESTS

Under the Bank's Articles of Association, the Directors are not required to hold shares in the Bank.

None of the Directors in office at the end of the financial year had any interest in the shares and/or options of the Bank or its related corporations during 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 35 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) 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.

## CORPORATE GOVERNANCE (CONT'D.)

### (a) BOARD RESPONSIBILITY AND OVERSIGHT (CONT'D.)

The Board currently comprises four (4) 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.

### (b) 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.)

### (b) 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 2016 ("FY2016") | | | | |
|---|---|---|---|---|
| | Board of Directors | Group Nomination and Remuneration Committee | Audit and Examination Committee | Risk Management Committee |
| Tan Sri Azman Hashim | 21/21 (Chairman) | N/A | N/A | N/A |
| Graham Kennedy Hodges | 17/21 | N/A | 5/6[a] | 6/7[a] |
| Wasim Akhtar Saifi | 21/21 | 1/1[b] | 7/7[c] | 8/8[d] (Chairman) |
| Raja Anuar Raja Abu Hassan (appointed on 18.2.2016) | 3/3 | N/A | -[e] (Chairman) | 1/1[f] |
| Tan Sri Datuk Clifford Francis Herbert (retired on 19.8.2015) | 5/7 | 6/6[g] | 2/3[h] | 3/3[g] |
| Cheah Tek Kuang (resigned on 13.10.2015) | 8/10 | N/A | N/A | N/A |
| Chin Yuen Yin (resigned on 30.10.2015) | 9/11 | 3/4[i] | 4/5[j] | 4/5[j] |
| Number of meetings held in FY2016 | 21 | 13 | 7 | 8 |

a Appointed as Member on 28.4.2015
b Appointed as Member on 23.2.2016
c Stepped down as Chairman on 18.2.2016 and remain as Member
d Appointed as Chairman on 19.8.2015
e Appointed as Chairman on 18.2.2016
f Appointed as Member on 18.2.2016
g Ceased as Chairman following retirement as Director
h Ceased as Member following retirement as Director
i Appointed as Member on 14.7.2015 and ceased as Member following resignation as Director
j Ceased as Member following resignation as Director

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.)

### (b) COMMITTEES OF THE BOARD (CONT'D.)

**Group Nomination and Remuneration Committee**

The Committee was established at Group level (AMMB) and the Committee comprises six (6) 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;

- 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 thirteen (13) times during the financial year ended 31 March 2016.

## CORPORATE GOVERNANCE (CONT'D.)

### (b) COMMITTEES OF THE BOARD (CONT'D.)

**Audit and Examination Committee**

The Committee comprises three (3) members, all of whom are Non-Executive Directors with majority of Independent Non-Executive Directors and chaired by an Independent Non-Executive Director. 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 2016.

**Internal Audit Function**

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 also attends the AEC meeting by invitation. The AEC holds separate meetings with the Group Chief Internal Auditor whenever necessary.

## CORPORATE GOVERNANCE (CONT'D.)

### (b) 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 impacting the Bank.

The Committee is independent from management and comprises three (3) members, all of whom are Non-Executive Directors with majority of 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 eight (8) times during the financial year ended 31 March 2016.

## CORPORATE GOVERNANCE (CONT'D.)

### (b) 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, Group Risk Projects and Operational Integrity.

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.

## 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

Details of the Bank's ratings are as follows:

| Rating agency | Date accorded | Rating classification | Ratings |
|---|---|---|---|
| RAM Rating Services Berhad | December 2015 | 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 functions and duties of the Shariah Committee include the following:

i. to advise 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 endorse 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 and 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 annual report; and
v. to provide advice and guidance on management of zakat fund, charity and other social program or activities.

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 and 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. Shariah Oversight Committee is also responsible to provide guidance and advice on matters pertaining to Shariah non-compliance incidents and issues found through Shariah Audit, Shariah Review and Shariah Risk Management activities and other sources as well as treatment of Shariah non-compliant income.

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

Both Shariah Committee and Shariah Oversight Committee met eight (8) times respectively during the financial year ended 31 March 2016.

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 2016**

| | Shariah Committee | Shariah Oversight Committee |
|---|---|---|
| Prof. Dr. Amir Husin Mohd Nor<br>(Resigned as Chairman on 31 March 2016) | 8 | 6 |
| Assoc. Prof. Datin Dr. Noor Naemah Abdul Rahman | 8 | 7 |
| Assoc. Prof. Dr. Adnan Yusoff | 5 | 6 |
| Asst. Prof. Dr. Tajul Aris Ahmad Bustami<br>(Appointed as Chairman on 1 April 2016) | 8 | 8 |
| Dr. Asmak Ab Rahman | 7 | 7 |
| Number of meetings held in financial year 2016 | 8 | 8 |

Company No. 295576–U

**AUDITORS**

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

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

**TAN SRI AZMAN HASHIM**
Director

**RAJA ANUAR RAJA ABU HASSAN**
Director

Kuala Lumpur, Malaysia
27 May 2016

Company No. 295576–U

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

**STATEMENT BY DIRECTORS**
**PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965**

We, **TAN SRI AZMAN HASHIM** 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 27 to 193 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 March 2016 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.

**TAN SRI AZMAN HASHIM**
Director

**RAJA ANUAR RAJA ABU HASSAN**
Director

Kuala Lumpur, Malaysia
27 May 2016

Company No. 295576–U

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

**STATUTORY DECLARATION**
**PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965**

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 27 to 193 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 27 May 2016

**MANDY JEAN SIMPSON**

Before me,

PESURUHJAYA SUMPAH
No. W 530
TAN SEOK KETT
MALAYSIA

Lot 330, 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

**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 2016.

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 2016:

a) The contracts, transactions and dealings entered into by the Bank and legal documents used by the Bank, that we have reviewed and asessed are in compliance with the Shariah principles except for some occurences of Shariah non-compliant incidents;

b) Eight (8) Shariah non-compliant incidents were declared that arise from the failure of the Bank to comply with Shariah principles and requirements as laid down by SAC and us. In general, the incidents were caused by people, system and process factors such as processing error and oversight in monitoring document execution. Necessary effort has been taken to rectify the Shariah breaches including execution of new agreements, closing the effected accounts and replacing the relevant contract. The Bank has also implemented several measures to prevent similar breaches from recurring such as enhancement to systems, documentation and process flows as well as manuals, guides and raising stakeholders' awareness;

c) A total Shariah non-compliant income of RM9,740,145.75 for the year has been purified in accordance with the manner as prescribed by the SAC or us;

d) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles; and

e) The calculation of zakat is in compliance with Shariah principles.

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 2016 have been conducted in conformity with the Shariah principles, except for the Shariah non-compliance incidents mentioned above.

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

**ASSOC. PROF. DR. ADNAN YUSOFF**
Member of the Committee

Kuala Lumpur, Malaysia
27 May 2016

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Ernst & Young AF: 0039
GST Reg No: 001556430848
Chartered Accountants
Level 23A Menara Milenium
Jalan Damanlela, Pusat Bandar Damansara
50490 Kuala Lumpur Malaysia

Tel: +603 7495 8000
Fax: +603 2095 5332 (General line)
+603 2095 9076
+603 2095 9078
ey.com

295576-U

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

### Report on the financial statements

We have audited the financial statements of AmBank Islamic Berhad, which comprise statement of financial position as at 31 March 2016, and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 27 to 193.

*Directors' responsibility for the financial statements*

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

*Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 March 2016 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, 1965 in Malaysia.

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

## Report on other legal and regulatory requirements

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

## Other matters

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

Ernst & Young
AF: 0039
Chartered Accountants

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

Kuala Lumpur, Malaysia
27 May 2016

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

**STATEMENT OF FINANCIAL POSITION**
**AS AT 31 MARCH 2016**

| | Note | 31 March 2016 RM'000 | 31 March 2015 (Restated) (Note 52) RM'000 | 1 April 2014 (Restated) (Note 52) RM'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and short-term funds | 5 | 4,098,552 | 4,061,682 | 2,935,528 |
| Deposits and placements with banks and other financial institutions | 6 | 500,000 | 750,000 | 1,118,383 |
| Derivative financial assets | 7 | 57,273 | 27,469 | 7,699 |
| Financial assets held-for-trading | 8 | 174,550 | 151,783 | 64,694 |
| Financial investments available-for-sale | 9 | 3,177,516 | 4,109,611 | 3,854,715 |
| Financial investments held-to-maturity | 10 | 1,263,639 | 1,249,566 | 1,236,055 |
| Financing and advances | 11 | 27,391,553 | 27,497,806 | 24,445,039 |
| Receivables: Investments not quoted in active markets | 12 | 468,141 | 463,982 | 106,649 |
| Statutory deposit with Bank Negara Malaysia | 13 | 842,000 | 1,045,000 | 891,000 |
| Other assets | 14 | 329,821 | 354,564 | 550,101 |
| Property and equipment | 15 | 351 | 301 | 380 |
| Intangible assets | 16 | 14 | 20 | 26 |
| **TOTAL ASSETS** | | 38,303,410 | 39,711,784 | 35,210,269 |
| **LIABILITIES AND EQUITY** | | | | |
| Deposits and placements of banks and other financial institutions | 17 | 1,443,510 | 1,350,622 | 2,811,376 |
| Investment account due to licensed bank | 18 | 1,000,000 | 1,363,442 | 449,982 |
| Recourse obligation on financing sold to Cagamas Berhad | 19 | 1,127,824 | 1,436,775 | 2,068,337 |
| Derivative financial liabilities | 7 | 67,685 | 34,491 | 7,675 |
| Deposits from customers | 20 | 28,383,783 | 29,754,876 | 25,462,501 |
| Investment accounts of customers | 21 | 18,411 | - | - |
| Term funding | 22 | 1,850,000 | 1,850,000 | 550,000 |
| Subordinated Sukuk | 23 | 1,399,528 | 1,149,384 | 1,149,302 |
| Deferred tax liability | 24 | 5,883 | 10,840 | 7,255 |
| Other liabilities | 25 | 354,525 | 347,339 | 351,142 |
| Provision for zakat | | 1,343 | 1,137 | 1,069 |
| **TOTAL LIABILITIES** | | 35,652,492 | 37,298,906 | 32,858,639 |
| Share capital | 26 | 462,922 | 462,922 | 462,922 |
| Reserves | 27 | 2,187,996 | 1,949,956 | 1,888,708 |
| **Equity attributable to equity holder of the Bank** | | 2,650,918 | 2,412,878 | 2,351,630 |
| **TOTAL LIABILITIES AND EQUITY** | | 38,303,410 | 39,711,784 | 35,210,269 |
| **COMMITMENTS AND CONTINGENCIES** | 45 | 8,365,766 | 7,479,564 | 8,389,372 |
| **NET ASSETS PER SHARE (RM)** | | 5.73 | 5.21 | 5.08 |

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

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

**INCOME STATEMENT**
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2016**

| | Note | 2016 RM'000 | 2015 (Restated) (Note 52) RM'000 |
|---|---|---|---|
| Income derived from investment of depositors' funds | 28 | 1,813,128 | 1,753,644 |
| Income derived from investment of investment account funds | 29 | 69,554 | - |
| Income derived from investment of shareholder's funds | 30 | 102,208 | 94,163 |
| (Writeback of)/allowance for impairment on financing and advances | 31 | 4,185 | (131,549) |
| Writeback of provision for commitments and contingencies | 25(b) | 3,818 | 10,032 |
| Transfer to profit equalisation reserve | 25(a) | (1,406) | (35,379) |
| Total distributable income | | 1,991,487 | 1,690,911 |
| Income attributable to the depositors and others | 32 | (1,070,321) | (926,098) |
| Income attributable to investment account holders | 33 | (62,224) | (12,206) |
| Total net income | | 858,942 | 752,607 |
| Other operating expenses | 34 | (408,604) | (367,775) |
| Finance cost | 37 | (137,979) | (80,441) |
| **Profit before zakat and taxation** | | **312,359** | **304,391** |
| Zakat | | (1,617) | (1,404) |
| Taxation | 38 | (77,696) | (66,141) |
| **Profit for the financial year** | | **233,046** | **236,846** |
| **Basic earnings per share (sen):** | 39 | 50.34 | 51.16 |

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

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

**STATEMENT OF OTHER COMPREHENSIVE INCOME**
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2016**

| | 2016 RM'000 | 2015 (Restated) (Note 52) RM'000 |
|---|---|---|
| Profit for the financial year | 233,046 | 236,846 |
| Other comprehensive income/(loss) | | |
| **Items that may be reclassified subsequently to income statement** | | |
| Net change in revaluation of financial investments available-for-sale | 5,730 | 15,785 |
| Transfer to income statement upon disposal | 853 | 131 |
| Income tax relating to the components of other comprehensive income (Note 24) | (1,580) | (4,066) |
| Other comprehensive income for the financial year, net of tax | 5,003 | 11,850 |
| Total comprehensive income for the financial year | 238,049 | 248,696 |

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

Company No. 295576–U

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

**STATEMENT OF CHANGES IN EQUITY**
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2016**

| | | Attributable to Equity Holder of the Bank | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Non-distributable | | | | Distributable | |
| | Note | Share capital RM'000 | Share premium RM'000 | Statutory 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 2014 | | 462,922 | 724,185 | 483,345 | 1,260 | (18,442) | 698,360 | 2,351,630 |
| Profit for the financial year | | - | - | - | - | - | 236,846 | 236,846 |
| Other comprehensive income | | - | - | - | - | 11,850 | - | 11,850 |
| Total comprehensive income for the financial year | | - | - | - | - | 11,850 | 236,846 | 248,696 |
| Net utilisation of profit equalisation reserve for the financial year | | - | - | - | 2,644 | - | (2,644) | - |
| Transfer of AMMB Executive Share Scheme ("ESS") shares recharged | | | | | | | | |
| - difference on purchase price of shares vested | | - | - | - | - | - | (427) | (427) |
| Dividend paid | 40 | - | - | - | - | - | (187,021) | (187,021) |
| Transactions with owner and other equity movements | | - | - | - | 2,644 | - | (190,092) | (187,448) |
| At 31 March 2015 | | 462,922 | 724,185 | 483,345 | 3,904 | (6,592) | 745,114 | 2,412,878 |
| 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 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 |

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 2016**

| | Note | 2016 RM'000 | 2015 (Restated) (Note 52) RM'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before zakat and taxation | | 312,359 | 304,391 |
| Adjustments for: | | | |
| Accretion of discount less amortisation of premium on securities | | (94,542) | (104,653) |
| Allowance for impairment on financing and advances | 31 | 105,563 | 270,929 |
| Amortisation of intangible assets | 34 | 7 | 15 |
| Amortisation of issuance costs for Subordinated Sukuk | | 144 | 82 |
| Depreciation of property and equipment | 34 | 82 | 122 |
| Net gain on disposal of financial assets held-for - trading | 28 | (554) | (118) |
| Net (gain)/loss on revaluation of financial assets held-for-trading | 28 | 8 | (993) |
| Net loss on disposal of financial investments available-for-sale | 28, 30 | 853 | 132 |
| Net loss on revaluation of derivatives | | 3,390 | 7,046 |
| Shares/options granted under AMMB ESS | 34 | 57 | (169) |
| Transfer to profit equalisation reserve | 25(a) | 1,406 | 35,379 |
| Unrealised gain on revaluation of hedged item arising from fair value hedge | 12 | (4,159) | (7,333) |
| Writeback of provision for commitments and contingencies | 25(b) | (3,818) | (10,032) |
| Operating profit before working capital changes | | 320,796 | 494,798 |
| (Increase)/decrease in operating assets: | | | |
| Deposits and placements with banks and other financial institutions | | 250,000 | 368,383 |
| Financial assets held-for-trading | | (19,517) | (84,761) |
| Financing and advances | | 690 | (3,323,696) |
| Statutory deposit with Bank Negara Malaysia | | 203,000 | (154,000) |
| Other assets | | 6,933 | 202,387 |

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

**STATEMENT OF CASH FLOWS**
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2016 (CONT'D.)**

| | Note | 2016 RM'000 | 2015 (Restated) (Note 52) RM'000 |
|---|---|---|---|
| Increase/(decrease) in operating liabilities: | | | |
| Deposits and placements of banks and other financial institutions | | 92,888 | (1,460,754) |
| Investment account due to licensed bank | | (363,442) | 913,460 |
| Deposits from customers | | (1,371,093) | 4,292,375 |
| Investment accounts of customers | | 18,411 | - |
| Other liabilities | | 9,598 | (29,150) |
| Recourse obligation on financing sold to Cagamas Berhad | | (308,951) | (631,562) |
| Cash (used in)/generated from operations | | (1,160,687) | 587,480 |
| Zakat paid | | (1,411) | (1,336) |
| Tax paid | | (66,350) | (73,731) |
| Net cash (used in)/generated from operating activities | | (1,228,448) | 512,413 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Disposal/(Purchase) of financial investments available-for-sale (net) | | 1,015,590 | (149,186) |
| Purchase of intangible assets | 16 | (1) | (9) |
| Purchase of property and equipment | 15 | (271) | (43) |
| Puchase of receivables : investments not quoted in active markets | | - | (350,000) |
| Net cash generated from/(used in) investing activities | | 1,015,318 | (499,238) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Dividend paid | 40 | - | (187,021) |
| Term funding | 22(b) and (c) | - | 1,300,000 |
| Proceeds from Subordinated Sukuk | 23(b) | 250,000 | - |
| Net cash generated from financing activities | | 250,000 | 1,112,979 |
| Net increase in cash and cash equivalents | | 36,870 | 1,126,154 |
| Cash and cash equivalents at beginning of financial year | | 4,061,682 | 2,935,528 |
| Cash and cash equivalents at end of financial year | | 4,098,552 | 4,061,682 |

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

## 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 3 May 2016.

## 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, 1965 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 statement of financial position is 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 rate at the reporting date.

All differences arising on settlement or translation of monetary items are recognised in the income statement 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 the income statement. 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 the income statement are also recognised in OCI or the income statement, 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 the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. 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 the income statement 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% |
| 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 the income statement 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.

## 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

Finance leases that transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, 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. 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 the income statement.

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.

Operating lease payments are recognised as an operating expense in the income statement 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. 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 the income statement in the year in which the expenditure is incurred.

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 considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement 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 the income statement 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:

## 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.)

- 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.

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.

## 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.)

(ii) Initial measurement of financial instruments (Cont'd.)

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:

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 the income statement.

Included in this classification are debt securities and equities.

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;

## 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.)

b. Financial assets and financial liabilities at fair value through profit or loss: designated as fair value through profit or loss (Cont'd.)

- 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 the income statement.

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 the income statement.

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

## 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")

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 the income statement in “impairment losses on financial investments”. Profit earned whilst holding financial investments AFS is reported under "finance income and hibah" using the effective profit rate ("EPR") method. Dividends earned whilst holding financial investments AFS are recognised in the income statement as “other operating income” when the right to the payment has been established.

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.

## 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.)

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 EPR 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 EPR. The EPR amortisation is included in “Finance income and hibah” in the income statement. The losses arising from impairment are recognised in the income statement in “impairment losses on financial investments”.

## 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.)

e. Financial investments held-to-maturity (Cont'd.)

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 years.

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 EPR 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 the income statement. The losses arising from impairment are recognised in the income statement 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.

## 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.)

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 EPR 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 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 the income statement when the inputs become observable, or when the instrument is derecognised.

(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.

For a financial investment reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the investment that has been recognised in equity is amortised to the income statement over the remaining life of the investment using the EPR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EPR. If the investment is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

## 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

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;
- 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.

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.

## 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.)

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 amounts is recognised in the income statement.

#### 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 statement of financial position date.

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

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

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.

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

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

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

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.

## 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 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.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. Profit income continues to be accrued as "financing income on impaired financing" in the income statement 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 the income statement.

## 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.)

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 the income statement.

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 the income statement, the impairment loss is reversed through the income statement.

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 the income statement, is removed from OCI and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised in OCI.

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

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

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

(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.

(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. ACCOUNTING POLICIES (CONT'D.)

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

#### 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.

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

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

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

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

(i) Fair value hedges

The change in the fair value of a hedging derivative is recognised in the income statement. 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 the income statement.

For fair value hedges relating to items recorded at amortised cost, any adjustment to carrying value is amortised through the income statement over the remaining term of the hedge using the EPR 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 the income statement.

(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 the income statement.

Amounts recognised as OCI are transferred to the income statement when the hedged transaction affects the income statement, 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.

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. ACCOUNTING POLICIES (CONT'D.)

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

#### 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.

For assets excluding goodwill, 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 the income statement.

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

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

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

(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.

#### 2.4n 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 or economic resources is remote.

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

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

#### 2.4n Contingent liabilities and contingent assets (Cont'd.)

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 Profit equalisation reserve ("PER")

PER is the amount appropriated out of the total Islamic banking gross income in order to maintain a certain level of return to Investment Account Holders (“IAH”) which is as stipulated by Bank Negara Malaysia's ("BNM") Guidelines on PER. This amount appropriated is shared by the IAH and the Bank. The creation of PER establishes an obligation to manage distribution to the IAH from Shariah perspective. The PER of the IAH is classified as liability and recognised at cost. The subsequent apportionments of profit to the IAH are recognised in the income statement. The eventual distribution of PER as profit distributable to IAH will be treated as an outflow of funds due to the settlement of obligation to the IAH. The PER of the Bank is allocated from retained profits and classified as a separate reserve in equity and is non-distributable. Subsequent apportionment from and distributions to retained profits are treated as transfers between reserves. During the current financial year, the Bank discontinued with the application of PER as disclosed in Note 3.2 (a).

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

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

#### 2.4q 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.

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 EPR. 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 the income statement. 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.

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

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

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

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

Income and expense are recognised in accordance with the principles of Shariah. This includes financing provided and deposits accepted 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.

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' Al-Inah

This is a contract of sale and purchase of an asset whereby the seller (customer) sells to the buyer (the Bank) in cash and subsequently buys back the asset at a marked up deferred price. Income is recognised on EPR basis over the expected life of the contract based on principal amount outstanding.

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

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

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

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

Tawarruq

This is an arrangement that involves a purchase of an asset/commodity based on musawamah or murabahah contract on deferred term and a subsequent sale of the same asset to a third party in order to obtain cash. Income is recognised on EPR basis over the period of the contract based on the principal amounts outstanding. The commodity trading fee incurred in the Tawarruq arrangement in most instances will be borne by the customer.

For Commodity Murabahah term deposits placed by customers, profit attributable to the depositors based on the expected 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 the income statement as incurred.

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.

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

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

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

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

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 depositors 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.

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 deposits 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.

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

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

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

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

Wadiah (Yad Dhammanah)

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. These fees include financing arrangement, commission income, asset management, custody and other management and advisory fees.

Financing commitment fees for financing that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EPR on the financing. When it is unlikely that a financing will be drawn down, the financing commitment fees are recognised over the commitment period on a straight-line basis.

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.

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

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

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

(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 they 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. Income generated from customer loyalty programmes is recognised in the income statement.

#### 2.4r Employee benefits

(i) Short-term benefits

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

(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 the income statement as incurred. Once the contributions have been paid, the Bank has no further payment obligations.

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

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

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

(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 the income statement 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 the income statement 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.)

#### 2.4s 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 after the reporting date are disclosed as an event after the reporting date.

#### 2.4t 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 the income statement except to the extent that the tax relates to items recognised outside the income statement, either in OCI or directly in equity.

(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

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

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

#### 2.4t Taxes (Cont'd.)

(ii) Deferred tax (Cont'd.)

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.

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.

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

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

#### 2.4t Taxes (Cont'd.)

(ii) Deferred tax (Cont'd.)

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 the income statement is recognised outside the income statement. 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.

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 the income statement.

#### 2.4u 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 using the profit and loss method at a 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. ACCOUNTING POLICIES (CONT'D.)

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

#### 2.4v 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.

#### 2.4w 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. Reportable segments are operating segments or aggregations of operating segments that meet specific criteria. Operating segments are distinguishable components of the Bank about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Bank’s segmental reporting is based on the following operating segments: retail banking, wholesale banking and group funding and others (formerly known as operating segments).

#### 2.4x 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 Amended standards adopted

The significant accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amended standards which became effective for the Bank on 1 April 2015:

- Amendments to MFRS 119 Defined Benefit Plans: Employee Contributions
- Annual Improvements to MFRSs 2010-2012 Cycle
- Annual Improvements to MFRSs 2011-2013 Cycle

The adoption of these amended standards did not have any material impact on the financial statements of the Bank.

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

**Annual Improvements to MFRSs 2010-2012 Cycle**

The Annual Improvements to MFRSs 2010-2012 Cycle include a number of amendments to various MFRSs, which are summarised below.

**(a) MFRS 2: Share-based Payment**

This improvement clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or those of another entity in the same group;
- A performance condition may be a market or non-market condition; and
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

This improvement is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

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

### 3.1 Amended standards adopted (Cont'd.)

#### (b) MFRS 3: Business Combinations

The amendments to MFRS 3 clarifies that contingent consideration classified as liabilities (or assets) should be measured at fair value through profit or loss at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of MFRS 9 or MFRS 139. The amendments are effective for business combinations for which the acquisition date is on or after 1 July 2014.

#### (c) MFRS 8: Operating Segments

The amendments are to be applied retrospectively and clarify that:

- an entity must disclose the judgements made by management in applying the aggregation criteria in MFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar; and
- the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

#### (d) MFRS 116: Property, Plant and Equipment and MFRS 138 Intangible Assets

The amendments remove inconsistencies in the accounting for accumulated depreciation or amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amendments clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

#### (e) MFRS 124: Related Party Disclosures

The amendments clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. The reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services.

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

### 3.1 Amended standards adopted (Cont'd.)

**Annual Improvements to MFRSs 2011-2013 Cycle**

The Annual Improvements to MFRSs 2011-2013 Cycle include a number of amendments to various MFRSs, which are summarised below.

**(a) MFRS 3: Business Combinations**

The amendments to MFRS 3 clarify that the standard does not apply to the accounting for formation of all types of joint arrangement in the financial statements of the joint arrangement itself. This amendment is to be applied prospectively.

**(b) MFRS 13: Fair Value Measurement**

The amendments to MFRS 13 clarify that the portfolio exception in MFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of MFRS 139.

### 3.2 Change in regulatory requirements

**(a) BNM Policy Document on Investment Account and the Transition Policy under the Islamic Financial Services Act 2013 (“IFSA”)**

On 14 March 2014, BNM had issued a policy document on Investment Account ("IA") aimed at outlining the regulatory requirements on the conduct of investment accounts that are consistent with the IFSA and that comply with standards on Shariah issued by BNM. This policy document comes into effect on 14 March 2014.

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

### 3.2 Change in regulatory requirements (Cont'd.)

#### (a) BNM Policy Document on Investment Account and the Transition Policy under the Islamic Financial Services Act 2013 (“IFSA”) (Cont'd.)

On 14 February 2014, BNM had issued the Transition Policy under IFSA ("transition policy"), allowing Islamic financial institutions a transition period until 30 June 2015 to comply with IFSA and BNM standards on Shariah and policy document on Investment Account. Pursuant to the application of the policy document on Investment Account and the transition policy, the Bank:

(i) segregated investment deposit products of customers from deposit accounts and presented these separately as Investment accounts of customers in the financial statements; and

(ii) discontinued with the application of PER. The available amounts in PER had been distributed to the remaining account holders in the form of hibah.

The policy document and the transition policy have been applied in accordance with MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors as the Investment Account are new products offered by the Bank. However, the Restricted Investment Account (previously known as Restricted Profit Sharing Investment Account), which was entered into with a related company in prior year and which was classified as Deposits and placements of banks and other financial institutions has been reclassified as Investment account due to licensed bank during the current financial year as at 31 March 2016 on a retrospective basis (Note 18). The effects of this restatement is disclosed in Note 52.

The accounting policy adopted for Investment Account is as follows:

<u>Unrestricted Investment Account</u>

The Bank’s Unrestricted Investment Account is based on the Shariah concept of Wakalah bi al Istithmar. It refers to an arrangement whereby the IAH (as the principal or muwakkil) appoints the Bank as an agent (the "wakil") for the purpose of investment. The Bank as wakil shall not be liable to compensate losses except losses due to its own misconduct, negligence or breach of specified terms. The amount invested by the IAH aims to provide the IAH with steady flow of income by investing in low risk investments which the Bank deems appropriate. The Bank may however change the investment strategy if the Bank decides that it will be in the best interest of the IAH to do so in order to achieve the investment objectives. For the current financial year, the Bank did not impose Wakalah fees to the IAH.

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

### 3.2 Change in regulatory requirements (Cont'd.)

#### (a) BNM Policy Document on Investment Account and the Transition Policy under the Islamic Financial Services Act 2013 (“IFSA”) (Cont'd.)

The accounting policy adopted for Investment Account is as follows: (Cont'd.)

Restricted Investment Account (“RIA”)

The Bank’s RIA is based on Mudarabah concept where IAH agree to participate in the specific financial/investment activities undertaken by the Bank and share the profit generated from financing and/or investment activities based on an agreed profit-sharing ratio. The IAH shall bear the losses arising from the assets funded under the Mudarabah concept except in cases of misconduct, negligence or breach of contracted terms by the Bank. Therefore, any allowances for impairment and capital charge will be transferred to the IAH to reflect the potential losses to the IAH. Currently, the existing RIA arrangement is between the Bank and AmBank (M) Berhad.

Distribution of profit between the unrestricted IAH and the Bank

The unrestricted IAH place funds with the Bank in exchange for an expected rate of return (“ERR”) for the agreed period of the investment. The Bank mobilises the investment account funds in accordance with its investment strategy to generate returns. In the event that the actual rate of return (“ARR”) is higher than the ERR, the IAH agree that this difference shall be retained by the Bank as a performance incentive. On the contrary, if the ARR is lower than the ERR, the Bank is obliged to distribute the ARR to the IAH.

The Bank adopts the standard methodology in calculating the rate of return and profit distribution to the IAH consistent with Rate of Return framework issued by BNM. The Bank neither adopt profit smoothing practices nor employ displaced commercial risk technique in the calculation of the ARR to the IAH.

#### (b) BNM Policy Document on Classification and Impairment Provisions for Loans/ Financing

On 6 April 2015, BNM issued a revised policy document on Classification and Impairment Provisions for Loans/Financing. The requirements in this revised policy document are effective for financial years beginning on or after 1 January 2015, except for the following:

(i) the requirement to classify loans/financing as rescheduled and restructured in the Central Credit Reference Information System ("CCRIS") is effective on or after 1 April 2015; and

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

### 3.2 Change in regulatory requirements (Cont'd.)

**(b) BNM Policy Document on Classification and Impairment Provisions for Loans/ Financing (Cont'd.)**

(ii) the requirement for a banking institution to maintain, in aggregate, collective impairment allowance and regulatory reserves of no less than 1.2% of total outstanding loans/financing, net of individual impairment allowance will be effective beginning 31 December 2015.

The revised policy did not result in significant impairment charges to the Bank for the financial year. As at the end of the financial year, the Bank has complied with the requirement in 3.2 (b) (ii) above.

### 3.3 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.

| | Effective for Financial Year ending |
|---|---|
| Annual Improvements to MFRSs 2012-2014 Cycle | 31 March 2017 |
| Amendments to MFRS 116 and MFRS 138 Clarification of Acceptable Methods of Depreciation and Amortisation | 31 March 2017 |
| Amendments to MFRS 116 and MFRS 141 Agriculture: Bearer Plants | 31 March 2017 |
| Amendments to MFRS 10, MFRS 12 and MFRS 128 Investment Entities: Applying the Consolidation Exception | 31 March 2017 |
| Amendments to MFRS 11 Accounting for Acquisitions of Interests in Joint Operations | 31 March 2017 |
| Amendments to MFRS 127 Equity Method in Separate Financial Statements | 31 March 2017 |
| Amendments to MFRS 101 Disclosure Initiatives | 31 March 2017 |
| MFRS 14 Regulatory Deferral Accounts | 31 March 2017 |
| Amendments to MFRS 107 - Disclosure Initiative | 31 March 2018 |
| Amendments to MFRS 112 - Recognition of Deferred Tax Assets for Unrealised Losses | 31 March 2018 |
| MFRS 9 Financial Instruments | 31 March 2019 |
| MFRS 15 Revenue from Contracts with Customers | 31 March 2019 |
| MFRS 16 Leases | 31 March 2020 |

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

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

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 2017**

**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.

**(a) MFRS 5 Non-current Assets Held for Sale and Discontinued Operations**

The amendment to MFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in MFRS 5.

The amendment also clarifies that changing the disposal method does not change the date of classification. This amendment is to be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.

**(b) MFRS 7 Financial Instruments: Disclosures**

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in MFRS 7 in order to assess whether the disclosures are required.

In addition, the amendment also clarifies that the disclosures in respect of offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.

**(c) MFRS 119 Employee Benefits**

The amendment to MFRS 119 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

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

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

**Standards effective for financial year ending 31 March 2017 (Cont'd.)**

**Annual Improvements to MFRSs 2012–2014 Cycle (Cont'd.)**

**(d) MFRS 134 Interim Financial Reporting**

MFRS 134 requires entities to disclose information in the notes to the interim financial statements "if not disclosed elsewhere in the interim financial report".

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

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

The amendments clarify 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 amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted.

**Amendments to MFRS 101 Disclosure Initiatives**

The amendments to MFRS 101 include narrow-focus improvements in the following five areas:

- Materiality
- Disaggregation and subtotals
- Notes structure
- Disclosure of accounting policies
- Presentation of items of other comprehensive income arising from equity accounted investments

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

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

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

**Amendments to MFRS 107 - Disclosure Initiative**

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.

**Amendments to MFRS 112 - Recognition of Deferred Tax Assets for Unrealised Losses**

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.

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

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

**Standard effective for financial year ending 31 March 2019**

**MFRS 9 Financial Instruments**

In November 2014, MASB issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of MFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities.

**MFRS 15 Revenue from Contracts with Customers**

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

The core principle of MFRS 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 MFRS 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.

**Standard for which effective date is yet to be announced**

Amendments to MFRS 10 and MFRS 128 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture which was earlier announced to be effective for the financial year ending 31 March 2017 has been deferred to a date to be determined by MASB.

## 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in accordance with MFRSs requires management to make judgments, 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. Judgments, 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 judgments, estimates and assumptions which have the most significant effect on the amounts recognised in the financial statements.

### 4.1 Allowance for impairment on financing and advances (Notes 11 and 31)

The Bank reviews its individually significant financing and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. 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).

### 4.2 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.

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

### 4.3 Deferred tax assets and income taxes (Notes 24 and 38)

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.

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.

### 4.4 Fair value measurement of financial instruments (Notes 7, 8, 9, 12, 28 and 30)

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.

## 5. CASH AND SHORT-TERM FUNDS

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Cash and bank balances | 25,552 | 1,622 |
| Deposits and placements maturing within one month: | | |
| Licensed banks | 195,000 | 150,000 |
| Bank Negara Malaysia | 3,878,000 | 3,910,060 |
| | 4,098,552 | 4,061,682 |

## 6. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Islamic banks | 500,000 | 750,000 |

## 7. 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:

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

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

| 2015 | Contract/ Notional Amount RM'000 | Fair Value Assets RM'000 | Fair Value Liabilities RM'000 |
|---|---|---|---|
| **Trading Derivatives** | | | |
| Foreign exchange related contracts | | | |
| One year or less | 1,154,993 | 25,602 | 25,524 |
| Profit rate related contracts | | | |
| Over three years | 180,000 | 1,504 | 1,504 |
| Commodity related contracts | | | |
| One year or less | 363,034 | 363 | 363 |
| **Hedging Derivatives** | | | |
| Profit rate related contracts | | | |
| Profit rate swap | | | |
| - Fair value hedge | | | |
| Over three years | 350,000 | - | 7,100 |
| **Total** | 2,048,027 | 27,469 | 34,491 |

## 8. FINANCIAL ASSETS HELD-FOR-TRADING

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| **At fair value:** | | |
| Money market instruments: | | |
| Government Investment Issues | 84,166 | 141,705 |
| Unquoted securities: | | |
| In Malaysia: | | |
| Private debt securities | 90,384 | 10,078 |
| | 174,550 | 151,783 |

## 9. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| **At fair value:** | | |
| Money market instruments: | | |
| Government Investment Issues | 422,674 | 204,121 |
| Islamic negotiable instruments of deposit | 1,984,615 | 3,045,887 |
| Bank Negara Monetary Notes | - | 254,914 |
| | 2,407,289 | 3,504,922 |
| Unquoted securities: | | |
| In Malaysia: | | |
| Private debt securities | 770,227 | 604,689 |
| | 3,177,516 | 4,109,611 |

## 9. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE (CONT'D.)

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 has the intention to hold the securities until maturity.

As at 31 March 2016, 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 to RM505,000 (31 March 2015: RM475,000).

## 10. FINANCIAL INVESTMENTS HELD-TO-MATURITY

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| **At amortised cost:** | | |
| Unquoted securities: | | |
| In Malaysia: | | |
| Private debt securities | 1,263,639 | 1,249,566 |

## 11. FINANCING AND ADVANCES

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

**31 March 2016**

| | Bai' Bithaman Ajil RM'000 | Murabahah RM'000 | Musharakah Mutanaqisah RM'000 | Al-Ijarah Thummah Al -Bai' (AITAB) RM'000 | Bai' Al-Inah RM'000 | Others RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **At amortised cost:** | | | | | | | |
| 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 | | | | | | | (63,715) |
| - Collective allowance | | | | | | | (329,392) |
| Net financing and advances | | | | | | | 27,391,553 |

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

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

**31 March 2015**

| | Bai' Bithaman Ajil RM'000 | Murabahah RM'000 | Musharakah Mutanaqisah RM'000 | Al-Ijarah Thummah Al -Bai' (AITAB) RM'000 | Bai' Al-Inah RM'000 | Others RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **At amortised cost:** | | | | | | | |
| Cash lines | - | - | - | - | 888,591 | - | 888,591 |
| Term financing | 2,561,064 | 2,530,032 | 9,325 | - | 4,122,052 | 40,429 | 9,262,902 |
| Revolving credit | 456,811 | 431,597 | - | - | 3,165,176 | - | 4,053,584 |
| Housing financing | 1,359,372 | - | 31,114 | - | - | - | 1,390,486 |
| Hire purchase receivables | 4 | - | - | 10,950,562 | - | - | 10,950,566 |
| Bills receivables | - | - | - | - | - | 735 | 735 |
| Credit card receivables | - | - | - | - | - | 278,597 | 278,597 |
| Trust receipts | - | 100,907 | - | - | - | - | 100,907 |
| Claims on customers under acceptance credits | - | 959,675 | - | - | - | 136,291 | 1,095,966 |
| Gross financing and advances* | 4,377,251 | 4,022,211 | 40,439 | 10,950,562 | 8,175,819 | 456,052 | 28,022,334 |
| Allowance for impairment on financing and advances | | | | | | | |
| - Individual allowance | | | | | | | (66,075) |
| - Collective allowance | | | | | | | (458,453) |
| Net financing and advances | | | | | | | 27,497,806 |

* Included in financing and advances are exposures to the RIA arrangements between the Bank and AmBank (M) Berhad ("AmBank") amounting to RM1,004.0 million (31 March 2015: RM1,363.8 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 18.

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

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

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Domestic non-bank financial institutions | 457,764 | 376,383 |
| Domestic business enterprises | | |
| - Small medium enterprises | 4,608,019 | 4,320,458 |
| - Others | 8,762,780 | 9,136,728 |
| Government and statutory bodies | 833,361 | 383,730 |
| Individuals | 12,990,697 | 13,663,125 |
| Other domestic entities | 43,815 | 57,698 |
| Foreign individuals and entities | 88,224 | 84,212 |
| | 27,784,660 | 28,022,334 |

(c) All financing and advances reside in Malaysia.

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

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Fixed rate | | |
| - Housing financing | 241,629 | 257,808 |
| - Hire purchase receivables | 8,783,117 | 10,016,187 |
| - Other financing | 3,091,632 | 3,125,980 |
| Variable rate | | |
| - Base rate and base financing rate plus | 5,127,588 | 5,236,078 |
| - Cost plus | 9,498,853 | 9,040,137 |
| - Other variable rates | 1,041,841 | 346,144 |
| | 27,784,660 | 28,022,334 |

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

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

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Agriculture | 1,549,925 | 1,425,890 |
| Mining and quarrying | 1,546,980 | 1,676,384 |
| Manufacturing | 2,854,552 | 2,349,086 |
| Electricity, gas and water | 129,373 | 148,422 |
| Construction | 1,931,581 | 2,137,670 |
| Wholesale and retail trade and hotel and restaurants | 958,268 | 944,867 |
| Transport, storage and communication | 775,103 | 937,626 |
| Finance and insurance | 457,858 | 376,383 |
| Real estate | 2,698,165 | 2,825,535 |
| Business activities | 458,730 | 461,035 |
| Education and health | 1,252,321 | 821,983 |
| Household of which: | 13,064,790 | 13,742,679 |
| - Purchase of residential properties | 2,149,764 | 1,370,877 |
| - Purchase of transport vehicles | 9,060,015 | 10,401,534 |
| - Others | 1,855,011 | 1,970,268 |
| Others | 107,014 | 174,774 |
| | 27,784,660 | 28,022,334 |

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

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Maturing within one year | 9,416,629 | 8,712,569 |
| Over one year to three years | 3,144,241 | 2,914,449 |
| Over three years to five years | 5,460,974 | 4,481,931 |
| Over five years | 9,762,816 | 11,913,385 |
| | 27,784,660 | 28,022,334 |

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

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

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Balance at beginning of the financial year | 606,455 | 348,515 |
| Impaired during the year | 414,127 | 776,843 |
| Reclassified as non-impaired | (59,820) | (81,471) |
| Recoveries | (126,010) | (123,309) |
| Amount written off | (229,552) | (314,123) |
| Balance at end of the financial year | 605,200 | 606,455 |
| | | |
| Gross impaired financing and advances as % of gross financing and advances | 2.2% | 2.2% |
| | | |
| Financing loss coverage | 65.0% | 86.5% |

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

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

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Agriculture | 150 | 354 |
| Mining and quarrying | 3,450 | 7 |
| Manufacturing | 29,434 | 34,143 |
| Electricity, gas and water | 16,233 | 21,100 |
| Construction | 4,813 | 9,590 |
| Wholesale and retail trade and hotel and restaurants | 4,350 | 6,763 |
| Transport, storage and communication | 6,998 | 12,076 |
| Finance and insurance | - | 33 |
| Real estate | 378,700 | 322,332 |
| Business activities | 2,670 | 4,211 |
| Education and health | 3,305 | 6,169 |
| Household of which: | 154,228 | 188,040 |
| - Purchase of residential properties | 22,597 | 20,771 |
| - Purchase of transport vehicles | 116,266 | 155,185 |
| - Others | 15,365 | 12,084 |
| Others | 869 | 1,637 |
| | 605,200 | 606,455 |

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

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

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| **Individual allowance** | | |
| Balance at beginning of the financial year | 66,075 | 19,470 |
| Allowance made during the year, net (Note 31) | 27,588 | 46,634 |
| Amount written off and others | (29,948) | (29) |
| Balance at end of the financial year | 63,715 | 66,075 |
| **Collective allowance** | | |
| Balance at beginning of the financial year | 458,453 | 534,465 |
| Allowance made during the year, net (Note 31) | 77,975 | 224,295 |
| Transferred from AmBank* | 17 | 2,463 |
| Foreign exchange differences | (5) | - |
| Amount written off and others | (207,048) | (302,770) |
| Balance at end of the financial year** | 329,392 | 458,453 |
| Collective allowance as % of gross financing and advances (excluding RIA financing) less individual allowance | 1.2% | 1.7% |

* During financial year ended 31 March 2015, upon expiry of the RIA on 2 May 2014, which was entered into with AmBank in the financial year 31 March 2013, AmBank had derecognised the collective allowance previously recognised in its financial statements. Accordingly, the Bank accounted for the collective allowance amouting to RM2.46 million in its financial statements.

On 31 December 2015, another new contract for the sum of RM300.0 million was entered into by the Bank with AmBank. Arising from this new 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. Accordingly, the Bank accounted for the collective allowance in its financial statements.

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

** As at 31 March 2016, the gross exposure and collective allowance relating to the RIA financing amounted to RM1,004.0 million and RM1.5 million respectively (31 March 2015: RM1,363.8 million and RM1.6 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 18.

## 12. RECEIVABLES: INVESTMENTS NOT QUOTED IN ACTIVE MARKETS

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Unquoted private debt securities in Malaysia | 456,649 | 456,649 |
| Fair value changes arising from fair value hedge | 11,492 | 7,333 |
| | 468,141 | 463,982 |

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:

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Relating to hedged item | 4,159 | 7,333 |
| Relating to hedging instrument | (4,186) | (7,100) |
| | (27) | 233 |

## 13. 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.

## 14. OTHER ASSETS

| | Note | 2016 RM'000 | 2015 RM'000 |
|---|---|---|---|
| Other receivables, deposits and prepayments | | 15,867 | 44,421 |
| Amount due from related companies | (a) | 91,708 | 47,453 |
| Amount due from originators | (b) | 127,791 | 136,695 |
| Profit receivable | | 31,603 | 28,207 |
| Tax recoverable | | 10,903 | 28,784 |
| Deferred charges | | 51,949 | 69,004 |
| | | 329,821 | 354,564 |

(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 19.

## 15. 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 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2014 | 343 | 112 | 482 | 600 | 1,537 |
| Additions | - | 2 | 41 | - | 43 |
| At 31 March 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 |
| **Accumulated depreciation** | | | | | |
| At 1 April 2014 | 306 | 98 | 418 | 335 | 1,157 |
| Depreciation for the financial year (Note 34) | 25 | 6 | 27 | 64 | 122 |
| At 31 March 2015 | 331 | 104 | 445 | 399 | 1,279 |
| Depreciation for the financial year (Note 34) | 4 | 7 | 36 | 35 | 82 |
| Transfer to related company | - | - | - | (316) | (316) |
| At 31 March 2016 | 335 | 111 | 481 | 118 | 1,045 |
| **Carrying amount** | | | | | |
| At 31 March 2015 | 12 | 10 | 78 | 201 | 301 |
| At 31 March 2016 | 8 | 14 | 117 | 212 | 351 |

## 16. INTANGIBLE ASSETS

The carrying amount of intangible assets are as follows:

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| **Computer software** | | |
| **Cost** | | |
| Balance at beginning of the financial year | 898 | 889 |
| Additions | 1 | 9 |
| Balance at end of the financial year | 899 | 898 |
| **Accumulated amortisation** | | |
| Balance at beginning of the financial year | 878 | 863 |
| Amortisation for the financial year (Note 34) | 7 | 15 |
| Balance at end of the financial year | 885 | 878 |
| **Carrying amount** | 14 | 20 |

## 17. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

| | 2016<br>RM'000 | 2015<br>(Restated)<br>(Note 52)<br>RM'000 |
|---|---|---|
| Non-Mudarabah | | |
| Licensed investment banks | 270,246 | 159 |
| Other financial institutions | 1,140,837 | 251,311 |
| Bank Negara Malaysia | 22,027 | 29,250 |
| | 1,433,110 | 280,720 |
| Mudarabah | | |
| Licensed investment banks | 10,400 | 245,369 |
| Other financial institutions | - | 824,533 |
| | 10,400 | 1,069,902 |
| Total | 1,443,510 | 1,350,622 |

## 18. INVESTMENT ACCOUNT DUE TO LICENSED BANK

| | Note | 2016<br>RM'000 | 2015<br>(Restated)<br>(Note 52)<br>RM'000 |
|---|---|---|---|
| Restricted investment account | | | |
| - Mudarabah Muqayyadah | (a) | 1,000,000 | 1,363,442 |

Note:

(a) The RIA 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.

During the current financial year, on 16 December 2015, the RIA, was early redeemed by the investment account holder, AmBank. The placement was for a tenor of 370 days, maturing on 5 February 2016. On the same day, a new contract for the sum of RM1.0 billion was entered into by the Bank with AmBank. This new contract is for a period of 5 years. On 31 December 2015, another new contract for the sum of RM 300.0 million was entered into by the Bank with AmBank and this contract is for a tenor of 291 days; this contract was early redeemed by AmBank on 15 March 2016.

## 18. INVESTMENT ACCOUNT DUE TO LICENSED BANK (CONT'D.)

| | Mudarabah restricted investment account RM'000 |
|---|---|
| (b) Movement in the investment account is as follows: | |
| At 1 April 2014 | 449,982 |
| Funding inflows / outflows | |
| New placement during the financial year | 1,363,442 |
| Net movement during the financial year | (462,188) |
| Income from investment | 13,404 |
| Bank's share of profit | |
| Profit distributed to mudarib | (1,198) |
| At 31 March 2015 | 1,363,442 |
| Investment asset: | |
| Interbank placement | 1,363,442 |
| **Total investment** | 1,363,442 |
| At 1 April 2015 | 1,363,442 |
| Funding inflows / outflows | |
| New placement during the financial year | 1,300,000 |
| Net movement during the financial year | (1,725,658) |
| Income from investment | 69,070 |
| Bank's share of profit | |
| Profit distributed to mudarib | (6,854) |
| At 31 March 2016 | 1,000,000 |
| Investment asset: | |
| Interbank placement | 1,000,000 |
| **Total investment** | 1,000,000 |

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

| | Investment account holder | | |
|---|---|---|---|
| | | 2016 | 2015 |
| | Profit sharing ratio (%) | Average rate of return (%) | Average rate of return (%) |
| Maturity : | | | |
| between 2 to 5 years | 90 | 4.56 | 4.40 |

## 19. 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 14(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.

## 20. DEPOSITS FROM CUSTOMERS

| | | **2016** | **2015** |
|---|---|---|---|
| | | **RM'000** | **RM'000** |
| (i) | By type of deposit: | | |
| | Savings deposit | | |
| | *Wadiah* | 1,950,534 | 1,893,135 |
| | *Mudarabah* | - | 5,215 |
| | Demand deposit | | |
| | *Wadiah* | 3,911,360 | 3,875,971 |
| | *Mudarabah* | - | 45,380 |
| | Term Deposit : | | |
| | General investment deposits | | |
| | *Wakalah* | - | 314,750 |
| | *Mudarabah* | - | 13,852,523 |
| | Commodity Murabahah | 22,515,493 | 9,761,507 |
| | Negotiable instruments of deposits | | |
| | *Bai' Bithaman Ajil* | 6,396 | 6,395 |
| | Total | 28,383,783 | 29,754,876 |

Included in deposits from customers are deposits of RM216.2 million (31 March 2015: RM207.6 million) held as collateral for financing and advances.

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

| | | |
|---|---|---|
| Government and statutory bodies | 7,074,020 | 6,899,768 |
| Business enterprises | 12,665,778 | 14,721,954 |
| Individuals | 6,994,982 | 6,907,008 |
| Others | 1,649,003 | 1,226,146 |
| | 28,383,783 | 29,754,876 |

## 20. DEPOSITS FROM CUSTOMERS (CONT'D.)

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| (iii) The maturity structure of term deposits are as follows: | | |
| Due within six months | 17,909,235 | 20,620,290 |
| Over six months to one year | 3,040,322 | 2,054,368 |
| Over one year to three years | 1,505,779 | 816,628 |
| Over three years to five years | 66,553 | 443,889 |
| | 22,521,889 | 23,935,175 |

## 21. INVESTMENT ACCOUNTS OF CUSTOMERS

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Unrestricted investment account without maturity | | |
| - Wakalah | 18,411 | - |
| | 18,411 | - |

## 21. INVESTMENT ACCOUNTS OF CUSTOMERS (CONT'D.)

| | Wakalah unrestricted investment account RM'000 |
|---|---|
| (b) Movement in the investment accounts is as follows: | |
| At 1 April 2015 | - |
| Funding inflows / outflows | |
| New placement during the financial year | 15,634 |
| Net movement during the financial year | 2,769 |
| Income from investment | 484 |
| Bank's share of profit | |
| Profit distributed to mudarib | (476) |
| At 31 March 2016 | 18,411 |
| Investment asset: | |
| Interbank placement | 18,411 |
| Total investment | 18,411 |

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

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

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

## 22. TERM FUNDING

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Senior Sukuk | 1,850,000 | 1,850,000 |

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.

## 23. SUBORDINATED SUKUK

| | Note | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|---|
| Sukuk Musharakah | (a) | 800,000 | 800,000 |
| Sukuk Murabahah (net of unamortised issuance costs of RM472,000; 2015: RM616,000) | (b) | 599,528 | 349,384 |
| | | 1,399,528 | 1,149,384 |

(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.

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

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.

### (b) Basel III Subordinated Sukuk Murabahah

On 28 February 2014, the Bank had 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 are fully Basel III-compliant.

**23. SUBORDINATED SUKUK (CONT'D.)**

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.

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

## 24. DEFERRED TAX ASSET/(LIABILITY)

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Balance at beginning of the financial year | (10,840) | (7,255) |
| Recognised in income statement (Note 38) | 6,537 | 481 |
| Recognised in other comprehensive income | (1,580) | (4,066) |
| Balance at end of the financial year | (5,883) | (10,840) |

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

| 2016 | Balance at beginning of the financial year<br>RM'000 | Recognised in income statement<br>RM'000 | Recognised in other comprehensive income<br>RM'000 | Balance at end of the financial year<br>RM'000 |
|---|---|---|---|---|
| Excess of capital allowance over depreciation | (22) | (3) | - | (25) |
| Deferred charges | (16,561) | 4,093 | - | (12,468) |
| Profit equalisation reserve | 403 | (403) | - | - |
| Other temporary differences | 3,258 | 2,622 | - | 5,880 |
| Deferred income | - | 228 | - | 228 |
| Available-for-sale deficit | 2,082 | - | (1,580) | 502 |
| | (10,840) | 6,537 | (1,580) | (5,883) |

## 24. DEFERRED TAX ASSET/(LIABILITY) (CONT'D.)

| 2015 | Balance at beginning of financial year RM'000 | Recognised in income statement RM'000 | Recognised in other comprehensive income RM'000 | Balance at end of financial year RM'000 |
|---|---|---|---|---|
| Excess of capital allowance over depreciation | (36) | 14 | - | (22) |
| Deferred charges | (18,704) | 2,143 | - | (16,561) |
| Profit equalisation reserve | 393 | 10 | - | 403 |
| Other temporary differences | 4,944 | (1,686) | - | 3,258 |
| Available-for-sale deficit | 6,148 | - | (4,066) | 2,082 |
| | (7,255) | 481 | (4,066) | (10,840) |

## 25. OTHER LIABILITIES

| | Note | 2016 RM'000 | 2015 RM'000 |
|---|---|---|---|
| Profit payable | | 297,896 | 220,987 |
| Other creditors and accruals | | 42,531 | 105,592 |
| Advance rentals | | 1,814 | 3,432 |
| Profit equalisation reserve | (a) | - | 1,680 |
| Amount due to related companies | | 681 | 233 |
| Provision for commitments and contingencies | (b) | 11,603 | 15,415 |
| | | 354,525 | 347,339 |

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

(a) The movement in profit equalisation reserve is as follows:

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Balance at beginning of the financial year | 1,680 | 1,571 |
| Provision during the financial year | 1,406 | 35,379 |
| Utilisation during the financial year | (3,086) | (35,270) |
| Balance at end of the financial year | - | 1,680 |

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

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Balance at beginning of the financial year | 15,415 | 25,439 |
| Writeback of provision during the financial year | (3,818) | (10,032) |
| Foreign exchange differences | 6 | 8 |
| Balance at end of the financial year | 11,603 | 15,415 |

## 26. SHARE CAPITAL

| | Number of Ordinary Shares of RM1.00 Each | | Amount | |
|---|---|---|---|---|
| | 2016 '000 | 2015 '000 | 2016 RM'000 | 2015 RM'000 |
| **Authorised:** | | | | |
| At beginning and end of the financial year | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 |
| **Issued and fully paid:** | | | | |
| At beginning and end of the financial year | 462,922 | 462,922 | 462,922 | 462,922 |

## 27. RESERVES

| | Note | 2016 RM'000 | 2015 RM'000 |
|---|---|---|---|
| Non-distributable reserves: | | | |
| Share premium | (a) | 724,185 | 724,185 |
| Other reserves | (b) | 481,756 | 480,657 |
| Total non-distributable reserves | | 1,205,941 | 1,204,842 |
| Distributable reserve: | | | |
| Retained earnings | (c) | 982,055 | 745,114 |
| Total reserves | | 2,187,996 | 1,949,956 |

(a) Share premium is used to record premium arising from new shares issued by the Bank.

(b) Other reserves comprise the following:

| | Note | 2016 RM'000 | 2015 RM'000 |
|---|---|---|---|
| Statutory reserve | (i) | 483,345 | 483,345 |
| Profit equalization reserve | (ii) | - | 3,904 |
| Available-for-sale deficit | (iii) | (1,589) | (6,592) |
| | | 481,756 | 480,657 |

## 27. RESERVES (CONT'D.)

(b) Other reserves comprise the following(Cont'd.):

(i) The statutory reserve is maintained in compliance with Section 57(2)(f) of the IFSA.

(ii) The profit equalisation reserve of the Bank is classified as a separate reserve in equity in accordance with BNM Revised Guidelines on Profit Equalisation Reserve issued in May 2011. During the current financial year, the Bank discontinued with the application of profit equalisation reserve.

(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.

## 28. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

| | Note | 2016 RM'000 | 2015 RM'000 |
|---|---|---|---|
| Income derived from investment of: | | | |
| General investment deposits | (a) | 138,299 | 1,034,657 |
| Specific investment deposits | (b) | - | 13,254 |
| Other deposits | (c) | 1,674,829 | 705,733 |
| | | 1,813,128 | 1,753,644 |

## 28. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS (CONT'D.)

### (a) Income derived from investment of general investment deposits

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Finance income and hibah: | | |
| Financing and advances | | |
| - Financing income | 115,990 | 940,444 |
| - Financing income on impaired financing | 494 | 3,561 |
| Financial assets held-for-trading | 508 | 665 |
| Financial investments available-for-sale | 1,818 | 27,671 |
| Financial investments held-to-maturity | 4,363 | 8,165 |
| Deposits and placements with banks and other financial institutions | 11,755 | 16,565 |
| Others | 455 | 1,017 |
| Total finance income and hibah | 135,383 | 998,088 |
| Other operating income: | | |
| Fee and commission income: | | |
| - Brokerage fees, commission and rebates | - | 4 |
| - Fees on financing, advances and securities | 1,581 | 18,545 |
| - Guarantee fees | 762 | 6,462 |
| - Remittances | 6 | 53 |
| - Service charges and fees | 192 | 1,680 |
| - Others | 341 | 3,123 |
| Foreign exchange | 196 | 6,208 |
| Gain from disposal of financial assets held-for-trading | 301 | 277 |
| Gain/(Loss) on revaluation of financial assets held-for-trading | (29) | 369 |
| Loss from disposal of financial investments available-for-sale | (23) | (28) |
| Net loss on derivatives | (419) | (110) |
| Others | 8 | (14) |
| Total other operating income | 2,916 | 36,569 |
| Total | 138,299 | 1,034,657 |

## 28. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS (CONT'D.)

### (b) Income derived from investment of specific investment deposits

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Finance income and hibah: | | |
| Financing and advances | | |
| - Financing income | - | 13,254 |
| Total finance income and hibah | - | 13,254 |

### (c) Income derived from investment of other deposits

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Finance income and hibah: | | |
| Financing and advances | | |
| - Financing income | 1,368,555 | 512,041 |
| - Financing income on impaired financing | 10,145 | 1,671 |
| Financial assets held-for-trading | 9,523 | 5,897 |
| Financial investments available-for-sale | 25,394 | 15,369 |
| Financial investments held-to-maturity | 51,128 | 46,652 |
| Deposits and placements with banks and other financial institutions | 140,927 | 85,251 |
| Others | 27,599 | 17,461 |
| Total finance income and hibah | 1,633,271 | 684,342 |

## 28. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS (CONT'D.)

### (c) Income derived from investment of other deposits (Cont'd.)

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Other operating income: | | |
| Fee and commission income: | | |
| - Brokerage fees, commission and rebates | 4 | 2 |
| - Fees on financing, advances and securities | 23,455 | 10,902 |
| - Guarantee fees | 9,158 | 3,435 |
| - Remittances | 82 | 29 |
| - Service charges and fees | 2,660 | 912 |
| - Others | 4,166 | 1,742 |
| Foreign exchange | 920 | 4,072 |
| Gain/(Loss) from disposal of financial assets held-for-trading | 253 | (159) |
| Gain on revaluation of financial assets held-for-trading | 21 | 624 |
| Loss from disposal of financial investments available-for-sale | (30) | (26) |
| Net gain/(loss) on derivatives | 849 | (127) |
| Others | 20 | (15) |
| Total other operating income | 41,558 | 21,391 |
| Total | 1,674,829 | 705,733 |

## 29. INCOME DERIVED FROM INVESTMENT OF INVESTMENT ACCOUNT FUNDS

| | Note | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|---|
| Income derived from investment of: | | | |
| Restricted investment account | (a) | 69,070 | - |
| Unrestricted investment accounts | (b) | 484 | - |
| | | 69,554 | - |

## 29. INCOME DERIVED FROM INVESTMENT OF INVESTMENT ACCOUNT FUNDS (CONT'D.)

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

| | | |
|---|---|---|
| Finance income and hibah: | | |
| Financing and advances | | |
| - Financing income | 69,070 | - |
| Total finance income and hibah | 69,070 | - |

### (b) Income derived from investment of unrestricted investment accounts

| | | |
|---|---|---|
| Finance income and hibah: | | |
| Deposits and placements with banks and other financial institutions | 484 | - |
| Total finance income and hibah | 484 | - |

## 30. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Finance income and hibah: | | |
| Financial investments available-for-sale | 97,694 | 85,611 |
| Other operating income: | | |
| Fee and commission income: | | |
| - Bancassurance commission | 1,997 | 2,423 |
| - Fees on financing, advances and securities | - | 3 |
| - Remittances | 2,112 | 3,353 |
| - Service charges and fees | 2,741 | 3,613 |
| - Others | - | 7 |
| Loss from disposal of financial investments available-for-sale | (800) | (78) |
| Unrealised gain/(loss) on fair value hedge (Note 12) | (27) | 233 |
| Net loss on derivatives | (1,509) | (1,002) |
| Total other operating income | 4,514 | 8,552 |
| Total | 102,208 | 94,163 |

## 31. (WRITEBACK OF)/ALLOWANCE FOR IMPAIRMENT ON FINANCING AND ADVANCES

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Allowance for impaired financing and advances: | | |
| Individual allowance, net [Note 11(j)] | 27,588 | 46,634 |
| Collective allowance [Note 11(j)] | 77,975 | 224,295 |
| Impaired financing and advances recovered, net | (109,748) | (139,380) |
| | (4,185) | 131,549 |

## 32. INCOME ATTRIBUTABLE TO THE DEPOSITORS AND OTHERS

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Deposits from customers | | |
| - Mudarabah fund | 63,072 | 506,654 |
| - Non-Mudarabah fund | 924,459 | 285,281 |
| | 987,531 | 791,935 |
| Deposits and placements of banks and other financial institutions | | |
| - Mudarabah fund | 7,672 | 41,644 |
| - Non-Mudarabah fund | 41,023 | 9,421 |
| | 48,695 | 51,065 |
| Others | 34,095 | 83,098 |
| | 1,070,321 | 926,098 |

## 33. INCOME ATTRIBUTABLE TO THE INVESTMENT ACCOUNT HOLDERS

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Unrestricted | | |
| Customers - transactional investment accounts | 8 | - |
| Restricted | | |
| Licensed bank - investment account | 62,216 | 12,206 |
| | 62,224 | 12,206 |

## 34. OTHER OPERATING EXPENSES

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Personnel costs: | | |
| - Salaries, allowances and bonuses | 6,843 | 7,828 |
| - Amortisation for shares and options granted under AMMB ESS - charge/(written back) | 57 | (169) |
| - Contributions to EPF | 1,089 | 1,258 |
| - Social security cost | 42 | 42 |
| - Others | 829 | 512 |
| | 8,860 | 9,471 |
| Establishment costs: | | |
| - Amortisation of intangible assets (Note 16) | 7 | 15 |
| - Cleaning, maintenance and security | 48 | 46 |
| - Computerisation costs | 397 | 210 |
| - Depreciation of property and equipment (Note 15) | 82 | 122 |
| - Rental of premises | 631 | 599 |
| - Others | 43 | 414 |
| | 1,208 | 1,406 |

## 34. OTHER OPERATING EXPENSES (CONT'D.)

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Marketing and communication expenses: | | |
| - Communication, advertising and marketing expenses | 4,928 | 3,579 |
| - Others | 102 | 42 |
| | 5,030 | 3,621 |
| Administration and general expenses: | | |
| - Card operation charges from a related company | 18,124 | 20,824 |
| - Professional services | 4,959 | 2,740 |
| - Others (Note 1) | 75,644 | 10,276 |
| | 98,727 | 33,840 |
| Service transfer pricing expenses (net) | 294,779 | 319,437 |
| | 408,604 | 367,775 |

Note 1:-
Included for the current 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:

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Auditors' remuneration | | |
| - Audit | 167 | 161 |
| - Regulatory and assurance related | 104 | 102 |

Personnel costs include salaries, bonuses, contributions to EPF and all other staff related expenses including remuneration of key management personnel (Note 35).

## 35. 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:

| 2016 | Salary RM'000 | Fees RM'000 | Bonus RM'000 | Other emoluments RM'000 | Benefits-in-kind RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Key Management Personnel:** | | | | | | |
| Chief Executive Officer | | | | | | |
| Eqhwan Mokhzanee bin Muhammad | | | | | | |
| (Appointed on 1 April 2015) | 600 | - | 350 | 249 | 24 | 1,223 |
| | 600 | - | 350 | 249 | 24 | 1,223 |
| **Non-Executive Directors:** | | | | | | |
| Tan Sri Azman Hashim | - | 160 | - | 165 | - | 325 |
| Graham Kennedy Hodges | - | 150 | - | 65 | - | 215 |
| Wasim Akhtar Saifi | - | 150 | - | 88 | - | 238 |
| Raja Anuar Raja Abu Hassan (appointed on 18.2.2016) | - | 18 | - | 9 | - | 27 |
| Tan Sri Datuk Clifford Francis Herbert (retired on 19.8.2015) | - | 57 | - | 27 | - | 84 |
| Cheah Tek Kuang (resigned on 13.10.2015) | - | 80 | - | 28 | - | 108 |
| Chin Yuen Yin (resigned on 30.10.2015) | - | 87 | - | 40 | - | 127 |
| | - | 702 | - | 422 | - | 1,124 |
| **Total remuneration** | 600 | 702 | 350 | 671 | 24 | 2,347 |

## 35. CHIEF EXECUTIVE OFFICER'S AND DIRECTORS' REMUNERATION (CONT'D.)

| 2015 | Salary RM'000 | Fees RM'000 | Bonus RM'000 | Other emoluments RM'000 | Benefits-in-kind RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Key Management Personnel:** | | | | | | |
| Chief Executive Officer | | | | | | |
| Datuk Mahdi Bin Morad | | | | | | |
| (resigned on 28.5.2014) | 100 | - | - | 40 | 15 | 155 |
| | 100 | - | - | 40 | 15 | 155 |
| **Non-Executive Directors:** | | | | | | |
| Tan Sri Azman Hashim | - | 160 | - | 173 | - | 333 |
| Tun Mohammed Hanif bin Omar | - | 150 | - | 12 | - | 162 |
| Tan Sri Datuk Clifford Francis Herbert | - | 150 | - | 73 | - | 223 |
| Dato' Gan Nyap Liou @ Gan Nyap Liow | | | | | | |
| (resigned on 31.12.2014) | - | 112 | - | 54 | - | 166 |
| Loh Chen Peng (resigned on 1.7.2014) | - | 38 | - | 16 | - | 54 |
| Chin Yuen Yin | - | 150 | - | 66 | - | 216 |
| Cheah Tek Kuang | - | 150 | - | 46 | - | 196 |
| Wasim Akhtar Saifi (appointed on 15.1.2015) | - | 32 | - | 14 | - | 46 |
| Graham Kennedy Hodges (appointed on 6.2.2015) | - | 22 | - | 1 | - | 23 |
| Ashok Ramamurthy # | - | 150 | - | - | - | 150 |
| | - | 1,114 | - | 455 | - | 1,569 |
| **Total remuneration** | 100 | 1,114 | - | 495 | 15 | 1,724 |

# Directors' fees for directors who are executives of the subsidiaries of AMMB Holdings Berhad are paid to their respective companies.

## 36. SHARIAH COMMITTEE'S MEMBERS' REMUNERATION

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

| | Fees | Allowances | Total |
|---|---|---|---|
| **2016** | **RM'000** | **RM'000** | **RM'000** |
| 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 |
| | 157 | 29 | 186 |
| **2015** | | | |
| Assoc. Prof. Dr. Amir Husin Mohd Nor | 34 | 4 | 38 |
| Assoc. Prof. Datin Dr. Noor Naemah Abdul Rahman | 28 | 4 | 32 |
| Dr. Adnan Yusoff | 28 | 4 | 32 |
| Asst. Prof. Dr. Tajul Aris Ahmad Bustami | 28 | 3 | 31 |
| Dr. Asmak Ab Rahman | 28 | 4 | 32 |
| | 146 | 19 | 165 |

## 37. FINANCE COST

Finance cost is mainly in respect of income attributable to investors of the Subordinated Sukuk and Senior Sukuk programmes.

## 38. TAXATION

Taxation consists of the following:

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Current tax : | | |
| Estimated tax payable | 83,642 | 65,532 |
| Under provision in prior financial years | 591 | 1,090 |
| | 84,233 | 66,622 |
| Deferred tax (Note 24) : | | |
| Effect of change in tax rate | - | (655) |
| Origination and reversal of temporary differences | (6,348) | 162 |
| (Over)/under provision in prior financial years | (189) | 12 |
| | (6,537) | (481) |
| Taxation | 77,696 | 66,141 |

Domestic income tax is calculated at the statutory tax rate of 24% (2015: 25%) on the estimated chargeable profit for the financial year.

## 38. 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:

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Profit before zakat and taxation | 312,359 | 304,391 |
| Taxation at Malaysian statutory tax rate | 74,966 | 76,098 |
| Effect of change in tax rate | - | (655) |
| Expenses not deductible for tax purposes | 12,336 | 186 |
| Income not subject to tax | (9,755) | (10,374) |
| Tax recoverable recognised on income subject to tax remission | (253) | (216) |
| Under provision of current tax in prior financial years | 591 | 1,090 |
| (Over)/under provision of deferred tax in prior financial years | (189) | 12 |
| Taxation for the year | 77,696 | 66,141 |

## 39. BASIC EARNINGS PER SHARE

| | 2016 | 2015 |
|---|---|---|
| Net profit attributable to equity holder of the Bank (RM'000) | 233,046 | 236,846 |
| Number of ordinary shares at beginning and end of financial year ('000) | 462,922 | 462,922 |
| Basic Earnings per share (sen) | 50.34 | 51.16 |

## 40. DIVIDENDS

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Recognised during the financial year: | | |
| First interim single tier cash dividend of 8.0 sen per ordinary share in respect of financial year ended 31 March 2015 | - | 37,034 |
| Final single tier cash dividend of 32.4 sen per ordinary share in respect of financial year ended 31 March 2014 | - | 149,987 |
| | - | 187,021 |

## 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 | | Joint ventures of the holding company | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **Income** | | | | | | |
| Profit on deposits | 16 | 914 | - | - | - | - |
| Bancassurance commission | 37 | 437 | - | - | 1,478 | 1,152 |
| Net loss on derivatives | (1,997) | (1,239) | - | - | - | - |
| Service transfer pricing income | 220 | 13,781 | - | - | - | - |
| Unrealised loss on revaluation of derivatives | (4,186) | (7,100) | | | | |
| | (5,910) | 6,793 | - | - | 1,478 | 1,152 |
| **Expenses** | | | | | | |
| Card operation charges | 18,124 | 20,824 | - | - | - | - |
| Profit on deposits | 19,425 | 25,510 | 167 | 77 | - | - |
| Profit on investment account | 62,216 | 12,206 | - | - | - | - |
| Service transfer pricing expense | 294,999 | 333,218 | - | - | - | - |
| | 394,764 | 391,758 | 167 | 77 | - | - |

## 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 in which certain Directors have substantial financial interest | |
|---|---|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| **Assets** | | | | | | |
| Derivative financial assets | 39,603 | 960 | - | - | - | - |
| Financing and advances | - | - | 790 | 2 | - | - |
| Other receivables | 91,708 | 47,453 | - | - | - | - |
| | 131,311 | 48,413 | 790 | 2 | - | - |
| **Liabilities** | | | | | | |
| Deposits and placements | 514,080 | 1,890,650 | 9,272 | 8,542 | 10 | - |
| Derivative financial liabilities | 28,489 | 33,717 | - | - | - | - |
| Investment account due to licensed bank | 1,000,000 | 1,363,442 | - | - | - | - |
| Other payables | 681 | 233 | - | - | - | - |
| Profit payable | 4,469 | 869 | - | - | - | - |
| | 1,547,719 | 1,925,469 | 9,272 | 8,542 | 10 | - |
| **Commitments and contingencies:** | | | | | | |
| Contingent liabilities | 5,000 | - | - | - | - | - |
| Contract/Notional amount for derivatives | 1,744,159 | 1,204,253 | - | - | - | - |
| | 1,749,159 | 1,204,253 | - | - | - | - |

## 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 35.

## 42. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

| | 2016 | 2015 |
|---|---|---|
| Outstanding credit exposures with connected parties (RM'000) | 523,176 | 958,870 |
| Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures (%) | 1.76 | 3.21 |
| 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 Paragtaph 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 private debt securities 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 2016 and 31 March 2015.

## 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:

| | **2016**<br>**RM'000** | **2015**<br>**RM'000** |
|---|---|---|
| Within one year | 521 | 784 |
| Between one and five years | 492 | 206 |
| | 1,013 | 990 |

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:

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| **Contingent liabilities** | | |
| Direct credit substitutes | 235,448 | 107,926 |
| Transaction related contingent items | 746,826 | 746,892 |
| Short-term self liquidating trade-related contingencies | 121,004 | 80,959 |
| | 1,103,278 | 935,777 |
| **Commitments** | | |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year | 2,846,242 | 2,923,931 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year | 999,782 | 977,474 |
| Unutilised credit card lines | 476,806 | 594,355 |
| Forward asset purchase | 10,460 | - |
| | 4,333,290 | 4,495,760 |
| **Derivative financial instruments** | | |
| Foreign exchange related contracts: | | |
| - One year or less | 1,679,198 | 1,154,993 |
| Profit rate related contracts | | |
| - Over one year to five years | 900,000 | 180,000 |
| - Over five years | 350,000 | 350,000 |
| Commodity related contracts: | | |
| - One year or less | - | 363,034 |
| | 2,929,198 | 2,048,027 |
| **Total** | 8,365,766 | 7,479,564 |

## 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.

| 2016 | Up to 12 months RM'000 | Over 12 months RM'000 | Total RM'000 |
|---|---|---|---|
| **ASSETS** | | | |
| 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 | 57,273 | - | 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 |
| **TOTAL ASSETS** | 15,565,142 | 22,738,268 | 38,303,410 |
| **LIABILITIES** | | | |
| 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 | 56,398 | 11,287 | 67,685 |
| Deposits from customers | 26,811,451 | 1,572,332 | 28,383,783 |
| Investment accounts of customers | 18,411 | - | 18,411 |
| 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 |
| **TOTAL LIABILITIES** | 28,714,440 | 6,938,052 | 35,652,492 |

## 46. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONT'D.)

| 2015 | Up to 12 months RM'000 | Over 12 months RM'000 | Total RM'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and short-term funds | 4,061,682 | - | 4,061,682 |
| Deposits and placements with banks and other financial institutions | 750,000 | - | 750,000 |
| Derivative financial assets | 27,469 | - | 27,469 |
| Financial assets held-for-trading | 151,783 | - | 151,783 |
| Financial investments available-for-sale | 3,300,800 | 808,811 | 4,109,611 |
| Financial investments held-to-maturity | - | 1,249,566 | 1,249,566 |
| Financing and advances | 12,032,640 | 15,465,166 | 27,497,806 |
| Receivables: Investments not quoted in active markets | - | 463,982 | 463,982 |
| Statutory deposit with Bank Negara Malaysia | - | 1,045,000 | 1,045,000 |
| Other assets | 175,066 | 179,498 | 354,564 |
| Property and equipment | - | 301 | 301 |
| Intangible assets | - | 20 | 20 |
| **TOTAL ASSETS** | 20,499,440 | 19,212,344 | 39,711,784 |
| **LIABILITIES** | | | |
| Deposits and placements of banks and other financial institutions | 1,237,091 | 113,531 | 1,350,622 |
| Investment account due to licensed bank | 1,363,442 | - | 1,363,442 |
| Recourse obligation on financing sold to Cagamas Berhad | 809,089 | 627,686 | 1,436,775 |
| Derivative financial liabilities | 27,391 | 7,100 | 34,491 |
| Deposits from customers | 28,494,359 | 1,260,517 | 29,754,876 |
| Term funding | - | 1,850,000 | 1,850,000 |
| Subordinated Sukuk | - | 1,149,384 | 1,149,384 |
| Deferred tax liability | - | 10,840 | 10,840 |
| Other liabilities | 338,846 | 8,493 | 347,339 |
| Provision for zakat | 1,137 | - | 1,137 |
| **TOTAL LIABILITIES** | 32,271,355 | 5,027,551 | 37,298,906 |

## 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 the different components of capital are maintained by the Bank to support its strategy.

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:
- forecast demand for capital to support the credit ratings; and
- increase in demand for capital due to business growth and market shocks.

(b) Or stresses:
- available supply of capital and capital raising options; and
- internal controls and governance for managing the Bank's risk, performance and capital.

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.

## 47. CAPITAL MANAGEMENT (CONT'D.)

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.

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. Where we operate in other jurisdictions, capital is maintained on the basis of the local regulator's requirements. It is overseen by the Group Chief Executive Officers Committee ("Group CEOs Committee"). Group CEOs Committee 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.

## 47. CAPITAL MANAGEMENT (CONT'D.)

Group CEOs Committee proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. For the current financial year ended 31 March 2016 (“FY 2016”), these ranges are 8.1% to 10.1% 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.

A dedicated team, 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 | |
|---|---|---|
| | **2016** | **2015** |
| Common Equity Tier 1 Capital ratio | 9.846% | 9.200% |
| Tier 1 Capital ratio | 9.846% | 9.200% |
| Total Capital ratio | 15.320% | 14.371% |

## 47. CAPITAL MANAGEMENT (CONT'D.)

(a) Capital adequacy (Cont'd.)

The Bank has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk. With effect from 1 January 2013 to 31 December 2015, the capital adequacy ratios are computed in accordance with BNM's guidelines on Capital Adequacy Framework for Islamic Banks (Capital Components) issued on 28 November 2012, which is based on the Basel III capital accord. The minimum regulatory capital adequacy requirements under transitional arrangements as per the guidelines are set out as follows:

| | **Calendar year 2013** | **Calendar year 2014** | **Calendar 2015 onwards*** |
|---|---|---|---|
| Common Equity Tier 1 Capital ratio | 3.5% | 4.0% | 4.5% |
| Tier 1 Capital ratio | 4.5% | 5.5% | 6.0% |
| Total Capital ratio | 8.0% | 8.0% | 8.0% |

* excluding capital conservation buffer of 2.5% of total risk weighted assets ("RWA") and countercyclical capital buffer ranging between 0% and 2.5% of total RWA and additional buffer requirements that may be specified by BNM.

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 remained at 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:

| | **CCB** |
|---|---|
| **Calendar year 2016** | 0.625% |
| **Calendar year 2017** | 1.25% |
| **Calendar year 2018** | 1.875% |
| **Calendar year 2019 onwards** | 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:

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| **Common Equity Tier 1 Capital** | | |
| Ordinary shares | 462,922 | 462,922 |
| Share premium | 724,185 | 724,185 |
| Retained earnings | 982,055 | 747,523 |
| Available-for-sale deficit | (1,589) | (6,592) |
| Statutory reserve | 483,345 | 483,345 |
| Profit equalisation reserve | - | 3,904 |
| Less : Regulatory adjustments applied on CET1 Capital | | |
| - Intangible assets | (14) | (20) |
| - Profit equalisation reserve | - | (3,904) |
| **CET1 Capital/Tier 1 Capital** | 2,650,904 | 2,411,363 |
| **Tier 2 Capital** | | |
| Tier 2 Capital instruments meeting all relevant criteria for inclusion | 600,000 | 350,000 |
| Tier 2 Capital instruments (subject to gradual phase-out treatment) | 600,000 | 700,000 |
| Collective allowance | 273,963 | 305,338 |
| **Tier 2 Capital** | 1,473,963 | 1,355,338 |
| **Total Capital** | 4,124,867 | 3,766,701 |

The breakdown of the RWA in various categories of risk are as follows:

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Credit RWA | 26,112,657 | 25,790,830 |
| Less : Credit RWA absorbed by RIA | (1,003,979) | (1,363,811) |
| Total Credit RWA | 25,108,678 | 24,427,019 |
| Market RWA | 296,231 | 230,629 |
| Operational RWA | 1,519,148 | 1,553,441 |
| **Total Risk Weighted Assets** | 26,924,057 | 26,211,089 |

# 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-interest/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**

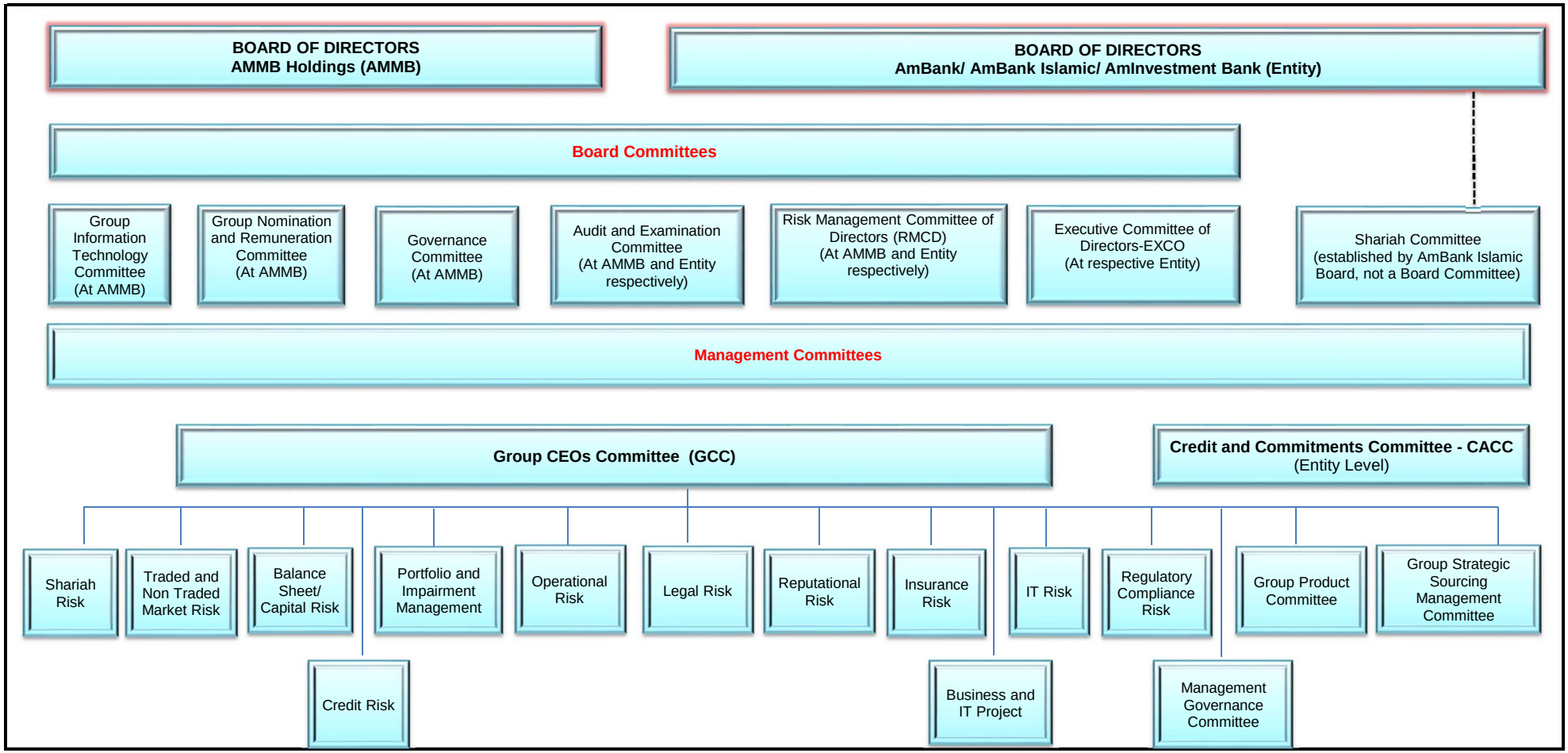
The Board is ultimately responsible for the management of risks within the AMMB Group. The RMCD is formed to assist the Board in discharging its duties in overseeing the overall management of all risks covering market risk, liquidity risk, credit risk, operational risk and regulatory compliance risk.

The Board has also established the Group CEOs Committee to assist it in managing the risks and businesses of the AMMB Group. The 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 project risk.

## 48. RISK MANAGEMENT (CONT'D.)

### 48.1 GENERAL RISK MANAGEMENT (CONT'D.)

The following chart sets out the organisational structure of the Group CEOs Committee and an overview of the Group CEOs Committee's roles and responsibilities.



## 48. RISK MANAGEMENT (CONT'D.)

### 48.2 CREDIT RISK MANAGEMENT

| | |
|---|---|
| **Identification** | • Identify/recognise credit risk on transactions and/or positions<br>• Select asset and portfolio mix |
| **Assessment/ Measurement** | • Internal credit rating system<br>• Probability of default ("PD")<br>• Loss given default ("LGD")<br>• Exposure at default ("EAD") |
| **Control/ Mitigation** | • Portfolio Limits, Counterparty Limits<br>• Benchmark Returns/Wholesale Pricing<br>• Collateral and tailored facility structures |
| **Monitoring/ Review** | • Monitor and report portfolio mix<br>• Review customers under Classified Accounts<br>• Review customers under Reschedules and Resturctured Account<br>• Undertake post mortem review |

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 Section 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 issued in April 2015.
- setting Guidelines on Wholesale Pricing/Benchmark Returns 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 Executive Committee of Directors’ (“EXCO”) for review and endorsement or approval, as the case may be. Portfolio credit risk is reported to the relevant management and board committees.

The Group CEOs Committee regularly meet to review the quality and diversification of the Bank’s financing portfolio, approve new and amended credit risk policy, review the portfolio risk profile against the GRAF.

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 table shows the maximum exposure to credit risk for the components of the statement of financial position and commitments and contingent liabilities, 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**

| 2016 | Agriculture | Mining and Quarrying | Manufacturing | Electricity, Gas and Water | Construction | Wholesale and Retail Trade and Hotel and Restaurants | Transport, Storage and Communication | Finance and Insurance | Subtotal |
|---|---|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | 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 | - | - | - | - | - | - | - | - | - |
| - Unquoted private debt securities | - | - | - | - | - | - | - | 49,898 | 49,898 |
| | - | - | - | - | - | - | - | 49,898 | 49,898 |
| Financial investments available-for-sale | | | | | | | | | |
| - Money market securities | - | - | - | - | - | - | - | 1,984,615 | 1,984,615 |
| - Unquoted private debt securities | 9,948 | - | 20,142 | - | 175,877 | - | 90,729 | 237,276 | 533,972 |
| | 9,948 | - | 20,142 | - | 175,877 | - | 90,729 | 2,221,891 | 2,518,587 |
| Financial investments held-to-maturity | | | | | | | | | |
| - Unquoted private debt securities | - | - | - | - | 821,513 | - | 45,000 | - | 866,513 |
| Financing and advances | | | | | | | | | |
| - Hire purchase | 1,535 | 45 | 3,501 | 349 | 7,701 | 7,852 | 4,549 | 324 | 25,856 |
| - Mortgage | 2,752 | - | 4,849 | - | 3,166 | 5,447 | 62 | 1,478 | 17,754 |
| - Credit card | - | - | - | - | - | - | - | - | - |
| - Others | 6,384 | 1,049 | 20,828 | 615 | 12,016 | 18,361 | 7,674 | 302 | 67,229 |
| - Corporate financing and advances: | | | | | | | | | |
| Term and bridging financing | 693,061 | 1,483,473 | 1,128,168 | 29,561 | 786,091 | 200,420 | 449,429 | 11,238 | 4,781,441 |
| Revolving credits | 767,850 | 58,153 | 636,709 | 88,832 | 823,577 | 173,741 | 256,862 | 444,516 | 3,250,240 |
| Cash lines | 52,826 | 2,063 | 164,478 | - | 273,946 | 165,967 | 29,704 | - | 688,984 |
| Trade | 25,517 | 1,551 | 869,458 | - | 25,084 | 386,391 | 23,277 | - | 1,331,278 |
| Less: Collective allowance | - | - | - | - | - | - | - | - | - |
| | 1,549,925 | 1,546,334 | 2,827,991 | 119,357 | 1,931,581 | 958,179 | 771,557 | 457,858 | 10,162,782 |
| Receivables: Investments not quoted in active markets | - | 361,492 | - | - | 7,649 | - | - | - | 369,141 |
| Statutory deposit with Bank Negara Malaysia | - | - | - | - | - | - | - | - | - |
| Other financial assets | 62 | 1,705 | 676 | - | 11,842 | - | 1,242 | 230,646 | 246,173 |
| **Total financial assets** | 1,559,935 | 1,909,531 | 2,849,234 | 119,357 | 2,948,720 | 967,933 | 908,528 | 3,723,111 | 14,986,349 |
| 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 | 17,092 | 559,166 | 177,884 | 43,627 | 5,000 | 1,005,846 |
| **Total commitments and contingent liabilities** | 462,242 | 41,603 | 1,085,662 | 40,335 | 1,070,251 | 726,288 | 315,427 | 77,317 | 3,819,125 |

**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 | | | | | | | | |
| - Money market securities | - | 84,166 | - | - | - | - | - | 84,166 |
| - Unquoted private debt securities | 49,898 | - | 40,486 | - | - | - | - | 90,384 |
| | 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 private debt securities | 533,972 | - | 109,396 | 9,770 | - | - | 117,089 | 770,227 |
| | 2,518,587 | 422,674 | 109,396 | 9,770 | - | - | 117,089 | 3,177,516 |
| Financial investments held-to-maturity | | | | | | | | |
| - Unquoted private debt securities | 866,513 | 397,126 | - | - | - | - | - | 1,263,639 |
| Financing and advances | | | | | | | | |
| - Hire purchase | 25,856 | - | 21 | 4,055 | 6,961 | 9,071,688 | 1,806 | 9,110,387 |
| - Mortgage | 17,754 | - | 3,010 | 927 | 6,825 | 2,444,485 | 83,064 | 2,556,065 |
| - Credit card | - | - | - | - | - | 280,760 | - | 280,760 |
| - Others | 67,229 | - | 493 | 13,280 | 16,062 | 1,232,237 | 5,121 | 1,334,422 |
| - Corporate financing and advances: | | | | | | | | |
| Term and bridging financing | 4,781,441 | - | 1,729,231 | 251,555 | 488,606 | 35,138 | 6,486 | 7,292,457 |
| Revolving credits | 3,250,240 | - | 780,220 | 35,692 | 722,418 | - | 3,516 | 4,792,086 |
| Cash lines | 688,984 | - | 160,205 | 108,516 | 9,891 | 482 | 7,020 | 975,098 |
| Trade | 1,331,278 | - | 2,129 | 44,705 | 1,558 | - | - | 1,379,670 |
| Less: Collective allowance | - | - | - | - | - | - | - | (329,392) |
| | 10,162,782 | - | 2,675,309 | 458,730 | 1,252,321 | 13,064,790 | 107,013 | 27,391,553 |
| Receivables: Investments not quoted in active markets | 369,141 | - | 99,000 | - | - | - | - | 468,141 |
| Statutory deposit with Bank Negara Malaysia | - | 842,000 | - | - | - | - | - | 842,000 |
| Other financial assets | 246,173 | 15,639 | 3,415 | 140 | - | - | 1,404 | 266,771 |
| **Total financial assets** | 14,986,349 | 5,643,556 | 2,927,606 | 468,640 | 1,252,940 | 13,064,790 | 225,506 | 38,239,995 |
| Commitments | 2,813,279 | 10,460 | 430,981 | 141,115 | 43,537 | 872,796 | 21,122 | 4,333,290 |
| Contingent liabilities | 1,005,846 | - | 61,879 | 35,451 | 102 | - | - | 1,103,278 |
| **Total commitments and contingent liabilities** | 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.)**

**(i) Industry Analysis (Cont'd.)**

| 2015 | Agriculture | Mining and Quarrying | Manufacturing | Electricity, Gas and Water | Construction | Wholesale and Retail Trade and Hotel and Restaurants | Transport, Storage and Communication | Finance and Insurance | Subtotal |
|---|---|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Cash and short-term funds | - | - | - | - | - | - | - | 150,780 | 150,780 |
| Deposits and placements with banks and other financial institutions | - | - | - | - | - | - | - | 750,000 | 750,000 |
| Derivative financial assets | - | - | 89 | - | - | - | - | 27,380 | 27,469 |
| Financial assets held-for-trading | | | | | | | | | |
| - Money market securities | - | - | - | - | - | - | - | - | - |
| - Unquoted private debt securities | - | - | - | - | 10,078 | - | - | - | 10,078 |
| | - | - | - | - | 10,078 | - | - | - | 10,078 |
| Financial investments available-for-sale | | | | | | | | | |
| - Money market securities | - | - | - | - | - | - | - | 3,045,887 | 3,045,887 |
| - Unquoted private debt securities | - | 35,879 | 20,164 | - | 190,852 | - | 30,191 | 187,209 | 464,295 |
| | - | 35,879 | 20,164 | - | 190,852 | - | 30,191 | 3,233,096 | 3,510,182 |
| Financial investments held-to-maturity | | | | | | | | | |
| - Unquoted private debt securities | - | - | - | - | 821,706 | - | 45,000 | - | 866,706 |
| Financing and advances | | | | | | | | | |
| - Hire purchase | 3,048 | 119 | 5,361 | 572 | 14,458 | 12,135 | 6,801 | - | 42,494 |
| - Mortgage | 1,076 | - | 4,896 | - | 1,479 | 5,449 | - | 1,228 | 14,128 |
| - Credit card | - | - | - | - | - | - | - | - | - |
| - Others | 30,222 | 8,680 | 42,492 | 3,140 | 69,507 | 21,406 | 27,077 | 314 | 202,838 |
| - Corporate financing and advances: | | | | | | | | | |
| Term and bridging financing | 592,648 | 1,652,127 | 1,066,299 | 7,022 | 834,795 | 203,828 | 573,838 | 60,849 | 4,991,406 |
| Revolving credits | 721,981 | 9,342 | 452,777 | 109,095 | 998,788 | 142,763 | 268,129 | 313,992 | 3,016,867 |
| Cash lines | 63,461 | 4,741 | 122,536 | 5,413 | 162,715 | 142,075 | 27,806 | - | 528,747 |
| Trade | 13,454 | 1,375 | 627,374 | 10,149 | 50,484 | 414,647 | 23,215 | - | 1,140,698 |
| Less: Collective allowance | - | - | - | - | - | - | - | - | - |
| | 1,425,890 | 1,676,384 | 2,321,735 | 135,391 | 2,132,226 | 942,303 | 926,866 | 376,383 | 9,937,178 |
| Receivables: Investments not quoted in active markets | - | 357,333 | - | - | 7,649 | - | - | - | 364,982 |
| Statutory deposit with Bank Negara Malaysia | - | - | - | - | - | - | - | - | - |
| Other financial assets | - | 3,763 | 234 | - | 11,437 | - | 704 | 192,984 | 209,122 |
| **Total financial assets** | 1,425,890 | 2,073,359 | 2,342,222 | 135,391 | 3,173,948 | 942,303 | 1,002,761 | 4,730,623 | 15,826,497 |
| Commitments | 342,786 | 215,071 | 1,033,165 | 2,575 | 539,976 | 441,098 | 229,214 | 36,569 | 2,840,454 |
| Contingent liabilities | 1,373 | 26,403 | 201,499 | 23,925 | 502,943 | 41,350 | 39,385 | 5,249 | 842,127 |
| **Total commitments and contingent liabilities** | 344,159 | 241,474 | 1,234,664 | 26,500 | 1,042,919 | 482,448 | 268,599 | 41,818 | 3,682,581 |

**48. RISK MANAGEMENT (CONT'D.)**

**48.2 CREDIT RISK MANAGEMENT (CONT'D.)**

**(i) Industry Analysis (Cont'd.)**

| 2015 | 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 | 150,780 | 3,910,902 | - | - | - | - | - | 4,061,682 |
| Deposits and placements with banks and other financial institutions | 750,000 | - | - | - | - | - | - | 750,000 |
| Derivative financial assets | 27,469 | - | - | - | - | - | - | 27,469 |
| Financial assets held-for-trading | | | | | | | | |
| - Money market securities | - | 141,705 | - | - | - | - | - | 141,705 |
| - Unquoted private debt securities | 10,078 | - | - | - | - | - | - | 10,078 |
| | 10,078 | 141,705 | - | - | - | - | - | 151,783 |
| Financial investments available-for-sale | | | | | | | | |
| - Money market securities | 3,045,887 | 459,035 | - | - | - | - | - | 3,504,922 |
| - Unquoted private debt securities | 464,295 | - | 48,910 | 9,627 | - | 55,765 | 26,092 | 604,689 |
| | 3,510,182 | 459,035 | 48,910 | 9,627 | - | 55,765 | 26,092 | 4,109,611 |
| Financial investments held-to-maturity | | | | | | | | |
| - Unquoted private debt securities | 866,706 | 382,860 | - | - | - | - | - | 1,249,566 |
| Financing and advances | | | | | | | | |
| - Hire purchase | 42,494 | - | 27 | 5,912 | 10,188 | 10,410,150 | 3,453 | 10,472,224 |
| - Mortgage | 14,128 | - | 3,361 | 931 | 7,372 | 1,617,866 | 91,212 | 1,734,870 |
| - Credit card | - | - | - | - | - | 299,914 | - | 299,914 |
| - Others | 202,838 | - | 497 | 80,289 | 22,592 | 1,408,553 | 15,265 | 1,730,034 |
| - Corporate financing and advances: | | | | | | | | |
| Term and bridging financing | 4,991,406 | - | 2,012,229 | 249,702 | 449,169 | 5,046 | 5,026 | 7,712,578 |
| Revolving credits | 3,016,867 | - | 621,880 | 21,566 | 317,278 | - | 54,777 | 4,032,368 |
| Cash lines | 528,747 | - | 181,837 | 88,164 | 13,396 | 458 | 5,041 | 817,643 |
| Trade | 1,140,698 | - | 483 | 13,459 | 1,988 | - | - | 1,156,628 |
| Less: Collective allowance | - | - | - | - | - | - | - | (458,453) |
| | 9,937,178 | - | 2,820,314 | 460,023 | 821,983 | 13,741,987 | 174,774 | 27,497,806 |
| Receivables: Investments not quoted in active markets | 364,982 | - | 99,000 | - | - | - | - | 463,982 |
| Statutory deposit with Bank Negara Malaysia | - | 1,045,000 | - | - | - | - | - | 1,045,000 |
| Other financial assets | 209,122 | 3,422 | 587 | 42,010 | - | - | 1,210 | 256,351 |
| **Total financial assets** | 15,826,497 | 5,942,924 | 2,968,811 | 511,660 | 821,983 | 13,797,752 | 202,076 | 39,613,250 |
| Commitments | 2,840,454 | - | 378,672 | 300,249 | 68,010 | 903,994 | 4,381 | 4,495,760 |
| Contingent liabilities | 842,127 | - | 36,899 | 49,899 | 6,852 | - | - | 935,777 |
| **Total commitments and contingent liabilities** | 3,682,581 | - | 415,571 | 350,148 | 74,862 | 903,994 | 4,381 | 5,431,537 |

## 48. RISK MANAGEMENT (CONT'D.)

### 48.2 CREDIT RISK MANAGEMENT (CONT'D.)

#### (ii) Geographical Analysis

| 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 private debt securities | 90,384 | - | 90,384 |
| | 174,550 | - | 174,550 |
| Financial investments available-for-sale | | | |
| - Money market securities | 2,407,289 | - | 2,407,289 |
| - Unquoted private debt securities | 770,227 | - | 770,227 |
| | 3,177,516 | - | 3,177,516 |
| Financial investments held-to-maturity | | | |
| - Unquoted private debt securities | 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 credit | 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 |
| **Total financial assets** | 38,218,394 | 21,601 | 38,239,995 |
| Commitments | 4,333,290 | - | 4,333,290 |
| Contingent liabilities | 1,103,278 | - | 1,103,278 |
| **Total commitments and contingent liabilities** | 5,436,568 | - | 5,436,568 |

## 48. RISK MANAGEMENT (CONT'D.)

### 48.2 CREDIT RISK MANAGEMENT (CONT'D.)

#### (ii) Geographical Analysis (Cont'd.)

| 2015 | In Malaysia RM'000 | Outside Malaysia RM'000 | Total RM'000 |
|---|---|---|---|
| Cash and short-term funds | 4,060,902 | 780 | 4,061,682 |
| Deposits and placements with banks and other financial institutions | 750,000 | - | 750,000 |
| Derivative financial assets | 27,469 | - | 27,469 |
| Financial assets held-for-trading | | | |
| - Money market securities | 141,705 | - | 141,705 |
| - Unquoted private debt securities | 10,078 | - | 10,078 |
| | 151,783 | - | 151,783 |
| Financial investments available-for-sale | | | |
| - Money market securities | 3,504,922 | - | 3,504,922 |
| - Unquoted private debt securities | 604,689 | - | 604,689 |
| | 4,109,611 | - | 4,109,611 |
| Financial investments held-to-maturity | | | |
| - Unquoted private debt securities | 1,249,566 | - | 1,249,566 |
| Financing and advances | | | |
| - Hire purchase | 10,472,224 | - | 10,472,224 |
| - Mortgage | 1,734,870 | - | 1,734,870 |
| - Credit card | 299,914 | - | 299,914 |
| - Others | 1,730,034 | - | 1,730,034 |
| - Corporate financing and advances: | | | |
| Term and bridging financing | 7,712,578 | - | 7,712,578 |
| Revolving credits | 4,032,368 | - | 4,032,368 |
| Cash lines | 817,643 | - | 817,643 |
| Trade | 1,156,628 | - | 1,156,628 |
| Less: Collective allowance | (458,453) | - | (458,453) |
| | 27,497,806 | - | 27,497,806 |
| Receivables: Investments not quoted in active markets | 463,982 | - | 463,982 |
| Statutory deposit with Bank Negara Malaysia | 1,045,000 | - | 1,045,000 |
| Other financial assets | 256,351 | - | 256,351 |
| **Total financial assets** | 39,612,470 | 780 | 39,613,250 |
| Commitments | 4,495,760 | - | 4,495,760 |
| Contingent liabilities | 935,777 | - | 935,777 |
| **Total commitments and contingent liabilities** | 5,431,537 | - | 5,431,537 |

## 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.

Th AMMB Group Collateral Policy, issued in August 2015, 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 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 were realigned in 2015 from existing 5 rating categories 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% | • Exceptionally good credit risk profile.<br>• Very strong willingness to meet its financial commitments.<br>• Exhibits high degree resilience to adverse development. |
| 7 to 12 | Very strong | 0.0738% to 0.5942% | • Very Good credit risk profile.<br>• Strong willingness to meet its financial commitments.<br>• Exhibits high degree resilience to adverse development. |
| 13 to 14 | Strong | 0.5943% to 1.0159% | • Good credit risk profile.<br>• Exhibit willingness to meet its financial commitments.<br>• Generally in a position to withstand adverse development. |
| 15 to 16 | Satisfactory | 1.0160% to 2.2722% | • Satisfactory credit risk profile.<br>• Adequate willingness to meet its financial commitments.<br>• Generally in a position to resolve any apparent shortcoming within an acceptable time frame. |
| 17 to 18- | Moderate | 2.2723% to 4.1028% | • Moderate credit risk profile.<br>• Willingness to meet its financial commitments would be uncertain in normal circumstances and economic conditions. |
| 19+ to 20- | Marginal | 4.1029% to 8.2931% | • Marginal credit risk profile.<br>• Willingness to meet its financial commitments would be uncertain under normal circumstances and economic conditions. |

## 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% | • Substandard credit risk profile.<br>• Exhibit less willingness to meet its financial commitments under normal circumstances and economic conditions. |
| 99 | Impaired | 100% | • Classified as impaired as per the Policy on Definition of Default/Impaired for Credit Facility. |

**Description of the categories for Wholesale Banking**

| Credit Quality Classification | Description |
|---|---|
| Exceptionally strong | Highest rating, for exceptionally strong government institutions and a small number of very large multinational institutional clients. The key characteristics are:-<br>- Exceptionally solid and stable operating and financial performance. Debt servicing capacity has been exceptionally strong over the long term.<br>- 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.<br>- Highly unlikely to be adversely affected by foreseeable events. |
| Very Strong | 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:-<br>- Based on their activities, financial profile and past capacity to repay, counterparties with this rating carry a small, but clearly identifiable degree of risk.<br>- 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. |

## 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 | 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:-<br>- Counterparties present an identifiable degree of generally acceptable risk, possibly expressing itself as variability in financial and/or operating performance.<br>- Debt servicing capacity is quite good but adverse changes in circumstances and economic conditions are more likely to impair this capacity. |
| Satisfactory | Counterparties demonstrate adequate medium term operational and financial stability. Protection factors are considered sufficient for prudent investment. The key characteristics are:-<br>- Counterparties present a mostly satisfactory risk that requires mitigation, possibly expressing itself as variability in financial and/ or operating performance.<br>- Debt servicing capacity is satisfactory but adverse changes in circumstances and economic condition may impair this capacity.<br>- 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. |
| Moderate | 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:-<br>- Capacity for timely fulfillment of financial obligations exists.<br>- Adverse economic condition or changing business environment is more likely to lead to weakened capacity to meet timely repayment in the long run.<br>- Overall credit quality may be more volatile within this category. |
| Marginal | Counterparties demonstrate sustained operational and financial instability. The key characteristics are:-<br>- Erratic performance with one or more recent loss periods, increased borrowings or patchy account conduct.<br>- Debt servicing capacity is marginal.<br>- Often under strong, sustained competitive pressure.<br>- Variability and uncertainty in profitability and liquidity is projected to continue over the short and possibly medium term.<br>- Significant changes and instability in senior management may be observed. |

## 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 |
|---|---|
| Substandard | Lowest rating for counterparties that continuously demonstrate operational and financial instability. The key characteristics are:-<br>- Mediocre financials with consistent loss periods, increased borrowings and/or poor account conduct.<br>- Current and expected debt servicing capacity is inadequate.<br>- Financial solvency is questionable and/or financial structure is weak.<br>- Deteriorating state of business and require significant changes in strategies or practices to return business to sustainable state.<br>- Experiencing difficulties, which may result in default in the next one to two years. |
| Impaired | Impaired account. The key characteristic is that the counterparty has been classified as “impaired” as per the Classified Account Management Policy for Credit Facility. |

The table below provides the External Credit Assessment Institutions ("ECAIs") ratings that broadly correspond to the broad internal credit quality categories which are applicable to Wholesale Banking.

| Credit Quality Classification | Moody's | S&P | Fitch | RAM | MARC |
|---|---|---|---|---|---|
| Exceptionally Strong | Aaa to A2 | AAA to A | AAA to A | | |
| Very Strong | A3 to Baa3 | A- to BBB- | A- to BBB- | AAA to AA3 | AAA to AA |
| Strong | Ba1 to Ba2 | BB+ to BB | BB+ to BB | A1 to A2 | |
| Satisfactory | Ba3 | BB- | BB- | A3 to BBB2 | AA- to A+ |
| Moderate | B1 to B2 | B+ to B | B+ to B | BBB3 to BB1 | A to A- |
| Marginal | B3 | B- | B- | BB2 to B1 | BBB+ to BBB- |
| Substandard | Caa1 to C | CCC+ to C | CCC to C | B2 to C3 | BB+ to C |
| Impaired | D | D | D | D | D |

The above ECAIs used by the Bank are:

- Moody’s Investors Service ("Moody's")
- Standard & Poor’s Rating Services ("S&P")
- Fitch Rating ("Fitch")
- Rating Services Berhad ("RAM")
- Malaysian Rating Corporation Berhad ("MARC")

## 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[1] 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[2] ; 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[3]); 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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[1] *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.*

[2] *Material obligation as determined by Management. Current "material" threshold is set at more than RM200.00.*

[3] *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 obilgation of a customer triggers a default of another financing obligation of the <u>same</u> customer; or
- a default of a financing obligation of a customer triggers a default of a financing obligation of <u>other</u> 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, fixed income securities, debt converted instrument 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[4] 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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*4 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.

| | Neither past due nor impaired | | | | | | | | Past due | | | Gross amount | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Exceptionally strong | Very strong | Strong | Satisfactory risk | Moderate risk | Marginal risk | Sub-standard | Unrated | but not impaired | Impaired | Total | individually impaired | Individual allowance |
| **2016** | **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 | 21,601 | 4,076,951 | - | - | - | - | - | - | - | - | 4,098,552 | - | - |
| 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 | | | | | | | | | | | | | |
| - Money market securities | - | 84,166 | - | - | - | - | - | - | - | - | 84,166 | - | - |
| - Unquoted private debt securities | - | 90,384 | - | - | - | - | - | - | - | - | 90,384 | - | - |
| | - | 174,550 | - | - | - | - | - | - | - | - | 174,550 | - | - |
| Financial investments available-for-sale | | | | | | | | | | | | | |
| - Money market securities | - | 2,407,289 | - | - | - | - | - | - | - | - | 2,407,289 | - | - |
| - Unquoted private debt securities | - | 770,227 | - | - | - | - | - | - | - | - | 770,227 | - | - |
| | - | 3,177,516 | - | - | - | - | - | - | - | - | 3,177,516 | - | - |
| Financial investments held-to-maturity | | | | | | | | | | | | | |
| - Unquoted private debt securities | - | 1,263,639 | - | - | - | - | - | - | - | - | 1,263,639 | - | - |
| Gross financing and advances | | | | | | | | | | | | | |
| - Hire purchase | 788 | 4,815,259 | 36,217 | 1,029,663 | 295,828 | 128,596 | 106,711 | - | 2,578,480 | 118,845 | 9,110,387 | - | - |
| - Mortgage | - | 58,229 | 749,448 | 294,344 | 866,844 | 50,621 | 169,383 | - | 342,651 | 24,577 | 2,556,097 | 273 | (32) |
| - Credit card | - | 25,314 | 33,587 | 70,120 | 49,125 | 29,107 | 19,748 | - | 49,500 | 4,259 | 280,760 | - | - |
| - Others | - | 2,606 | 1,851 | 1,028,048 | 49,258 | 29,307 | 22,275 | - | 182,933 | 18,206 | 1,334,484 | 387 | (62) |
| - Corporate financing and advances: | | | | | | | | | | | | | |
| Term and bridging financing | - | 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) |
| Revolving credits | 41,813 | 2,003,432 | 1,158,734 | 498,052 | 395,724 | 63,625 | 630,706 | - | - | - | 4,792,086 | - | - |
| Cash lines | - | 206,389 | 78,210 | 343,458 | 183,288 | 124,996 | 17,424 | - | - | 29,769 | 983,534 | 12,027 | (8,436) |
| Trade | - | 356,522 | 316,766 | 531,644 | 125,364 | 31,742 | 14,135 | - | 1,858 | 24,532 | 1,402,563 | 22,985 | (22,893) |
| | 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) |
| 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.)

**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.

| | Neither past due nor impaired | | | | | | | | Past due | | | Gross amount | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Exceptionally strong | Very strong | Strong | Satisfactory risk | Moderate risk | Marginal risk | Sub-standard | Unrated | but not impaired | Impaired | Total | individually impaired | Individual allowance |
| **2015** | **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 | 780 | 4,010,902 | 50,000 | - | - | - | - | - | - | - | 4,061,682 | - | - |
| Deposits and placements with banks and other financial institutions | - | 600,000 | 150,000 | - | - | - | - | - | - | - | 750,000 | - | - |
| Derivative financial assets | - | 25,876 | 34 | 1,504 | 55 | - | - | - | - | - | 27,469 | - | - |
| Financial assets held-for-trading | | | | | | | | | | | | | |
| - Money market securities | - | 141,705 | - | - | - | - | - | - | - | - | 141,705 | - | - |
| - Unquoted private debt securities | - | 10,078 | - | - | - | - | - | - | - | - | 10,078 | - | - |
| | - | 151,783 | - | - | - | - | - | - | - | - | 151,783 | - | - |
| Financial investments available-for-sale | | | | | | | | | | | | | |
| - Money market securities | - | 3,504,922 | - | - | - | - | - | - | - | - | 3,504,922 | - | - |
| - Unquoted private debt securities | - | 568,810 | 35,879 | - | - | - | - | - | - | - | 604,689 | - | - |
| | - | 4,073,732 | 35,879 | - | - | - | - | - | - | - | 4,109,611 | - | - |
| Financial investments - held-to-maturity | | | | | | | | | | | | | |
| - Unquoted private debt securities | - | 1,249,566 | - | - | - | - | - | - | - | - | 1,249,566 | - | - |
| Gross financing and advances | | | | | | | | | | | | | |
| - Hire purchase | 17,017 | 4,701,549 | 964,784 | 980,675 | 372,467 | 239,100 | 112,755 | - | 2,924,360 | 160,209 | 10,472,916 | 700 | (692) |
| - Mortgage | - | 504,323 | 441,745 | 335,755 | 106,617 | 57,229 | 34,040 | - | 228,714 | 26,447 | 1,734,870 | - | - |
| - Credit card | - | 20,499 | 42,360 | 107,205 | 39,837 | 20,157 | 9,498 | - | 58,231 | 2,127 | 299,914 | - | - |
| - Others | - | 47,705 | 32,773 | 1,240,119 | 127,664 | 65,027 | 24,619 | - | 172,732 | 24,800 | 1,735,439 | 5,509 | (5,405) |
| - Corporate financing and advances: | | | | | | | | | | | | | |
| Term and bridging financing | - | 3,697,413 | 694,592 | 966,609 | 931,727 | 492,998 | 298,791 | - | 308,019 | 338,897 | 7,729,046 | 51,196 | (16,468) |
| Revolving credits | - | 1,523,544 | 604,006 | 663,571 | 1,004,892 | 216,331 | 20,024 | - | - | - | 4,032,368 | - | - |
| Cash lines | - | 143,320 | 54,862 | 128,755 | 275,576 | 168,682 | 22,630 | - | 14,423 | 21,304 | 829,552 | 20,494 | (11,909) |
| Trade | - | 220,155 | 113,864 | 496,405 | 141,181 | 181,760 | 2,193 | - | - | 32,671 | 1,188,229 | 33,220 | (31,601) |
| | 17,017 | 10,858,508 | 2,948,986 | 4,919,094 | 2,999,961 | 1,441,284 | 524,550 | - | 3,706,479 | 606,455 | 28,022,334 | 111,119 | (66,075) |
| Receivables: Investments not quoted in active markets | | - | - | - | - | - | - | 463,982 | - | - | 463,982 | - | - |
| Statutory deposit with Bank Negara Malaysia | - | 1,045,000 | - | - | - | - | - | - | - | - | 1,045,000 | - | - |
| Other financial assets | - | 70,604 | 2,097 | 178,579 | - | - | - | 5,071 | - | - | 256,351 | - | - |
| **Total financial assets** | 17,797 | 22,085,971 | 3,186,996 | 5,099,177 | 3,000,016 | 1,441,284 | 524,550 | 469,053 | 3,706,479 | 606,455 | 40,137,778 | 111,119 | (66,075) |

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**

**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 |
| | 2,570,861 | 661,861 | 3,232,722 |

**2015**

| | Up to 1 month RM'000 | > 1 month to 3 months RM'000 | Total RM'000 |
|---|---|---|---|
| Gross financing and advances | | | |
| - Hire purchase | 2,063,951 | 860,409 | 2,924,360 |
| - Mortgage | 149,263 | 79,451 | 228,714 |
| - Credit card | 40,226 | 18,005 | 58,231 |
| - Others | 123,664 | 49,068 | 172,732 |
| - Corporate financing and advances: | | | |
| Term and bridging financing | 293,624 | 14,395 | 308,019 |
| Cash lines | 9,421 | 5,002 | 14,423 |
| | 2,680,149 | 1,026,330 | 3,706,479 |

## 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 | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Gross financing and advances | | | | | | |
| - Hire purchase | 9,110,387 | 10,472,916 | 8,521,944 | 5,973,006 | 588,443 | 4,499,910 |
| - Mortgage | 2,556,097 | 1,734,870 | 2,513,529 | 1,655,046 | 42,568 | 79,824 |
| - Credit card | 280,760 | 299,914 | 2,141 | 2,542 | 278,619 | 297,372 |
| - Others | 1,334,484 | 1,735,439 | 36,917 | 207,465 | 1,297,567 | 1,527,974 |
| - Corporate financing and advances: | | | | | | |
| Term and bridging financing | 7,324,749 | 7,729,046 | 3,709,992 | 3,504,460 | 3,614,757 | 4,224,586 |
| Revolving credits | 4,792,086 | 4,032,368 | 2,031,939 | 1,579,218 | 2,760,147 | 2,453,150 |
| Cash lines | 983,534 | 829,552 | 607,366 | 470,252 | 376,168 | 359,300 |
| Trade | 1,402,563 | 1,188,229 | 385,150 | 310,129 | 1,017,413 | 878,100 |
| | 27,784,660 | 28,022,334 | 17,808,978 | 13,702,118 | 9,975,682 | 14,320,216 |

## 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[5] net of individual impairment.

5 *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:

| | |
|---|---|
| **Identification** | • Identify liquidity risk within existing and new business activities.<br>• Review market-related information such as market trend and economic data.<br>• Keep abreast with regulatory requirements. |
| **Assessment/ Measurement** | • Liquidity Coverage Ratio ("LCR")<br>• Depositor Concentration Ratios<br>• Financing to Deposit Ratio ("FDR")<br>• Other Detailed Management Controls |
| **Control/ Mitigation** | • LCR Limits<br>• Depositor Concentration Ratios<br>• FDR Limits<br>• Other Detailed Management Limits |
| **Monitoring/ Review** | • Monitor limits<br>• Periodical review and reporting |

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 Group CEOs Committee is the responsible governing body that approves the Bank's liquidity management and strategic 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 propose and oversee the implementation of policies and other controls relating to the above risks.

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. Group Risk Management 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.

The Bank 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.

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.

| 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 |
| **Assets** | | | | | | | | |
| 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 |
| **Total Undiscounted Assets** | 5,772,392 | 4,392,111 | 2,513,454 | 4,432,351 | 18,757,386 | 15,311,743 | 365 | 51,179,802 |
| **Liabilities** | | | | | | | | |
| 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 Berhad | 11,130 | 12,762 | 2,531 | 526,815 | 664,521 | - | - | 1,217,759 |
| 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 |
| 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 |
| **Total Undiscounted Liabilities** | 13,320,934 | 8,444,728 | 4,312,049 | 3,964,990 | 6,743,544 | 1,233 | 5,883 | 36,793,361 |
| **Net Undiscounted Assets/(Liabilities)** | (7,548,542) | (4,052,617) | (1,798,595) | 467,361 | 12,013,842 | 15,310,510 | (5,518) | 14,386,441 |

## 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.

| 2015 | 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 |
| **Assets** | | | | | | | | |
| Cash and short-term funds | 4,066,464 | - | - | - | - | - | - | 4,066,464 |
| Deposits and placements with banks and other financial institutions | - | 754,254 | - | - | - | - | - | 754,254 |
| Derivative financial assets | 9,343 | 42 | 11,381 | 3,600 | 811 | 1,363 | - | 26,540 |
| Financial assets held-for-trading | - | 218 | 3,067 | 3,196 | 25,575 | 194,731 | - | 226,787 |
| Financial investments available-for-sale | 1,394,253 | 1,927,125 | 7,202 | 17,786 | 459,681 | 559,598 | - | 4,365,645 |
| Financial investments held-to-maturity | - | - | 20,592 | 20,714 | 365,444 | 1,828,481 | - | 2,235,231 |
| Financing and advances | 1,566,321 | 2,451,955 | 2,264,560 | 4,320,600 | 16,372,081 | 6,483,865 | - | 33,459,382 |
| Receivables: Investments not quoted in active markets | - | 1,934 | 11,823 | 14,285 | 202,900 | 459,929 | - | 690,871 |
| Statutory deposit with Bank Negara Malaysia | - | - | - | - | - | 1,045,000 | - | 1,045,000 |
| Other assets | 92,099 | 1,451 | 2,250 | 50,845 | 179,498 | - | - | 326,143 |
| Property and equipment | - | - | - | - | - | - | 301 | 301 |
| Intangible assets | - | - | - | - | - | - | 20 | 20 |
| **Total Undiscounted Assets** | 7,128,480 | 5,136,979 | 2,320,875 | 4,431,026 | 17,605,990 | 10,572,967 | 321 | 47,196,638 |
| **Liabilities** | | | | | | | | |
| Deposits and placements of banks and other financial institutions | 872,466 | 233,932 | 157,366 | 462 | 115,950 | 72 | - | 1,380,248 |
| Investment account due to licensed bank | - | - | - | 1,427,950 | - | - | - | 1,427,950 |
| Derivative financial liabilities | 9,315 | 5 | 12,279 | 6,271 | 6,020 | - | - | 33,890 |
| Recourse obligation on financing sold to Cagamas Berhad | 522,801 | 308,426 | 2,215 | 15,025 | 648,337 | - | - | 1,496,804 |
| Deposits from customers | 14,056,814 | 9,028,253 | 3,934,922 | 2,099,633 | 1,288,168 | - | - | 30,407,790 |
| Term funding | - | 2,182 | 38,749 | 40,338 | 2,082,462 | - | - | 2,163,731 |
| Subordinated Sukuk | - | 2,885 | 23,643 | 26,533 | 1,233,615 | - | - | 1,286,676 |
| Deferred tax liability | - | - | - | - | - | - | 10,840 | 10,840 |
| Other liabilities | 92,809 | 20,968 | 2,324 | 2,132 | 8,462 | 31 | - | 126,726 |
| Provision for zakat | - | - | - | 1,137 | - | - | - | 1,137 |
| **Total Undiscounted Liabilities** | 15,554,205 | 9,596,651 | 4,171,498 | 3,619,481 | 5,383,014 | 103 | 10,840 | 38,335,792 |
| **Net Undiscounted Assets/(Liabilities)** | (8,425,725) | (4,459,672) | (1,850,623) | 811,545 | 12,222,976 | 10,572,864 | (10,519) | 8,860,846 |

## 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 | >1 month to 3 months | >3 months to 6 months | >6 months to 12 months | >1 year to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **Commitments** | | | | | | | |
| 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 |
| **Contingent liabilities** | | | | | | | |
| 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 |
| **Total commitments and contingent liabilities** | 758,713 | 463,023 | 610,830 | 745,199 | 1,163,927 | 1,694,876 | 5,436,568 |

## 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.

| 2015 | 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 | Total |
|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **Commitments** | | | | | | | |
| Other commitments, such as formal standby facilities and credit lines | 356,892 | 363,899 | 597,697 | 550,507 | 918,580 | 1,113,830 | 3,901,405 |
| Unutilised credit card lines | 594,355 | - | - | - | - | - | 594,355 |
| **Contingent liabilities** | | | | | | | |
| Direct credit substitutes | 900 | - | 5,503 | 58,385 | 43,138 | - | 107,926 |
| Transaction-related contingent items | 37,754 | 31,177 | 64,116 | 272,647 | 339,116 | 2,082 | 746,892 |
| Short-term self liquidating trade-related contingencies | 55,472 | 10,476 | 2,126 | 12,885 | - | - | 80,959 |
| **Total commitments and contingent liabilities** | 1,045,373 | 405,552 | 669,442 | 894,424 | 1,300,834 | 1,115,912 | 5,431,537 |

## 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 Investment Banking and Markets Risk ("IBMR").

**Traded Market Risk**

The TMR management process is depicted in the table below.

| | |
|---|---|
| **Identification** | • Identify market risks within existing and new products.<br>• Review market-related information such as market trends and economic data |
| **Assessment/ Measurement** | • Value-at-Risk ("VaR")<br>• Annual Loss Limit ("ALL")<br>• Historical Stress Loss ("HSL")<br>• Other Detailed Management Controls |
| **Control/ Mitigation** | • VaR Limits<br>• HSL Limit<br>• Loss Limits /Triggers(Annual/Monthly/Daily)<br>• Present Value of One Basis Point Limits("PV01")<br>• Maximum Tenor Limits<br>• Maximum Holding Period<br>• Minimum Holding Period<br>• Approved Instruments/Currencies/Countries<br>• Other Detailed Management Limits |
| **Monitoring/ Review** | • Monitor limits<br>• Periodical review and reporting |

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 Group CEOs Committee 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 Group CEOs Committee, 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 traded market risk 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:

| | |
|---|---|
| **Identification** | • Identify IRR/RORBB within existing and new products<br>• Review market-related information such as market trend and economic data |
| **Assessment/ Measurement** | • VaR<br>• Earnings-at-Risk ("EaR")<br>• PV01<br>• Other Detailed Management Controls |
| **Control/ Mitigation** | • VaR limits<br>• EaR limits<br>• PV01 limits<br>• Other Detailed Management Limits |
| **Monitoring/ Review** | • Monitor limits<br>• Periodical review and reporting |

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 Group CEOs Committee. Group CEOs Committee is responsible for the alignment of Bank-wide risk appetite and funding needs, taking into consideration the Bank's business strategies. Group CEOs Committee 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 Group CEOs Committee, 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 instrustment 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:**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | 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 | (6,071) | 6,481 | (11,260) | 12,738 |

**Non-Traded Market Risk:**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | 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 | 137,058 | (137,073) | 131,937 | (131,931) |
| Impact on equity | (55,291) | 60,142 | (39,255) | 42,451 |

## 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.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **Currency** | **Exchange rate + 10 % (RM'000)** | **Exchange rate - 10 % (RM'000)** | **Exchange rate + 10 % (RM'000)** | **Exchange rate - 10 % (RM'000)** |
| USD | 5,062 | (5,062) | 1,692 | (1,692) |
| SGD | 28 | (28) | 56 | (56) |
| EUR | 4 | (4) | 25 | (25) |
| JPY | (1) | 1 | - | - |
| Others | 217 | (217) | - | - |

There is no impact to equity for 2016 and 2015 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 2016 and 2015 in respect of equity price risk.

### 48.5 OPERATIONAL RISK MANAGEMENT

The operational risk management process is depicted in the table below:

| | |
|---|---|
| **Identification** | • Identify and analyse risks in key processes/activities within Line of Business (including new products) |
| **Assessment/ Measurement** | • Incident Management and Data Collection<br>• Risk and Control Self Assessment<br>• Key Risk Indicators<br>• Key Control testing<br>• Risk Treatment Plan |
| **Control/ Mitigation** | • Policies addressing control and governance requirements to mitigate specific operational risk<br>• Advisory on establishment of internal control<br>• Contingency planning |
| **Monitoring/ Review** | • 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.<br>• Periodical review of risk profile within Line of Business |

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 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 and capital allocation, fraud strategy and reporting of operational risk issues to Group CEOs Committee ("GCC"), 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:

| | |
|---|---|
| **Identification** | • Identify events that potentially threaten the business operations and areas of criticality. |
| **Assessment/ Measurement** | • Business Impact Analysis<br>• Threat Assessment |
| **Control/ Mitigation** | • Policies governing the BCM implementation<br>• BCM methodologies controlling the process flow<br>• Implementing the Business Continuity Plan |
| **Monitoring/ Review** | • BCM Plan testing and exercise<br>• Review of BCM Plan<br>• Plan maintenance |

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, which may lead to incurrence of losses, disruption or otherwise impact on the Bank's financials or reputation.

Legal risk is overseen by Group CEOs Committee, upon advice by internal legal counsel and where necessary, in consultation with external legal counsel to ensure that legal risk is appropriately managed.

### 48.7 REGULATORY COMPLIANCE RISK

The Bank has established a compliance policy which sets out the roles and responsibilities of the Board, Senior Management, Business Units, Group Shared Services, Group Compliance and Group Internal Audit to oversee the management of compliance risk with the aim to promote the safety of the Bank by minimising financial, reputational and operational risks arising from legal and regulatory non-compliance.

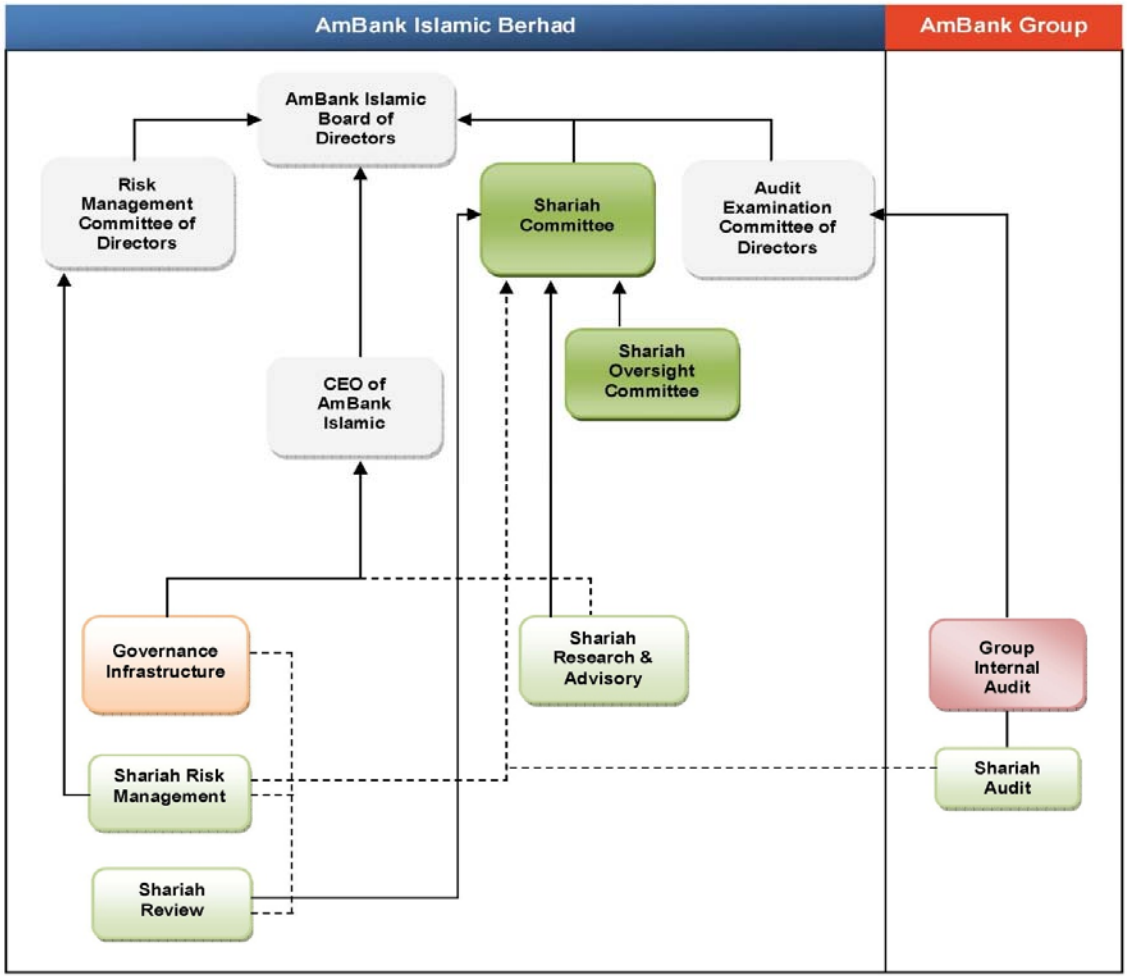
The Bank has put in place the processes to manage the compliance functions in identifying, assessing and monitoring the following activities:

- Management of AML/CFT ongoing due diligence via tracking, monitoring and reporting of suspicious transactions
- Management of new regulations including timely dissemination, engagement and monitoring
- Undertake periodic compliance assessment including onsite, offsite, thematic and initial one-off onsite validation
- Review of new or variation to existing products and services

Training is provided to employees of AmBank Group on relevant legal and regulatory requirements governing its activities and guidance on implementation of internal controls to manage compliance risk.

## 48. RISK MANAGEMENT (CONT'D.)

### 48.8 SHARIAH RISK




The AMMB Group has established a sound and robust 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 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 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**

Management is responsible to make reference to the Shariah Committee and Shariah Oversight Committee on Shariah matters and to take necessary measures for implementation. The Management 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, 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 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$^{st}$ - The Business and Support Units; 2$^{nd}$ - Shariah Risk Management, Shariah Review, Shariah Research and Advisory, Compliance; 3$^{rd}$ - Shariah Audit.

## 48. RISK MANAGEMENT (CONT'D.)

### 48.8 SHARIAH RISK (CONT'D.)

**Shariah Review**

The Shariah Review function is accountable to the Shariah 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 function 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 operations through Shariah Audit function. Audit coverage include review of product structure documentation, adequacy of systems, internal controls and computation, staff competency and adequacy of the Shariah governance process.

**Shariah Non-Compliant Income**

During the year, the Bank had strengthened its Shariah governance framework and reviewed a number of business areas to consciously identify weaknesses vis-à-vis Shariah requirements. As a result of the exercise, eight (8) transactions, including those which originated in the previous year, were discovered to be Shariah non-compliant. This resulted in Shariah non-compliant income amounting to RM9,740,145.75 which was subsequently purified. Pursuant to these incidents, the Bank will continuously enhance its controls to mitigate such recurrences, including improvements in systems, documentation and process flows.

## 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).

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Carrying value RM'000** | **Fair value RM'000** | **Carrying value RM'000** | **Fair value RM'000** |
| **Financial assets** | | | | |
| Financial investments held-to -maturity | 1,263,639 | 1,259,213 | 1,249,566 | 1,244,648 |
| Financing and advances * | 8,604,394 | 8,757,762 | 9,785,505 | 9,975,374 |
| Receivables : Investments not quoted in active markets | 468,141 | 467,884 | 463,982 | 463,825 |
| | 10,336,174 | 10,484,859 | 11,499,053 | 11,683,847 |
| **Financial liabilities** | | | | |
| Recourse obligation on financing sold to Cagamas Berhad | 1,127,824 | 1,191,669 | 1,436,775 | 1,473,333 |
| Term funding | 1,850,000 | 1,849,380 | 1,850,000 | 1,853,995 |
| Subordinated Sukuk | 1,399,528 | 1,404,654 | 1,149,384 | 1,156,668 |
| | 4,377,352 | 4,445,703 | 4,436,159 | 4,483,996 |

Note

* excluding financing and advances of RM18,787,159,000 (2015: RM17,712,301,000) 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 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **2016** | | | | |
| **Assets measured at fair value** | | | | |
| Derivative financial assets | - | 57,273 | - | 57,273 |
| Financial assets held-for-trading | | | | |
| - Money market securities | - | 84,166 | - | 84,166 |
| - Unquoted private debt securities | - | 90,384 | - | 90,384 |
| Financial investments available-for-sale | | | | |
| - Money market securities | - | 2,407,289 | - | 2,407,289 |
| - Unquoted private debt securities | - | 770,227 | - | 770,227 |
| **Assets for which fair values are disclosed** | | | | |
| 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 |
| **Liabilities measured at fair value** | | | | |
| Derivative financial liabilities | - | 67,685 | - | 67,685 |
| **Liabilities for which fair values are disclosed** | | | | |
| 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.)

b) The following table provides the fair value measurement hierarchy of the Bank's assets and liabilities (Cont'd.)

| | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| **2015** | | | | |
| **Financial assets measured at fair value** | | | | |
| Derivative financial assets | - | 27,469 | - | 27,469 |
| Financial assets held-for-trading | | | | |
| - Money market securities | - | 141,705 | - | 141,705 |
| - Unquoted private debt securities | - | 10,078 | - | 10,078 |
| Financial investments available-for-sale | | | | |
| - Money market securities | - | 3,504,922 | - | 3,504,922 |
| - Unquoted private debt securities | - | 604,689 | - | 604,689 |
| **Assets for which fair values are disclosed** | | | | |
| Financial investments held - to-maturity | - | 1,244,648 | - | 1,244,648 |
| Financing and advances | - | 9,975,374 | - | 9,975,374 |
| Receivables : Investments not quoted in active markets | - | 455,439 | 8,386 | 463,825 |
| | - | 15,964,324 | 8,386 | 15,972,710 |
| **Financial liabilities measured at fair value** | | | | |
| Derivative financial liabilities | - | 34,491 | - | 34,491 |
| **Liabilities for which fair values are disclosed** | | | | |
| Recourse obligation of financing sold to Cagamas Berhad | - | 1,473,333 | - | 1,473,333 |
| Term funding | - | 1,853,995 | - | 1,853,995 |
| Subordinated Sukuk | - | 1,156,668 | - | 1,156,668 |
| | - | 4,518,487 | - | 4,518,487 |

## 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 onservable 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 debt securities.

## 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 instalment 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 (unadjusted) market prices in active markets for identical assets or

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

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.)

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 | |
| **31 March 2016** | | | | | | |
| Derivative financial assets | 57,273 | - | 57,273 | (33,592) | - | 23,681 |
| Derivative financial liabilities | 67,685 | - | 67,685 | (33,592) | - | 34,093 |
| **31 March 2015** | | | | | | |
| Derivative financial assets | 27,469 | - | 27,469 | (1,342) | - | 26,127 |
| Derivative financial liabilities | 34,491 | - | 34,491 | (1,342) | - | 33,149 |

## 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) Markets

Markets includes proprietary trading as well as providing full range of products and services relating to treasury activities, including foreign exchange, derivatives, and fixed income.

(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 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.

Restatement of Comparatives

During the current financial year, the Bank:

(i) has presented allowances for impairment on financing and advances separately from other assets to better align with internal information used to manage the business;

(ii) expanded the disclosure for Wholesale Banking Division to provide disclosures that help investors and other stakeholders understand the Bank's performance.

Accordingly, comparatives have been restated to conform with current year's presentation.

## 51. BUSINESS SEGMENT ANALYSIS

**2016**

| | | Wholesale banking | | | |
|---|---|---|---|---|---|
| | Retail banking RM'000 | Corporate and Commercial Banking RM'000 | Markets RM'000 | Group Funding and Others RM'000 | Total RM'000 |
| External revenue | 841,185 | 761,906 | 77,692 | 304,107 | 1,984,890 |
| Revenue from other segments | (175,986) | 224,029 | (49,688) | 1,645 | - |
| Total operating revenue | 665,199 | 985,935 | 28,004 | 305,752 | 1,984,890 |
| Net finance income | 354,310 | 224,873 | 11,765 | 72,433 | 663,381 |
| Other income | 19,354 | 29,134 | 3,507 | (1,010) | 50,985 |
| Net income | 373,664 | 254,007 | 15,272 | 71,423 | 714,366 |
| Other operating expenses of which: | (246,852) | (60,089) | (4,603) | (97,060) | (408,604) |
| *Depreciation of Property and Equipment* | (1) | - | - | (81) | (82) |
| *Amortisation of Intangible Assets* | - | - | - | (7) | (7) |
| Profit before impairment losses | 126,812 | 193,918 | 10,669 | (25,637) | 305,762 |
| Provisions: | | | | | |
| (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/(Loss) before zakat and taxation | 122,445 | 186,341 | 10,669 | (7,096) | 312,359 |
| Zakat and taxation | (29,387) | (44,721) | (2,561) | (2,644) | (79,313) |
| Profit/(Loss) for the financial year | 93,058 | 141,620 | 8,108 | (9,740) | 233,046 |

**Other information**

| | | | | | |
|---|---|---|---|---|---|
| Total segment assets | 13,246,122 | 14,513,783 | 1,692,634 | 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% | 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 |

## 51. BUSINESS SEGMENT ANALYSIS (CONT'D.)

**2015**
**(Restated)**

| | | Wholesale banking | | | |
|---|---|---|---|---|---|
| | Retail banking RM'000 | Corporate and Commercial Banking RM'000 | Markets RM'000 | Group Funding and Others RM'000 | Total RM'000 |
| External revenue | 911,452 | 594,327 | 62,361 | 279,667 | 1,847,807 |
| Revenue from other segments | (267,355) | 302,050 | (41,960) | 7,265 | - |
| Total operating revenue | 644,097 | 896,377 | 20,401 | 286,932 | 1,847,807 |
| Net finance income | 409,109 | 221,932 | 10,281 | 119,991 | 761,313 |
| Other income | 23,704 | 31,608 | 3,861 | 8,576 | 67,749 |
| Net Income | 432,813 | 253,540 | 14,142 | 128,567 | 829,062 |
| Other operating expenses of which: | (276,724) | (56,534) | (4,768) | (29,749) | (367,775) |
| *Depreciation of Property and Equipment* | - | - | - | (122) | (122) |
| *Amortisation of Intangible Assets* | - | - | - | (15) | (15) |
| Profit before impairment losses | 156,089 | 197,006 | 9,374 | 98,818 | 461,287 |
| (Allowance)/Writeback for impairment losses on financing and advances | (125,634) | 20,013 | - | (25,928) | (131,549) |
| Writeback of provision for commitments and contingencies | 815 | 8,522 | - | 695 | 10,032 |
| Transfer to profit equalisation reserve | - | - | - | (35,379) | (35,379) |
| Profit before zakat and taxation | 31,270 | 225,541 | 9,374 | 38,206 | 304,391 |
| Zakat and taxation | (7,818) | (56,385) | (2,344) | (998) | (67,545) |
| Profit for the financial year | 23,452 | 169,156 | 7,030 | 37,208 | 236,846 |
| **Other information** | | | | | |
| Total segment assets | 14,157,590 | 13,821,375 | 1,467,217 | 10,265,602 | 39,711,784 |
| Total segment liabilities | 10,535,169 | 20,510,862 | 275,763 | 5,977,112 | 37,298,906 |
| Cost to income ratio | 63.9% | 22.3% | 33.7% | 23.1% | 44.4% |
| Gross financing and advances | 14,285,153 | 13,800,412 | - | (63,231) | 28,022,334 |
| Net financing and advances | 14,047,851 | 13,683,146 | - | (233,191) | 27,497,806 |
| Impaired financing and advances | 213,583 | 392,872 | - | - | 606,455 |
| Deposits | 10,409,453 | 20,204,282 | 240,000 | 251,763 | 31,105,498 |
| Additions to : | | | | | |
| Property and Equipment | - | - | - | 43 | 43 |
| Intangible assets | - | - | - | 9 | 9 |

**Note:**
1. The financial information by geographical segment is not presented as the Bank's activities are principally conducted in Malaysia.
2. Operating revenue of the Bank comprise financing income and hibah and other operating income.

## 52. RESTATEMENT OF COMPARATIVE INFORMATION

During the current financial year, the Bank has restated the placement received from a related company, previously classified as Deposits and placements of banks and other financial insitutions to Investment account due to licensed bank as the placement is not principal guaranteed and both parties did not enter into a new investment account contract upon expiry of the transition period until 30 June 2015 to comply with IFSA and BNM standards on Shariah and policy document on Investment Account. The non-principal guaranteed placement by the same related company as at 31 March 2015 and 1 April 2014 have been reclassified to and restated as Investment account to provide more meaningful information.

The effects arising from the restatement of comparative information is as follows:

(i) Reconciliation of statement of financial position

| | As previously reported RM'000 | Reclassification RM'000 | As restated RM'000 |
|---|---|---|---|
| **As at 1 April 2014** | | | |
| Deposits and placements of banks and other financial institutions | 3,261,358 | (449,982) | 2,811,376 |
| Investment account due to licensed bank | - | 449,982 | 449,982 |
| **As at 31 March 2015** | | | |
| Deposits and placements of banks and other financial institutions | 2,714,064 | (1,363,442) | 1,350,622 |
| Investment account due to licensed bank | - | 1,363,442 | 1,363,442 |

(ii) Reconciliation of income statement

| | As previously reported RM'000 | Reclassification RM'000 | As restated RM'000 |
|---|---|---|---|
| **As at 31 March 2015** | | | |
| Income attributable to the depositors and others | (938,304) | 12,206 | (926,098) |
| Income attributable to investment account holders | - | (12,206) | (12,206) |

## 52. RESTATEMENT OF COMPARATIVE INFORMATION (CONT'D.)

(iii) Reconciliation of statement of cash flows

| | As previously reported RM'000 | Reclassification RM'000 | As restated RM'000 |
|---|---|---|---|
| **As at 31 March 2015** | | | |
| Deposits and placements of banks and other financial institutions | (547,294) | (913,460) | (1,460,754) |
| Investment account due to licensed bank | - | 913,460 | 913,460 |