RHB ISLAMIC BANK BERHAD

STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

STATUTORY FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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REGISTERED OFFICE:

LEVEL 9
TOWER ONE
RHB CENTRE
JALAN TUN RAZAK
50400 KUALA LUMPUR
MALAYSIA

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

DIRECTORS' REPORT

The Directors submit herewith their report together with the audited financial statements of RHB Islamic Bank Berhad ('the Bank') for the financial year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in the Islamic banking business and is committed to offer customers a comprehensive range of products and services in accordance with its Articles of Association and Shariah principles.

There have been no significant changes in these principal activities during the financial year.

FINANCIAL RESULTS

	RM'000
Net profit for the financial year	367,392

DIVIDENDS

No dividend has been paid or declared by the Bank since the end of the previous financial year.

The Directors do not propose any final dividend in respect of the current financial year at the forthcoming Annual General Meeting.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are disclosed in the financial statements.

ISSUE OF SHARES

There were no issue of shares in the Bank during the financial year.

BAD AND DOUBTFUL DEBTS AND FINANCING

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

At the date of this report, the Directors are not aware of any circumstances which would render the amount written-off for bad financing and advances or the amount of allowance for non-performing financing and advances in the financial statements of the Bank inadequate to any substantial extent.

DIRECTORS' REPORT (CONTINUED)

CURRENT ASSETS

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ensure that any current assets, other than financing and advances, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Bank, had been written down to an amount which they might be expected to realise.

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 METHOD

At the date of this report, the Directors are not aware of any circumstances which have arisen which 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 liabilities of any other person; or

(b) any contingent liability of the Bank which has arisen since the end of the financial year other than in the ordinary 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, which would render any amount stated in the financial statements misleading or inappropriate.

ITEMS OF AN UNUSUAL NATURE

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

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

DIRECTORS' REPORT (CONTINUED)

DIRECTORS OF THE BANK

The Directors of the Bank in office during the financial year and during the period from the end of the financial year to the date of the report are:

Dato' Abd Rahman Dato' Md Khalid	
Datuk Haji Faisal Siraj	
Dato' Foong Chee Meng	(appointed on 1 August 2017)
Ong Ai Lin	(appointed on 1 September 2017)
Dato' Adissadikin Ali	
Haji Md Ja'far Abdul Carrim	(deceased on 19 October 2017)
Dato' Mohd Ali Mohd Tahir	(resigned on 28 February 2017)
Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir	(resigned on 1 August 2017)

In accordance with Article 68 of the Bank's Articles of Association, Datuk Haji Faisal Siraj retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 73 of the Bank's Articles of Association, Dato' Foong Chee Meng and Ong Ai Lin retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS

None of the Directors holding office at the end of the financial year held any interest in the securities of the Bank or its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than Directors' remuneration and benefits-in-kind as disclosed in Note 30 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

During and at the end of the financial year, no arrangements subsisted to which the Bank is a party, being arrangements with the object or objects of enabling the Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 29 to the financial statements.

HOLDING COMPANY

The Directors regard RHB Bank Berhad, a company incorporated in Malaysia and listed on Bursa Malaysia Securities Berhad, as the holding company.

ZAKAT OBLIGATION

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

DIRECTORS' REPORT (CONTINUED)

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to continue in office.

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 2 January 2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership.

This report was approved by the Board of Directors on 27 February 2018. Signed on behalf of the Board of Directors:

DATO' ABD RAHMAN DATO' MD KHALID	**DATO' ADISSADIKIN ALI**
DIRECTOR	CHIEF EXECUTIVE OFFICER/ MANAGING DIRECTOR

Kuala Lumpur

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

REPORT OF THE GROUP SHARIAH COMMITTEE

In the name of Allah, The Most Gracious, The Most Merciful

We, Dr. Ghazali Jaapar, Assoc. Prof. Dr. Amir Shaharuddin, Mohd Fadhly Md. Yusoff, Wan Abdul Rahim Kamil Wan Mohamed Ali and Shabnam Mohamad Mokhtar, being five members of the Shariah Committee of RHB Islamic Bank Berhad ('Bank'), do hereby confirm on behalf of the members of the Committee, 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 December 2017.

We have also conducted our review to form an opinion as to whether the Bank has complied with Shariah rules and the principles and also with the specific rulings and guidelines issued by us.

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

We have assessed the work carried out by Shariah review and Shariah audit which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by the Bank.

We have performed our review 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 Shariah rules and principles.

In our opinion:

(a) the main sources of income of the Bank during the financial year ended 31 December 2017 that we have reviewed are in compliance with the Shariah rules and principles;
(b) all investments that have been disclosed to us by the Bank conform to the basis that had been approved by us in accordance with Shariah rules and principles;
(c) all earnings that have been realised from sources or by means prohibited by the Shariah principles have been considered for disposal to charitable causes;
(d) the contracts and legal documents of the products used by the Bank that we reviewed are in compliance with the Shariah rules and principles;
(e) the products proposals including concept used by the Bank which have been reviewed and advised by us are in compliance with the Shariah rules and principles; and
(f) the calculation of zakat is in compliance with Shariah rules and principles.

We beg Allah, The Almighty to grant us success and lead us on the right path.

Wassalamu Alaikum Wa Rahmatullahi Wa Barakatuh

Dr. Ghazali Jaapar
Chairman of the Committee

Assoc. Prof. Dr. Amir Shaharuddin
Member of the Committee

Mohd Fadhly Md. Yusoff
Member of the Committee

Wan Abdul Rahim Kamil Wan Mohamed Ali
Member of the Committee

Shabnam Mohamad Mokhtar
Member of the Committee

Kuala Lumpur
27 February 2018

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	**2017**	2016
		RM'000	RM'000
ASSETS			
Cash and short-term funds	2	**2,029,860**	3,436,239
Securities purchased under resale agreements	3	**1,587,979**	2,353,950
Deposits and placements with banks and other financial institutions	4	**447,210**	537,141
Financial assets held-for-trading ('HFT')	5	**172,536**	10,177
Financial investments available-for-sale ('AFS')	6	**3,394,493**	3,459,647
Financial investments held-to-maturity ('HTM')	7	**3,820,734**	2,820,123
Financing and advances	8	**42,701,794**	33,841,566
Other assets	9	**90,934**	171,730
Derivative assets	10	**327,978**	402,763
Statutory deposits with Bank Negara Malaysia ('BNM')	11	**1,116,200**	1,051,050
Deferred tax assets	12	**16,513**	20,929
Property, plant and equipment	13	**6,193**	6,576
Intangible assets	14	**5,039**	4,750
TOTAL ASSETS		**55,717,463**	48,116,641
LIABILITIES AND EQUITY			
Deposits from customers	15	**37,850,205**	29,419,928
Deposits and placements of banks and other financial institutions	16	**4,394,801**	6,430,194
Investment account due to designated financial institutions	17	**8,102,698**	6,622,471
Obligations on securities sold under repurchase agreements		**604,163**	-
Bills and acceptances payable		**9,216**	9,050
Derivative liabilities	10	**327,723**	400,812
Recourse obligation on financing sold to Cagamas Berhad ('Cagamas')	18	**-**	815,243
Subordinated obligations	19	**755,393**	503,187
Other liabilities	20	**345,792**	957,863
Provision for tax and zakat		**15,623**	29,451
TOTAL LIABILITIES		**52,405,614**	45,188,199
Share capital	21	**1,273,424**	1,273,424
Reserves	22	**2,038,425**	1,655,018
TOTAL EQUITY		**3,311,849**	2,928,442
TOTAL LIABILITIES AND EQUITY		**55,717,463**	48,116,641
COMMITMENTS AND CONTINGENCIES	35	**24,280,522**	21,492,582

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

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	**2017**	2016
		RM'000	RM'000
Income derived from investment of depositors' funds	23	**1,957,052**	1,750,096
Income derived from investment account funds	24	**375,939**	317,988
Income derived from investment of shareholders' funds	25	**175,518**	170,420
Allowance for impairment on financing and advances	26	**(66,734)**	(70,168)
Impairment losses written back/(made) on other assets		**336**	(549)
Total distributable income		**2,442,111**	2,167,787
Income attributable to depositors	27	**(1,329,395)**	(1,223,430)
Profit distributed to investment account holders		**(310,185)**	(260,626)
		802,531	683,731
Personnel expenses	28	**(27,082)**	(32,307)
Other overheads and expenditures	29	**(295,599)**	(219,767)
Profit before zakat and taxation		**479,850**	431,657
Zakat		**(3,500)**	(3,500)
Profit after zakat before taxation		**476,350**	428,157
Taxation	31	**(108,958)**	(103,373)
Net profit for the financial year		**367,392**	324,784
Earnings per share (sen):			
- basic	32	**28.85**	27.40

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

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	2017	2016
		RM'000	RM'000
Net profit for the financial year		**367,392**	324,784
Other comprehensive income/(loss):			
Items that will be reclassified subsequently to profit or loss:			
Financial investments AFS:			
- Unrealised net gain on revaluation		**23,601**	14,889
- Net transfer to income statement on disposal or impairment		**(2,529)**	(5,348)
Income tax relating to components of other comprehensive income	33	**(5,057)**	(2,290)
Other comprehensive income, net of tax for the financial year		**16,015**	7,251
Total comprehensive income for the financial year		**383,407**	332,035

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

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

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

			Non distributable			Distributable	
	Note	Share capital	Statutory reserve	AFS reserve	Regulatory reserve	Retained profits	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Balance as at 1 January 2017		**1,273,424**	**762,388**	**(31,944)**	**158,516**	**766,058**	**2,928,442**
Net profit for the financial year		**-**	**-**	**-**	**-**	**367,392**	**367,392**
Other comprehensive income/(loss) for the financial year:							
Financial investments AFS:							
- Unrealised net gain on revaluation		**-**	**-**	**23,601**	**-**	**-**	**23,601**
- Net transfer to income statement on disposal or impairment		**-**	**-**	**(2,529)**	**-**	**-**	**(2,529)**
Income tax relating to components of other comprehensive income	33	**-**	**-**	**(5,057)**	**-**	**-**	**(5,057)**
Other comprehensive income, net of tax, for the financial year		**-**	**-**	**16,015**	**-**	**-**	**16,015**
Total comprehensive income for the financial year		**-**	**-**	**16,015**	**-**	**367,392**	**383,407**
Transfer from statutory reserve		**-**	**(762,388)**	**-**	**-**	**762,388**	**-**
Transfer to regulatory reserve		**-**	**-**	**-**	**108,515**	**(108,515)**	**-**
Balance as at 31 December 2017		**1,273,424**	**-**	**(15,929)**	**267,031**	**1,787,323**	**3,311,849**
Balance as at 1 January 2016		1,173,424	681,192	(39,195)	160,361	520,625	2,496,407
Net profit for the financial year		-	-	-	-	324,784	324,784
Other comprehensive income/(loss) for the financial year:							
Financial investments AFS:							
- Unrealised net gain on revaluation		-	-	14,889	-	-	14,889
- Net transfer to income statement on disposal or impairment		-	-	(5,348)	-	-	(5,348)
Income tax relating to components of other comprehensive income	33	-	-	(2,290)	-	-	(2,290)
Other comprehensive income, net of tax, for the financial year		-	-	7,251	-	-	7,251
Total comprehensive income for the financial year		-	-	7,251	-	324,784	332,035
Issuance of shares	21	100,000	-	-	-	-	100,000
Transfer to statutory reserve		-	81,196	-	-	(81,196)	-
Transfer from regulatory reserve		-	-	-	(1,845)	1,845	-
Balance as at 31 December 2016		1,273,424	762,388	(31,944)	158,516	766,058	2,928,442

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

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	2017	2016
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before zakat and taxation	479,850	431,657
Adjustments for:		
Depreciation of property, plant and equipment:	2,591	1,751
Amortisation of computer software license	1,846	2,102
Income from:		
- Investment on financial assets HFT	(5,146)	(2,538)
- Investment on financial investments AFS	(145,448)	(137,371)
- Investment on financial investments HTM	(123,833)	(86,232)
Net gain on disposal of financial investments AFS	(2,529)	(5,348)
Net loss on disposal of financial assets HFT	683	1,372
Net gain on early redemption of financial investments HTM	(378)	(301)
Net loss on fair value hedges	1,078	799
Net loss/(gain) on revaluation of derivatives	11,199	(116)
Unrealised loss/(gain) from financial assets HFT	839	(268)
Allowance for impairment on financing and advances	79,077	83,632
Property plant and equipment written off	-	447
Intangible assets written off	-	1
Impairment losses (written back)/made on other assets	(336)	549
Operating profit before working capital changes	299,493	290,136
(Increase)/Decrease in operating assets:		
Securities purchased under resale agreements	765,971	(2,353,950)
Deposits and placements with banks and other financial institutions	89,931	80,931
Financing and advances	(8,940,381)	(3,035,570)
Financial assets HFT	(158,735)	11,505
Other assets	80,796	(38,446)
Statutory deposits with BNM	(65,150)	117,450
	(8,227,568)	(5,218,080)
Increase/(Decrease) in operating liabilities:		
Deposits from customers	8,430,277	1,491,899
Deposits and placements of banks and other financial institutions	(2,035,393)	1,119,622
Investment account due to designated financial institutions	1,480,227	271,817
Obligations on securities sold under repurchase agreements	604,163	-
Bills and acceptances payable	166	3,501
Subordinated obligations	2,206	68
Other liabilities	(20,349)	(770)
Amount due to holding company	(601,227)	625,000
Recourse obligation on financing sold to Cagamas	(815,243)	(167,517)
	7,044,827	3,343,620
Cash used in operations	(883,248)	(1,584,324)
Net tax and zakat paid	(126,927)	(109,609)
Net cash used in operating activities	(1,010,175)	(1,693,933)

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

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

	Note	2017	2016
		RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Financial investments AFS and HTM			
- Purchases		(1,449,453)	(3,398,603)
- Proceeds from disposal		546,222	2,065,778
Property, plant and equipment			
- Purchases		(2,212)	(390)
- Proceeds from disposal		4	-
Purchases of intangible assets		(1,799)	(1,289)
Financial assets HFT and financial investments AFS and HTM:			
- Profit income received		147,329	133,528
- Investment income received		113,705	82,110
Net cash used in investing activities		(646,204)	(1,118,866)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital		-	100,000
Issuance of subordinated obligations		250,000	-
Net cash generated from financing activities		250,000	100,000
Net decrease in cash and cash equivalents		(1,406,379)	(2,712,799)
Cash and cash equivalents at the beginning of the financial year		3,436,239	6,149,038
Cash and cash equivalents at the end of the financial year	2	2,029,860	3,436,239

	← Cash Changes →			Non-Cash Changes	
	Balance as at the beginning of the financial year	Net cash flow from financing activities	Net cash flow from operating activities	Accrued profit	Balance as at the end of the financial year
	RM'000	RM'000	RM'000	RM'000	RM'000
2017					
Subordinated obligations	503,187	250,000	(30,867)	33,073	755,393
2016					
Subordinated obligations	503,119	-	(24,750)	24,818	503,187

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements. These accounting policies have been consistently applied to all the financial years presented, unless otherwise stated.

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial investments AFS, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

The financial statements also incorporate those activities relating to Islamic banking which have been undertaken by the Bank. Islamic banking refers generally to the acceptance of deposits, granting of financing and dealing in Islamic securities under the Shariah principles.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires Directors to exercise their judgement in the process of applying the Bank's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Section (B).

(a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank and are effective

The relevant new accounting standards, annual improvements and amendments to published standards and interpretations to existing accounting standards that are effective for the Bank's financial year beginning on or after 1 January 2017 are as follows:

(i) Amendments to MFRS 112 'Income Taxes' - The amendments clarify the requirements for recognising deferred tax assets on unrealised losses where an asset is measured at fair value and that fair value is below the asset's tax base.

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 shall be applied retrospectively.

(ii) Amendments to MFRS 107 'Statements of Cash Flows' - The amendments introduce additional disclosure which require an entity to evaluate changes in liabilities arising from financing activities, including cash flows and non-cash changes.

The adoption of these annual improvements and amendments to published standards and interpretations to existing accounting standards do not give rise to any material financial impact to the Bank.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective

(i) MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 'Financial Instruments: Recognition and Measurement'.

The Bank have reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard:

(A) Classification

(i) Financial instruments classified as fair value through other comprehensive income ('FVOCI')

Financial instruments classified as FVOCI will be measured at fair value, with changes in fair value recognised in FVOCI reserve.

Gains or losses realised on the sale of financial assets at FVOCI will be transferred to profit or loss on sale, except for equity instruments.

Gains and losses realised on the sales of equity instruments classified as FVOCI will be reclassified below the line from the FVOCI reserve to retained earnings.

The majority of the Bank's debt and equity instruments that are currently classified as financial investments AFS will satisfy the conditions for classification as FVOCI and hence there will be no change to the accounting for these assets.

Arising from the change in business model, the Bank also intend to classify certain financial instruments currently classified as financial investments HTM or financial assets FVTPL to FVOCI going forward. Fair value is measured at reclassification date, and related changes in fair value for financial investments HTM will be adjusted to FVOCI reserve while fair value for financial assets FVTPL becomes its new carrying amount on 1 January 2018.

In addition, financial instruments AFS that did not pass the 'solely payment for principal and interest' ('SPPI') test prescribed under MFRS 9 will be classified to FVTPL. Related fair value gains from AFS investments will have to be transferred from the AFS reserve to retained earnings on 1 January 2018.

(ii) Financial instruments classified as amortised cost

The majority of the Bank's debt instruments currently classified as HTM and measured at amortised cost will meet the conditions for classification at amortised cost under MFRS 9 and continue to be recognised at amortised cost, except for the reclassification of certain debt instruments to FVOCI arising from changes in the Bank's business model mentioned in paragraph (A)(i) above.

(iii) Financial instruments classified as fair value through profit or loss ('FVTPL')

Under MFRS 9, FVTPL is the residual category and financial instruments which do not qualify to be recognised as FVOCI or at amortised cost will be recognised as FVTPL. The majority of instruments currently held at fair value through profit or loss will continue to be measured on the same basis under MFRS 9, except for those financial instruments currently classified under financial investment AFS that do not pass the SPPI test mentioned in paragraph (A)(i) above.

(B) Financial liabilities

There will be no impact on the Bank's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Bank do not have any such liabilities. The derecognition rules have been transferred from MFRS 139 'Financial Instruments: Recognition and Measurement' and have not been changed.

(C) Hedge accounting

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Bank's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Bank have confirmed that its current hedge relationships will qualify as continuing hedges upon the adoption of MFRS 9.

Changes in the fair value of foreign exchange forward contracts attributable to forward points, and in the time value of the option contracts, will in future be deferred in a new costs of hedging reserve within equity. The deferred amounts will be recognised against the related hedged transaction when it occurs.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)

(D) Impairment

The new impairment model requires the recognition of impairment provisions based on expected credit losses ('ECL') rather than only incurred credit losses as is the case under MFRS 139. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, lease receivables, loan commitments and certain financial guarantee contracts.

(E) Disclosure requirements

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The Bank is now progressing to the implementation of the identified changes and will complete this process prior to the releasing of the interim results for the financial period ending 31 March 2018. The Bank has therefore not finalised the financial impact of the adoption of MFRS 9. However, based on the preliminary assessments undertaken to-date, the Bank expects an increase in the allowance for impairment on loans, financing and other losses under the new impairment requirements, which will result in a reduction in opening retained profits as of 1 January 2018.

(ii) MFRS 15 'Revenue from Contracts with Customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction Contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers;
- Identify the separate performance obligations;
- Determine the transaction price of the contract;
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Bank intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

The Bank is in the process of finalising the financial implication arising from the adoption of this new standard, although it is not expected to have any material impact to the Bank.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)

(iii) Annual Improvements to MFRS 2014-2016 Cycle:

- MFRS 1 'First-time Adoption of Malaysian Financial Reporting Standards' effective for annual periods beginning on or after 1 January 2018. The amendment deletes short-term exemptions covering transition provisions of MFRS 7, MFRS 10 and MFRS 119. Those reliefs provided were available for entities with reporting periods that had passed and therefore no longer applicable.

- IC Interpretation 22 ‘Foreign Currency Transactions and Advance Consideration’ effective for annual periods beginning on or after 1 January 2018. This interpretation applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the ‘date of the transaction’ to record foreign currency transactions.

  IC Interpretation 22 provides guidance how to determine ‘the date of transaction’ when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

  The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

  If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

  An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

(iv) MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 ‘Leases’ and the related interpretations.

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

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a 'right-of-use' of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 ‘Property, Plant and Equipment’ and the lease liability is accreted over time with profit expense recognised in the income statements.

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

(v) IC Interpretation 23 ‘Uncertainty over Income Tax Treatments’ (effective 1 January 2019) provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

IC Interpretation 23 will be applied retrospectively.

The adoption of the above accounting standards, amendments to published standards and interpretations are not expected to give rise to any material financial impact to the Bank except for the cumulative impact of the adoption of MFRS 9 which will be recognised in retained earnings as at 1 January 2018, and enhanced disclosures.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in regulatory requirements

(i) Companies Act 2016

The Companies Act 2016 ('New Act') was enacted to replace the Companies Act 1965 with the objective of creating a regulatory structure that will facilitate business and promote accountability as well as protection of corporate directors and shareholders, taking into consideration the interest of other stakeholders. The New Act was passed on 4 April 2016 by Dewan Rakyat and on 29 April 2016 by Dewan Negara and gazetted on 15 September 2016. On 26 January 2017, the Minister of Domestic Trade, Co-operatives and Consumerism announced that the date on which the New Act comes into operation (except Section 241 and Division 8 of Part III of the New Act) would be 31 January 2017.

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

(1) abolition of the authorised capital; and
(2) abolition of the concept of nominal value in shares.

(ii) Revised Policy Document on Capital Funds

Bank Negara Malaysia ('BNM') had on 3 May 2017, issued a Revised Policy Document on Capital Funds for Islamic Banks ('Revised Policy Document') which is applicable to banking institutions in Malaysia that covers licensed Islamic bank. The issuance of this Revised Policy Document has superseded the guideline issued by BNM previously, namely Capital Funds for Islamic Banks dated 1 July 2013.

The key changes in the Revised Policy Document are:
(1) the removal of the requirement on maintenance of a reserve fund; and
(2) the revised component of capital funds shall exclude share premium and reserve fund.

During the financial year, the Bank had transferred a total of RM762,388,000 from the statutory reserve to retained profits pursuant to the adoption of the Revised Policy Document.

(iii) Policy Document on Classification and Regulatory Treatment for Structured Products under the Financial Services Act 2013 and Islamic Financial Services Act 2013 issued by BNM

On 21 June 2017, BNM issued a Policy Document on Classification and Regulatory Treatment for Structured Products under the Financial Services Act 2013 ('FSA') and Islamic Financial Services Act 2013 ('IFSA'). This Policy Document applies to banking institutions in Malaysia that covers licensed commercial bank and licensed Islamic bank.

The Policy Document clarifies that structured products that do not guarantee full repayment of principal amount on demand do not fulfill the definition of deposits under Section 2 of the FSA and IFSA and hence must not be classified as deposits or Islamic deposits.

Effective from June 2017 reporting date onwards, banking institutions shall report structured products (in accordance with the accounting treatment adopted) under either of these items:

- 'Financial Liabilities Designated at Fair Value through Profit or Loss' if applying fair value options; or
- 'Other Liabilities' if accounted for separately from the embedded derivative.

(iv) Financial Reporting and Financial Reporting for Islamic Banking Institutions

On 2 February 2018, BNM issued the revised policy document on Financial Reporting and Financial Reporting for Islamic Banking Institutions which prescribes the regulatory reserves to be maintained by banking institutions. With effect from 1 January 2018, the Bank must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures. The adoption of this requirement is expected to have minimal impact to the capital ratios of the Bank as the Bank is currently maintaining, in aggregate, collective impairment provisions and regulatory reserves of no less 1.2% of total outstanding loans/financing, net of individual impairment provisions.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS

(a) Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, financing, advances and receivables, financial investments AFS and HTM. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition and in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

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

Financial assets at fair value through profit or loss are financial assets held-for-trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term. Derivatives are also classified in this category unless they are designated as hedges. Refer to accounting policy Note 4 on hedge accounting.

(ii) Financing, advances and receivables

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

Financing and receivables consist of Bai' Bithaman Ajil, Ijarah, Murabahah, Musyarakah, and Bai'Inah contracts. These contracts are initially recognised at fair value, including direct and incremental transactions costs, and subsequently measured at amortised cost using the effective profit method. These contracts are stated net of unearned income and any amounts written off and/or impaired.

(iii) Financial investments AFS

Financial investments AFS are non-derivatives that are either designated in this category or not classified in any of the other categories.

(iv) Financial investments HTM

Financial investments HTM are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank sells other than an insignificant amount of financial investments HTM, the whole category would be tainted and reclassified as financial instruments AFS.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(b) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the settlement date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in income statement.

(c) Subsequent measurement - gains and losses

Financial investments AFS and financial assets at fair value through profit or loss are subsequently carried at fair value. Financing, advances and receivables and financial investments HTM are subsequently carried at amortised cost using the effective profit method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, profit and dividend income are recognised in other operating income in income statement in the period in which the changes arise.

Changes in the fair value of financial investments AFS are recognised in other comprehensive income, except for impairment losses (refer to accounting policy Note 17 on impairment of financial assets) and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets are recognised in income statement, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

Profit and dividend income on financial investments AFS are recognised separately in income statement. Profit on financial investments AFS calculated using the effective profit method is recognised in income statement. Dividend income on financial investments AFS is recognised in other operating income in income statement when the Bank's right to receive payment is established.

(d) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

Financing, advances and receivables that are factored out to banks and other financial institutions with recourse to the Bank are not de-recognised until the recourse period has expired and the risks and rewards of the financing, advances and receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

When financial investments AFS are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to income statement.

(e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(3) REPURCHASE AGREEMENTS

Securities purchased under resale agreements are securities which the Bank has purchased with a commitment to resell at future dates. The commitment to resell the securities is reflected as an asset on the statement of financial position.

Conversely, obligations on securities sold under repurchase agreements are securities which the Bank has sold from its portfolio, with a commitment to repurchase at future dates. Such financing and the obligation to repurchase the securities is reflected as a liability on the statement of financial position.

The difference between sale and repurchase price as well as purchase and resale price are amortised as profit and expense respectively on an effective yield method.

(4) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivatives are initially recognised at fair value on the date on which derivative contracts are entered into and are subsequently re-measured at their fair values. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instruments (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits on day one.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Derivatives that do not qualify for hedge accounting are classified as held for trading and accounted for in accordance with the accounting policy set out in Note 2. The Bank designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Bank documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to carrying amount of a hedged item for which the effective profit method is used is amortised to the income statement over the period to maturity.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item affects income or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that does not qualify for hedge accounting are recognised immediately in the income statement.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(5) INTANGIBLE ASSETS - COMPUTER SOFTWARE LICENSES

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software licenses are subsequently carried at cost less accumulated amortisation and impairment losses. The costs are amortised over the estimated useful lives of 5 years to 10 years.

At the end of the reporting period, the Bank assesses whether there is any indication of impairment on computer software licenses. Where an indication of impairment exists, the carrying amount of the asset is written down to its recoverable amount. Refer to accounting policy Note 18 on impairment of non-financial assets.

Gains and losses arising from de-recognition of computer software licenses are measured as the difference between net disposal proceeds and the carrying amount of the computer software licenses and are recognised in income statement when the asset is de-recognised.

(6) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repair and maintenance costs are recognised as expense in income statement during the financial period in which they are incurred.

Renovations in progress are not depreciated. Other property, plant and equipment are depreciated on a straight-line basis to write down their costs to their residual values over their estimated useful lives. The principal annual depreciation rates are as follows:

Renovations	10%
Office equipment and furniture	20%
Computer equipment	14 1/3% to 33 1/3%
Motor vehicles	20%

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. There are no material adjustments arising from the review that would require disclosure in the financial statements.

Gains or losses on disposals are determined by comparing proceeds with carrying amount and are included in other operating income in income statement.

At the end of the reporting period, the Bank would conduct assessment whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is written down to its recoverable amount. Refer to accounting policy Note 18 on impairment of non-financial assets.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(7) FINANCIAL LIABILITIES

Financial liabilities are measured at amortised cost, except for trading liabilities designated at fair value, which are held at fair value through profit or loss. Financial liabilities are initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in income statement. Financial liabilities are de-recognised when extinguished.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities as held-for-trading, and financial liabilities designated at fair value through profit or loss upon initial recognition.

A financial liability is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking. Derivatives are also categorised as held-for-trading unless they are designated as hedges. Refer to accounting policy Note 4 on hedge accounting.

(b) Other financial liabilities measured at amortised cost

Other financial liabilities are initially recognised at fair value plus transaction costs. Subsequently, other financial liabilities are re-measured at amortised cost using the effective profit rate.

Other financial liabilities measured at amortised cost are deposits from customers, deposits and placements of banks and other financial institutions, investment account due to designated financial institutions, obligations on securities sold under repurchase agreements, bills and acceptances payable, recourse obligation on financing sold to Cagamas and other financial liabilities.

(c) Borrowings measured at amortised cost

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost, any difference between initial recognised amount and the redemption value is recognised in the income statement over the period of the borrowings using the effective profit method.

All other borrowing costs are recognised in income statement in the period in which they are incurred.

Borrowings measured at amortised cost are subordinated obligations.

(8) INVESTMENT ACCOUNT ('IA')

IA is defined by the application of Shariah contracts as investment with non-principal guarantee feature. Under the Islamic Financial Services Act, 2013, the priority payment for IA upon liquidation of Islamic Financial Institution ('IFI') is treated separately from Islamic deposit, in accordance with the rights and obligations accrued to the investment account holders. IA is further categorised to Restricted Investment Account (‘RIA’) and Unrestricted Investment Account (‘URIA’).

RIA refers to a type of investment account where the Investment Account Holder ('IAH') provides a specific investment mandate to the IFI such as purpose, asset class, economic sector and period for investment while URIA refers to a type of investment account where the IAH provides the IFI with the mandate to make the ultimate investment decision without specifying any particular restrictions or conditions.

IA are contracts based on the Shariah concept below:

(a) Mudharabah between two parties, customer and the Bank, to finance a business venture where the customer provides capital and the business venture is managed solely by the Bank. The profit of the business venture will be shared based on pre-agreed ratios with the Bank as Mudharib (manager or manager of funds), and losses shall be borne solely by customers.

(b) Wakalah, a trust-based contract in which a party (muwakkil) appoints another party as his agent (wakil) to perform a particular task, in matters that may be delegated, either voluntarily or with imposition of a fee. The fee shall be recognised based on agreement.

(c) Details of the IA are as disclosed in Note 17 to the financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(9) RECOURSE OBLIGATION ON FINANCING SOLD TO CAGAMAS

In the normal course of banking operations, the Bank sells financing to Cagamas but undertake to administer the financing on behalf of Cagamas and to buy back any financing which are regarded as defective. Such financing transactions and the obligation to buy back the financing are reflected as a liability on the statement of financial position.

(10) OPERATING LEASE

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The up-front payments made for leasehold land represent prepaid lease rentals and are amortised on straight-line basis over the lease term.

Where an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period when termination takes place.

(11) PROVISIONS

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

Where the Bank expects a provision to be reimbursed (for example, under an insurance contract), the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

(12) FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to financial institutions and other bodies on behalf of customers to secure financing and advances, overdrafts and other banking facilities.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The fair value of a financial guarantee at the time of issuance is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premium is recognised.

The fair value of financial guarantee is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(13) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Bank does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Bank or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts.

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

Subsequent to the initial recognition, the Bank measures the contingent liabilities that are recognised separately at the date of acquisition at the higher of the amount that would be recognised in accordance with the provision of MFRS 137 'Provision, Contingent Liabilities and Contingent Assets' and the amount initially recognised as profit or loss, less, when appropriate, cumulative amortisation recognised in accordance with MFRS 118 'Revenue'.

(14) SHARE CAPITAL

(a) Classification

Ordinary shares are classified as equity. Other shares, if issued, are classified as equity and/or liability according to the economic substance of the particular instrument.

(b) Share issue cost

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(c) Dividend distribution

Distributions to holders of an equity instrument is debited directly to equity and the corresponding liability is recognised in the period in which the shareholders' right to receive the dividends are established or the dividends are approved.

(15) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and bank balances and short-term deposits maturing within one month.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(16) REVENUE RECOGNITION

(a) Profit income is recognised using the effective profit method. The effective profit rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to its carrying amount. The calculation includes significant fees and transaction costs that are integral to the effective profit rate, as well as premiums or discounts.

When a financing, advances and receivable is impaired, the Bank reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective profit rate of the instrument, and continues unwinding the discount as profit income. Profit income on impaired financing and receivables is recognised using the original effective profit rate.

Bai' Bithaman Ajil
A contract of sale 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 effective profit rate basis over the expected life of the contract based on outstanding financing amount.

Ijarah
A contract that transfers ownership of a permitted usufruct and/or service for a specified period in exchange for a specified consideration.

Murabahah

A contract of sale where the assets cost and profit margin shall be made transparent and agreed upon between buyer and seller. Income is recognised on effective profit rate basis over the expected life of the contract based on outstanding financing amounts.

Musyarakah
Partnership between two or more parties, which may take effect through contractual relationship or by operation of Islamic law, whereby all contracting parties will share the profit and bear loss from the partnership.

Bai'Inah
An arrangement that involves sale of an asset to the purchaser on a deferred basis and subsequent purchase of the asset at a cash price lower than the deferred sale price or vice versa, and which complies with the specific requirements of Bai'Inah.

(b) Financing arrangement fees, commissions and placement fees are recognised as income when all conditions precedent are fulfilled.

(c) Guarantee fees are recognised as income upon issuance of guarantees.

(d) Commitment fees are recognised as income based on time apportionment.

(e) Corporate advisory fees are recognised as income on completion of each stage of the engagement and issuance of invoice.

(f) Dividends from all investments are recognised when the shareholders' right to receive payment is established.

(g) Income from bancatakaful agreement is amortised on a straight line basis throughout the exclusive service agreement period.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(17) IMPAIRMENT OF FINANCIAL ASSETS

(a) Assets carried at amortised cost

The Bank assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine whether there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in profit or principal payments;
- The Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- Disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio; and
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate. The asset's carrying amount is reduced and the amount of the loss is recognised in income statement. If 'financing, advances and receivables' or a 'HTM investment' have a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in income statement.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

For financing and advances, the Bank first assesses whether objective evidence of impairment exists individually for financing and advances that are individually significant, and individually or collectively for financing and advances that are not individually significant. If the Bank determines that no objective evidence of impairment exists for individually assessed financing and advances, whether significant or not, it includes the asset in a group of financing and advances with similar credit risk characteristics and collectively assess them for impairment.

The Bank addresses impairment of financing and advances via either individually assessed allowance or collectively assessed allowance.

(i) Individual impairment allowance

The Bank determines the allowance appropriate for each individual significant financing and advances on an individual basis. The allowances are established based primarily on estimates of the realisable value of the collateral to secure the financing and advances and are measured as the difference between the carrying amount of the financing and advances and the present value of the expected future cash flows discounted at the original effective profit rate of the financing and advances. All other financing and advances that have been individually evaluated, but not considered to be individually impaired, are assessed collectively for impairment.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(17) IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(a) Assets carried at amortised cost (continued)

(ii) Collective impairment allowance

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

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

(iii) Regulatory reserve

The Bank has adopted the requirement to maintain, in aggregate, the collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding financing, net of individual impairment allowances. The regulatory reserve is debited against retained earnings.

(b) Assets classified as AFS

The Bank assesses at the end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, the Bank uses criteria and measurement of impairment loss applicable for ‘assets carried at amortised cost’ above. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss is reversed through income statement.

In the case of equity securities classified as AFS, in addition to the criteria for ‘assets carried at amortised cost’ above, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indicator that the assets are impaired. If any such evidence exists for AFS financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in income statement. The amount of cumulative loss that is reclassified to income statement is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statement. Impairment losses recognised in income statement on equity instruments classified as AFS are not reversed through income statement.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(18) IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the non-financial assets exceeds its recoverable amount.

The recoverable amount is the higher of a non-financial assets' fair value less costs to sell and value in use. For the purpose of assessing impairment, non-financial assets are grouped at the lowest levels for which there is separately identifiable cash flows or cash generating unit. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting period.

The impairment loss is charged to the income statement. Any subsequent increase in recoverable amount is recognised in the income statement.

(19) EMPLOYEE BENEFITS

(a) Short-term employee benefits

The Bank recognises a liability and an expense for bonuses. The Bank recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Bank.

(b) Defined contribution plans

A defined contribution plan is a pension plan under which the Bank pays fixed contributions to the national pension scheme, the Employees' Provident Fund. The Bank's contributions to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Bank has no further legal or constructive obligations.

(c) 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.

(20) CURRENT AND DEFERRED INCOME TAXES

The tax expense for the period comprises current and deferred tax. Tax is recognised in income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax expense is determined according to the tax laws of each jurisdiction in which the Bank operate and include all taxes based upon the taxable profits.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the date of statement of financial position and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(21) CURRENCY CONVERSION AND TRANSLATION

(a) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia, which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges. Foreign exchange gains and losses are presented in income statement within other operating income.

Changes in the fair value of monetary securities denominated in foreign currency classified as AFS are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in income statement, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

(22) SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources to and assessing performance of the operating segments of an entity. The Bank has determined RHB Bank's Group Management Committee as its chief operating decision-maker.

(23) ZAKAT

This represents business zakat which is an obligatory amount payable by the Bank to comply with the principles of Shariah and as approved by the Group Shariah Committee. The Bank only pays zakat on its business and does not pay zakat on behalf of depositors or shareholders. Zakat provision is calculated based on the "Working Capital Method", at 2.5% on the adjusted net assets of the Bank.

(B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets within the next financial year are outlined below:

<u>Allowance for impairment of financial assets</u>

In determining impairment of financial assets, management considers objective evidence of impairment and exercises judgment in estimating cash flow and collateral values.

The Bank makes allowance for losses based on assessment of recoverability. Management's judgment is made in estimation of the amount and timing of future cash flows in assessing allowance for impairment of financial assets. Among the factors considered are the Bank's aggregate exposure to the borrower, the net realisable value of the underlying collateral value, the viability of the customer's business model, the capacity to generate sufficient cash flows to service debt obligations and the aggregate amount and ranking of all other creditor claims. The actual amount of the future cash flows and their timing may differ from the estimates used by management and consequently may cause actual losses to differ from the impairment made.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

1 GENERAL INFORMATION

RHB Islamic Bank Berhad, is a licensed Islamic Bank under the Islamic Financial Services Act, 2013, a limited liability company domiciled in Malaysia, and is principally engaged in the Islamic banking business and is committed to offer customers a comprehensive range of products and services in accordance with its Articles of Association and Shariah principals.

There have been no significant changes in these principal activities during the financial year.

The address of the registered office of the Bank is Level 9, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia.

2 CASH AND SHORT-TERM FUNDS

	2017	2016
	RM'000	RM'000
Cash and balances with banks and other financial institutions	**90,792**	18,906
Money at call and deposit placements maturing within one month	**1,939,068**	3,417,333
	2,029,860	3,436,239

3 SECURITIES PURCHASED UNDER RESALE AGREEMENTS

	2017	2016
	RM'000	RM'000
Malaysian Government Investment Issues	**1,587,979**	2,353,950

4 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017	2016
	RM'000	RM'000
Licensed bank	**14,641**	-
Licensed Islamic banks	**432,569**	180,771
Other financial institutions	**-**	356,370
	447,210	537,141

5 FINANCIAL ASSETS HELD-FOR-TRADING ('HFT')

	2017	2016
	RM'000	RM'000
At fair value		
Money market instruments:		
Malaysian Government Investment Issues	**172,536**	10,177

6 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE ('AFS')

	2017	2016
	RM'000	RM'000
At fair value		
Money market instruments:		
Malaysian Government Investment Issues	**648,592**	691,196
Wakala Global Sukuk	**-**	14,718
Khazanah bonds	**9,403**	8,995
Cagamas bonds	**30,485**	40,018
Unquoted securities:		
In Malaysia		
Corporate sukuk	**2,505,393**	2,504,101
Perpetual sukuk	**200,620**	200,619
	3,394,493	3,459,647
At cost		
Unquoted securities:		
In Malaysia		
Shares in Islamic Bank and Financial Institutions of Malaysia ('IBFIM')	**549**	549
	3,395,042	3,460,196
Accumulated impairment losses	**(549)**	(549)
	3,394,493	3,459,647

Movements in allowance for impairment losses:

	2017	2016
Balance as at the beginning of the financial year	**549**	-
Charge during the financial year	**-**	549
Balance as at the end of the financial year	**549**	549

7 FINANCIAL INVESTMENTS HELD-TO-MATURITY ('HTM')

	2017	2016
	RM'000	RM'000
At amortised cost		
Money market instruments:		
Malaysian Government Investment Issues	**335,325**	402,619
Sukuk Perumahan Kerajaan	**9,985**	9,971
Khazanah bonds	**21,799**	20,872
Cagamas bonds	**-**	150,095
Negotiable Islamic debt certificates	**1,838,090**	895,234
Unquoted securities:		
In Malaysia		
Corporate sukuk	**1,615,535**	1,341,332
	3,820,734	2,820,123

Included in financial investments HTM are securities acquired and funded via the RIA, as part of arrangement between the Bank and its holding company, RHB Bank Berhad ('RHB Bank'). As at 31 December 2017, the gross exposure to RIA financing is RM790,275,000 (2016: RM199,000,000) as disclosed in Note 17.

8 FINANCING AND ADVANCES

	Bai' Bithaman Ajil ('BBA')	Ijarah	Murabahah	Musyarakah	Bai'Inah	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017							
At amortised cost							
Cashline	-	-	532,334	-	-	3,442	535,776
Term financing:							
- Housing financing	448,118	-	823,499	10,575,089	-	400	11,847,106
- Syndicated term financing	-	76,405	1,713,643	-	-	18,899	1,808,947
- Hire purchase receivables	-	6,145,221	-	-	-	40,503	6,185,724
- Other term financing	1,791	490,417	16,156,732	-	1,509,993	3,778	18,162,711
Bills receivables	-	-	1,041,682	-	-	3,428	1,045,110
Trust receipts	-	-	15,558	-	-	-	15,558
Staff financing	2,592	-	-	-	-	-	2,592
Credit/charge card receivables	-	-	-	-	-	267,577	267,577
Revolving financing	-	-	3,104,581	-	-	-	3,104,581
Gross financing and advances	452,501	6,712,043	23,388,029	10,575,089	1,509,993	338,027	42,975,682
Fair value changes arising from fair value hedge							(1,231)
							42,974,451
Allowance for impaired financing and advances:							
- Individual impairment allowance							(42,612)
- Collective impairment allowance							(230,045)
Net financing and advances							42,701,794

8 FINANCING AND ADVANCES (CONTINUED)

	Bai' Bithaman Ajil ('BBA')	Ijarah	Murabahah	Musyarakah	Bai'Inah	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2016							
At amortised cost							
Cashline	-	-	401,337	-	-	1,463	402,800
Term financing:							
- Housing financing	512,215	-	2,913	8,541,764	-	454	9,057,346
- Syndicated term financing	-	93,884	1,309,912	-	-	18,899	1,422,695
- Hire purchase receivables	-	5,600,165	-	-	-	33,345	5,633,510
- Other term financing	3,126	494,435	13,103,916	-	1,862,705	12,204	15,476,386
Bills receivables	-	-	790,186	-	-	3,097	793,283
Trust receipts	-	-	13,773	-	-	253	14,026
Staff financing	3,394	-	-	-	-	-	3,394
Credit/charge card receivables	-	-	-	-	-	274,532	274,532
Revolving financing	-	-	1,009,152	-	-	-	1,009,152
Gross financing and advances	518,735	6,188,484	16,631,189	8,541,764	1,862,705	344,247	34,087,124
Fair value changes arising from fair value hedge							6,831
							34,093,955
Allowance for impaired financing and advances:							
- Individual impairment allowance							(15,864)
- Collective impairment allowance							(236,525)
Net financing and advances							33,841,566

8 FINANCING AND ADVANCES (CONTINUED)

(a) Included in financing and advances are exposures to RIA as part of arrangement between the Bank and its holding company, RHB Bank.

As at 31 December 2017, the gross exposures to RIA financing are RM7,030,030,000 (2016: RM5,804,399,000) and the portfolio allowance for impairment losses for financing and advances relating to RIA amounting to RM45,287,000 (2016: RM33,626,000) is recognised in the financial statements of RHB Bank. There is no individual impairment being made for such RIA financing.

(b) Included in term financing are hire purchase receivables and other term financing sold to Cagamas amounting to Nil (2016: RM791,238,000).

(i) By type of customer

	2017	2016
	RM'000	RM'000
Domestic non-bank financial institutions:		
- Others	**1,287,745**	995,486
Domestic business enterprises:		
- Small medium enterprises	**3,085,019**	2,526,817
- Others	**12,985,826**	10,374,884
Government and statutory bodies	**4,005,023**	3,087,891
Individuals	**21,173,536**	16,688,969
Other domestic entities	**100,176**	103,742
Foreign entities	**338,357**	309,335
	42,975,682	34,087,124

(ii) By profit rate sensitivity

	2017	2016
Fixed rate:		
- Housing financing	**448,398**	512,441
- Hire purchase receivables	**4,452,465**	5,630,979
- Other fixed rate financing	**8,238,412**	7,277,587
Variable rate:		
- Base financing rate/Base rate plus	**27,774,276**	19,858,808
- Cost-plus	**2,062,131**	807,309
	42,975,682	34,087,124

(iii) By purpose

	2017	2016
Purchase of securities	**1,758,308**	65,524
Purchase of transport vehicles	**6,156,435**	5,573,799
Purchase of landed property:		
- Residential	**11,272,138**	8,709,537
- Non-residential	**3,208,523**	2,536,021
Purchase of property, plant and equipment other than land and building	**661,901**	755,946
Personal use	**2,798,313**	2,162,519
Credit card	**267,577**	274,532
Construction	**980,050**	550,030
Working capital	**9,309,504**	7,422,039
Merger and acquisition	**1,319,919**	1,437,555
Other purposes	**5,243,014**	4,599,622
	42,975,682	34,087,124

Included in other purposes are financing to the Government of the Malaysia's related agency for the purpose of education and government's staff housing financing.

8 FINANCING AND ADVANCES (CONTINUED)

(iv) By geographical distribution

	2017	2016
	RM'000	RM'000
Malaysia	**42,975,682**	34,087,124

(v) By remaining contractual maturities

	2017	2016
Maturing within one year	**7,861,965**	3,681,561
One to three years	**5,113,144**	2,945,639
Three to five years	**3,599,350**	6,443,749
Over five years	**26,401,223**	21,016,175
	42,975,682	34,087,124

8 FINANCING AND ADVANCES (CONTINUED)

(vi) Impaired financing and advances

(i) Movement in impaired financing and advances

	2017 RM'000	2016 RM'000
Balance as at the beginning of the financial year	**393,096**	362,736
Classified as impaired	**472,890**	514,915
Reclassified as non-impaired	**(385,958)**	(352,703)
Amount recovered	**(77,000)**	(78,617)
Amount written off	**(59,067)**	(53,235)
Balance as at the end of the financial year	**343,961**	393,096

(ii) By purpose

	2017 RM'000	2016 RM'000
Purchase of securities	**205**	-
Purchase of transport vehicles	**55,009**	54,189
Purchase of landed property:		
- Residential	**108,195**	159,833
- Non-residential	**42,351**	47,259
Purchase of property, plant and equipment other than land and building	**1,049**	2,826
Personal use	**5,131**	4,869
Credit card	**4,583**	5,362
Working capital	**97,964**	96,456
Other purposes	**29,474**	22,302
	343,961	393,096

(iii) By geographical distribution

	2017 RM'000	2016 RM'000
Malaysia	**343,961**	393,096

(vii) Movement in allowance for impaired financing and advances

Individual impairment allowance

	2017 RM'000	2016 RM'000
Balance as at the beginning of the financial year	**15,864**	22,649
Net allowance made/(written back)	**29,204**	(3,438)
Amount written off	**(2,456)**	(3,347)
Balance as at end of the financial year	**42,612**	15,864

Collective impairment allowance

	2017 RM'000	2016 RM'000
Balance as at the beginning of the financial year	**236,525**	199,653
Net allowance made	**37,562**	77,902
Amount written off	**(44,042)**	(41,030)
Balance as at the end of the financial year	**230,045**	236,525
Collective impairment allowance as % of gross financing and advances (excluding RIA financing) less individual impairment allowance	**0.64%**	0.84%

9 OTHER ASSETS

	2017	2016
	RM'000	RM'000
Prepayments	**15,998**	11,751
Deposits	**1,732**	1,305
Other receivables	**73,204**	158,674
	90,934	171,730

10 DERIVATIVE ASSETS/(LIABILITIES)

Derivative financial instruments are financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, profit rates and security prices) of the underlying instruments. These instruments are used by the Bank for economic hedges and for proprietary trading purposes. The default classification for derivative financial instruments is trading, unless designated in a hedge relationship and are in compliance with the stringent requirements of hedge accounting mentioned in the Bank's accounting policies.

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

	2017	2016
	RM'000	RM'000
Derivative assets:		
- Trading derivatives	**327,948**	401,864
- Fair value hedging derivatives	**30**	899
	327,978	402,763
Derivative liabilities:		
- Trading derivatives	**(323,235)**	(392,598)
- Fair value hedging derivatives	**(4,488)**	(8,214)
	(327,723)	(400,812)

10 DERIVATIVE ASSETS/(LIABILITIES) (CONTINUED)

	Contract or underlying principal amount RM'000	Year-end positive fair value RM'000	Year-end negative fair value RM'000
2017			
Trading derivatives:			
Foreign exchange related contracts:			
- Forwards	**7,906,672**	**240,620**	**(236,924)**
- Cross currency profit rate swaps	**2,665,997**	**84,008**	**(82,908)**
Profit rate related contracts:			
- Swaps	**917,338**	**3,320**	**(3,403)**
Fair value hedging derivatives:			
Profit rate related contracts:			
- Swaps	**1,325,000**	**30**	**(4,488)**
		327,978	**(327,723)**
2016			
Trading derivatives:			
Foreign exchange related contracts:			
- Forwards	7,467,323	310,313	(301,957)
- Cross currency profit rate swaps	1,875,919	88,563	(87,079)
Profit rate related contracts:			
- Swaps	597,448	2,988	(3,562)
Fair value hedging derivatives:			
Profit rate related contracts:			
- Swaps	1,907,000	899	(8,214)
		402,763	(400,812)

Fair value hedging is used by the Bank for protection against the changes in fair value of financial assets and financial liabilities due to movements in market profit rates. The Bank uses profit rate swaps to hedge against profit rate risk of specific identified fixed rate long term as well as portfolio homogenous pools of financing and advances. Included in other operating income as disclosed in Note 25 is the net gains and losses arising from fair value hedges for the financial year as follows:

	2017 RM'000	2016 RM'000
Gain/(Loss) on hedging instruments	**6,916**	(15,725)
(Loss)/Gain on hedged items attributable to the hedged risk	**(7,994)**	14,926
	(1,078)	(799)

11 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA ('BNM')

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

12 DEFERRED TAX ASSETS

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same authority. The following amounts determined after appropriate set off, are shown in the statement of financial position:

	2017	2016
	RM'000	RM'000
Deferred tax assets	**16,513**	20,929
Deferred tax assets:		
- Settled more than twelve months	**5,532**	10,619
- Settled within twelve months	**11,608**	15,129
Deferred tax liabilities:		
- Settled within twelve months	**(627)**	(4,819)
	16,513	20,929

12 DEFERRED TAX ASSETS (CONTINUED)

The movements in deferred tax assets and liabilities during the financial year comprise the followings:

	Note	Intangible assets- computer software license	Property, plant and equipment	Financial investments AFS	Other liabilities	Total
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2017						
Balance as at the beginning of the financial year		**(4,819)**	**666**	**10,085**	**14,997**	**20,929**
Transfer from/(to)income statement	31	**4,192**	**(36)**	**-**	**(3,515)**	**641**
Transfer to equity		**-**	**-**	**(5,057)**	**-**	**(5,057)**
Balance as at the end of the financial year		**(627)**	**630**	**5,028**	**11,482**	**16,513**
2016						
Balance as at the beginning of the financial year		(4,877)	904	12,375	3,562	11,964
Transfer from/(to) income statement	31	58	(238)	-	11,435	11,255
Transfer to equity		-	-	(2,290)	-	(2,290)
Balance as at the end of the financial year		(4,819)	666	10,085	14,997	20,929

13 PROPERTY, PLANT AND EQUIPMENT

2017	Note	Renovations	Office equipment and furniture	Computer equipment	Motor vehicles	Total
		RM'000	RM'000	RM'000	RM'000	RM'000
Cost						
Balance as at the beginning of the financial year		15,691	8,327	12,300	1,157	37,475
Additions		1,772	237	203	-	2,212
Disposal		-	(27)	(256)	(4)	(287)
Written off		-	(61)	(374)	(4)	(439)
Balance as at the end of the financial year		17,463	8,476	11,873	1,149	38,961
Less: Accumulated depreciation						
Balance as at the beginning of the financial year		10,973	7,576	11,424	926	30,899
Charge for the financial year	29	1,610	373	496	112	2,591
Disposal		-	(23)	(256)	(4)	(283)
Written off		-	(61)	(374)	(4)	(439)
Balance as at the end of the financial year		12,583	7,865	11,290	1,030	32,768
Net book value as at the end of the financial year		4,880	611	583	119	6,193

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

2016	Note	Renovations	Office equipment and furniture	Computer equipment	Motor vehicles	Total
		RM'000	RM'000	RM'000	RM'000	RM'000
Cost						
Balance as at the beginning of the financial year		17,083	8,916	12,739	1,634	40,372
Additions		7	67	316	-	390
Disposal		-	-	-	(477)	(477)
Written off		(1,399)	(656)	(755)	-	(2,810)
Balance as at the end of the financial year		15,691	8,327	12,300	1,157	37,475
Less: Accumulated depreciation						
Balance as at the beginning of the financial year		10,354	7,823	12,523	1,288	31,988
Charge for the financial year	29	1,629	373	(366)	115	1,751
Disposal		-	-	-	(477)	(477)
Written off		(1,010)	(620)	(733)	-	(2,363)
Balance as at the end of the financial year		10,973	7,576	11,424	926	30,899
Net book value as at the end of the financial year		4,718	751	876	231	6,576

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above property, plant and equipment includes the following assets under construction:

	2017	2016
	RM'000	RM'000
<u>Cost</u>		
Renovations	**671**	262

14 INTANGIBLE ASSETS

	Note	**2017**	2016
		RM'000	RM'000
Computer software license			
<u>Cost</u>			
Balance as at the beginning of the financial year		**15,453**	14,182
Additions		**1,799**	1,289
Written off		**(863)**	(18)
Balance as at the end of the financial year		**16,389**	15,453
<u>Less: Accumulated amortisation</u>			
Balance as at the beginning of the financial year		**9,504**	7,419
Charge for the financial year	29	**1,846**	2,102
Written off		**-**	(17)
Balance as at the end of the financial year		**11,350**	9,504
<u>Less: Accumulated impairment loss</u>			
Balance as at the beginning of the financial year		**1,199**	1,199
Reversal for the financial year		**(336)**	-
Written off		**(863)**	-
Balance as at the end of the financial year		**-**	1,199
Net book value as at the end of the financial year		**5,039**	4,750

15 DEPOSITS FROM CUSTOMERS

	2017	2016
	RM'000	RM'000
Savings Deposits:		
- Wadiah	**1,353,675**	1,221,616
Demand Deposits:		
- Wadiah	**6,392,228**	3,764,386
- Commodity Murabahah	**55,952**	5,926
Term Deposits:		
- Commodity Murabahah	**24,813,727**	16,716,463
Specific Investment Account:		
- Commodity Murabahah	**5,098,668**	7,556,178
General Investment Account:		
- Mudharabah	**135,955**	155,359
	37,850,205	29,419,928

(a) The maturity structure of investment accounts and term deposits are as follows:

	2017	2016
Due within six months	**22,074,985**	20,429,737
Six months to one year	**7,966,481**	3,953,480
One year to three years	**4,814**	44,335
Three years to five years	**2,070**	448
	30,048,350	24,428,000

(b) By type of customer

	2017	2016
Government and statutory bodies	**4,313,279**	3,993,795
Business enterprises	**23,926,425**	19,129,387
Individuals	**9,224,592**	5,735,775
Others	**385,909**	560,971
	37,850,205	29,419,928

16 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017	2016
	RM'000	RM'000
Non-Mudharabah Funds:		
- Licensed Islamic banks	**2,945,973**	4,179,222
- Licensed banks	**1,115,096**	1,591,693
- Licensed investments banks	**298,349**	99,761
- BNM	**20,689**	3,890
	4,380,107	5,874,566
Mudharabah Funds:		
Licensed Islamic banks		
- Other financial institutions	**14,694**	555,628
	4,394,801	6,430,194

17 INVESTMENT ACCOUNT DUE TO DESIGNATED FINANCIAL INSTITUTIONS

	2017	2016
	RM'000	RM'000
Mudharabah Restricted Investment Account		
Funding inflows/(outflows) - Principal (Note a):		
Balance as at the beginning of the financial year	**6,337,446**	6,084,508
New placement during the financial year	**3,746,999**	4,408,821
Redemption during the financial year	**(2,264,140)**	(4,155,883)
Balance as at the end of the financial year	**7,820,305**	6,337,446
Profit attributable to investment account holders - Total profit payable:		
Balance as at the beginning of the financial year	**285,025**	266,146
Profit distributed to investment account holders during the financial year	**310,130**	260,622
Profit paid to investment account holders during the financial year	**(312,762)**	(241,743)
Balance as at the end of the financial year	**282,393**	285,025
Net balance as at the end of the financial year	**8,102,698**	6,622,471
(a) Investment asset (principal):		
- Housing financing	**300,000**	300,000
- Hire purchase receivables	**700,000**	700,000
- Other term financing	**6,030,030**	4,804,399
- Short term fund	**-**	334,047
- Securities	**790,275**	199,000
- Total investment	**7,820,305**	6,337,446
(b) By type of counterparty		
- Licensed banks	**8,102,698**	6,622,471

	Average profit sharing ratio %	**Average rate of return %**
2017		
- Below 1 year	**88**	**4.56**
- Between 1 to 2 years	**81**	**4.35**
- Between 2 to 5 years	**85**	**4.29**
- More than 5 years	**83**	**4.44**
2016		
- Below 1 year	-	-
- Between 1 to 2 years	88	4.28
- Between 2 to 5 years	74	4.31
- More than 5 years	-	-

18 RECOURSE OBLIGATION ON FINANCING SOLD TO CAGAMAS BERHAD ('CAGAMAS')

Recourse obligation on financing sold to Cagamas represents those acquired from the originators and sold to Cagamas with recourse. Under the agreement, the Bank undertakes to administer the financing on behalf of Cagamas and to buy back any financing which are regarded as defective based on pre-determined and agreed-upon prudential criteria with recourse against the originators. Such financing transactions and the obligation to buy back the financing are reflected as a liability on the statement of financial position. The financing are not de-recognised and are analysed in Note 8.

19 SUBORDINATED OBLIGATIONS

	2017	2016
	RM'000	RM'000
4.95% RM500 million Tier II Subordinated Sukuk Murabahah 2014/2024	**503,187**	503,187
4.88% RM250 million Tier II Subordinated Sukuk Murabahah 2017/2027	**252,206**	-
	755,393	503,187

On 15 May 2014, the Bank issued RM500 million nominal value of Subordinated Sukuk Murabahah, being part of RM1 billion Subordinated Sukuk Murabahah Programme.

On 27 April 2017, the Bank had further issued RM250 million nominal value of Subordinated Sukuk Murabahah under the same RM1 billion programme.

Tranche	**Principal RM'million**	**Maturity date**	**Profit rate**	**Profit payment**
2014/2024	500	15 May 2024 (Callable on 2019)	4.95% per annum chargeable to 15 May 2024	Accrued and payable semi-annually in arrears
2017/2027	250	27 April 2027 (Callable on 2022)	4.88% per annum chargeable to 27 April 2027	Accrued and payable semi-annually in arrears

20 OTHER LIABILITIES

	Note	2017 RM'000	2016 RM'000
Sundry creditors		**4,691**	10,692
Amount due to holding company	(a)	**168,364**	769,591
Amounts due to other related companies	(a)	**259**	668
Deferred income		**31,682**	43,947
Short term employee benefits		**5,391**	7,397
Accrual for operational expenses		**10,206**	9,993
Other accruals and payables	(b)	**125,199**	115,575
		345,792	957,863

(a) The amounts due to holding company and other related companies are unsecured, non-profit bearing and repayable within the normal credit period.

(b) Included in the other accruals and payables is undistributed charity funds amounting to RM88,000 (2016: RM93,000). The funds are sourced from ta'widh (late payment charges).

Movement of sources and uses of charity funds are as follows:

	2017 RM'000	2016 RM'000
Undistributed funds as at the beginning of the financial year	**93**	98
Funds collected/received during the year	**-**	-
Uses of funds during the year	**(5)**	(5)
Contribution to non-profit organisation	**(5)**	(5)
Undistributed funds as at the end of the financial year	**88**	93

21 SHARE CAPITAL

	2017	2016
	RM'000	RM'000
Issued and fully paid:		
Balance as at the beginning of financial year	**1,273,424**	1,173,424
Issued during the financial year	**-**	100,000
Balance as at the end of financial year	**1,273,424**	1,273,424

In 2016, the Bank increased its issued and paid up share capital from RM1,173,424,002 to RM1,273,424,002 via the issuance of 100,000,000 new ordinary shares of RM1.00 each to RHB Bank, its holding company.

The new ordinary shares issued during the financial year rank pari passu in all aspects with the existing ordinary shares of the Bank.

22 RESERVES

	Note	2017	2016
		RM'000	RM'000
Statutory reserve	(a)	**-**	762,388
AFS reserve	(b)	**(15,929)**	(31,944)
Regulatory reserve	(c)	**267,031**	158,516
Retained profits		**1,787,323**	766,058
		2,038,425	1,655,018

(a) Pursuant to the revised policy document on Capital Funds for Islamic Banks by BNM whereby the previous requirement to maintain a reserve fund is no longer required given the implementation of the Capital Conservation Buffer under the Capital Adequacy Framework, statutory reserve which was previously maintained by the Bank is no longer required and had been transferred to retained profits.

(b) The AFS reserve arises from a change in the fair value of financial investments classified as AFS. The unrealised gains or losses are transferred to the income statement upon disposal, de-recognition or impairment of such securities.

(c) Regulatory reserve represents the Bank's compliance with BNM's Policy on Classification and Impairment Provisions for Financing, to maintain, in aggregate, the collective impairment allowances and regulatory reserve of no less than 1.2% of total outstanding financing, net of individual impairment allowances.

23 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	2017	2016
	RM'000	RM'000
Income derived from investment of:		
(i) General investment deposits	**7,019**	8,096
(ii) Other deposits	**1,950,033**	1,742,000
	1,957,052	1,750,096

(i) Income derived from investment of general investment deposits:

	2017	2016
	RM'000	RM'000
Financing and advances	**5,430**	6,105
Securities purchased under resale agreements	**176**	263
Financial assets HFT	**18**	11
Financial investments AFS	**505**	615
Financial investments HTM	**248**	342
Money at call and deposits with banks and other financial institutions	**600**	707
Total finance income and hibah	**6,977**	8,043
Other operating income (Note a)	**42**	53
	7,019	8,096
Of which:		
Financing income earned on impaired financing	**38**	55

(a) Other operating income comprise of:

	2017	2016
Commission	**28**	24
Guarantee fees	**9**	9
Net (loss)/gain on revaluation of financial assets HFT	**(3)**	1
Net loss on disposal of financial assets HFT	**(2)**	(6)
Net gain on disposal of financial investments AFS	**9**	24
Net gain on early redemption of financial investments HTM	**1**	1
	42	53

23 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS (CONTINUED)

	2017	2016
	RM'000	RM'000
(ii) Income derived from investment of other deposits:		
Financing and advances	**1,508,577**	1,313,738
Securities purchased under resale agreements	**48,946**	56,534
Financial assets HFT	**4,967**	2,444
Financial investments AFS	**140,384**	132,272
Financial investments HTM	**68,827**	73,566
Money at call and deposits with banks and other financial institutions	**166,803**	152,163
Total finance income and hibah	**1,938,504**	1,730,717
Other operating income (Note a)	**11,529**	11,283
	1,950,033	1,742,000
Of which:		
Financing income earned on impaired financing	**10,507**	11,769

(a) Other operating income comprise of:

	2017	2016
Commission	**7,700**	5,070
Guarantee fees	**2,493**	1,837
Net (loss)/gain on revaluation of financial assets HFT	**(810)**	258
Net loss on disposal of financial assets HFT	**(660)**	(1,321)
Net gain on disposal of financial investments AFS	**2,441**	5,149
Net gain on early redemption of financial investments HTM	**365**	290
	11,529	11,283

24 INCOME DERIVED FROM INVESTMENT ACCOUNT FUNDS

	2017	2016
	RM'000	RM'000
Financing and advances	**318,824**	303,862
Financial investments HTM	**52,523**	9,830
Money at call and deposits with banks and other financial institutions	**4,592**	4,296
Total finance income and hibah	**375,939**	317,988

25 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	2017	2016
	RM'000	RM'000
Financing and advances	**48,990**	44,532
Securities purchased under resale agreements	**1,591**	1,916
Financial assets HFT	**161**	83
Financial investments AFS	**4,559**	4,484
Financial investments HTM	**2,235**	2,494
Money at call and deposits with banks and other financial institutions	**5,417**	5,158
Total finance income and hibah	**62,953**	58,667
Other operating income (Note a)	**112,565**	111,753
	175,518	170,420
Of which:		
Financing income earned on impaired financing	**341**	398

(a) Other operating income comprise of:

	2017	2016
Commission	**22,690**	13,697
Service charges and fees	**63,534**	61,453
Guarantee fees and underwriting fees	**81**	62
Foreign exchange profit	**38,471**	37,007
Net (loss)/gain on revaluation of financial assets HFT	**(26)**	9
Net loss on disposal of financial assets HFT	**(21)**	(45)
Net gain on disposal of financial investments AFS	**79**	175
Net gain on early redemption of financial investments HTM	**12**	10
Net loss on fair value hedges (Note 10)	**(1,078)**	(799)
Net (loss)/gain on revaluation of derivatives	**(11,199)**	116
Other income	**22**	68
	112,565	111,753

26 ALLOWANCE FOR IMPAIRMENT ON FINANCING AND ADVANCES

	2017	2016
	RM'000	RM'000
Allowance for impairment on financing and advances:		
- Individual impairment allowance/(written back)	**29,204**	(3,438)
- Collective impairment allowance	**37,562**	77,902
- Impaired financing recovered	**(12,343)**	(13,464)
- Impaired financing written off	**12,311**	9,168
	66,734	70,168

27 INCOME ATTRIBUTABLE TO DEPOSITORS

	2017	2016
	RM'000	RM'000
Deposits from customers:		
- Mudharabah funds	**4,621**	5,064
- Non-Mudharabah funds	**1,097,763**	973,022
Deposits and placements of banks and other financial institutions:		
- Non-Mudharabah funds	**172,012**	176,872
Subordinated obligations	**33,073**	24,818
Recourse obligations on financing sold to Cagamas	**21,672**	43,654
Obligations on securities sold under repurchase agreements	**254**	-
	1,329,395	1,223,430

28 PERSONNEL EXPENSES

	2017	2016
	RM'000	RM'000
Salaries, allowances and bonuses	**21,597**	25,219
Contributions to Employees' Provident Fund	**3,053**	4,081
Other staff related costs	**2,432**	3,007
	27,082	32,307

Included in the personnel expenses is the Managing Director's remuneration (excluding benefits-in-kind) totalling RM1,843,000 (2016: RM3,532,000), as disclosed in Note 30.

29 OTHER OVERHEADS AND EXPENDITURES

	2017	2016
	RM'000	RM'000
Establishment costs		
Property, plant and equipment:		
- Depreciation	**2,591**	1,751
- Written off	**-**	447
Computer software license		
- Amortisation	**1,846**	2,102
- Written off	**-**	1
Information technology expenses	**3,123**	3,988
Repair and maintenance	**733**	912
Rental of premises	**4,704**	4,650
Water and electricity	**569**	857
Rental of equipment	**2**	7
Printing and stationeries	**3,477**	8,275
Insurance	**3,633**	3,049
Others	**3,757**	4,174
	24,435	30,213
Marketing expenses		
Advertisement and publicity	**2,135**	2,223
Sales commission	**8,898**	8,326
Travelling expenses	**297**	438
Motor vehicle expenses	**191**	196
Others	**2,353**	1,620
	13,874	12,803
Administration and general expenses		
Auditors' remuneration:		
- Statutory audit	**174**	164
- Limited review	**57**	55
- Other audit related	**100**	100
Communication expenses	**4,306**	5,321
Legal and professional fee	**1,960**	2,489
Management fee	**239,036**	158,318
Others	**11,657**	10,304
	257,290	176,751
	295,599	219,767

Included in the administration and general expenses of the Bank are other Director’s remuneration (excluding benefits-in-kind) totaling RM1,246,000 (2016: RM977,000) as disclosed in Note 30.

30 REMUNERATION OF MANAGING DIRECTOR ('MD'), NON-EXECUTIVE DIRECTORS AND SHARIAH COMMITTEE MEMBERS

2017

	Salary and other remuneration	Benefits-in-kind (based on an estimated monetary value)	Bonus	Total
	RM'000	RM'000	RM'000	RM'000
Managing Director				
Dato' Adissadikin Ali	1,143	7	700	1,850
	1,143	7	700	1,850

	Fees	Benefits-in-kind (based on an estimated monetary value)	Other remuneration	Total
	RM'000	RM'000	RM'000	RM'000
Non-executive Directors				
Dato' Abd Rahman Dato' Md Khalid	135	-	133	268
Datuk Haji Faisal Siraj	135	-	79	214
Dato' Foong Chee Meng (appointed on 1 August 2017)	57	-	24	81
Ong Ai Lin (appointed on 1 September 2017)	45	-	29	74
Haji Md Ja'far Abdul Carrim (deceased on 19 October 2017)	136	17	253	406
Dato' Mohd Ali Mohd Tahir (resigned on 28 February 2017)	21	-	42	63
Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir (resigned on 1 August 2017)	78	-	79	157
	607	17	639	1,263

	Fees
	RM'000
Shariah Committee	
Dr. Ghazali Jaapar (Chairman)	95
Prof. Dr. Joni Tamkin Borhan (deceased on 19 May 2017)	34
Assoc. Prof. Dr. Amir Shaharuddin	82
Wan Abdul Rahim Kamil Wan Mohamed Ali	81
Mohd Fadhly Md. Yusoff	82
Shabnam Mohamad Mokhtar	82
	456

Note:
During the financial year, Directors of the Bank are covered under the Directors' Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors of the Bank subject to the term of the policy. The total amount of Directors' Liability Insurance effected for the Directors of the Bank was RM100.0 million. The total amount of premium paid for the Directors' Liability Insurance by the Bank was RM280,000.

30 REMUNERATION OF MANAGING DIRECTOR ('MD'), NON-EXECUTIVE DIRECTORS AND SHARIAH COMMITTEE MEMBERS (CONTINUED)

2016

	Salary and other remuneration	Benefits-in-kind (based on an estimated monetary value)	Bonus	Total
	RM'000	RM'000	RM'000	RM'000
Managing Director				
Dato' Adissadikin Ali (appointed on 1 August 2016)	526	3	282	811
Haji Ibrahim Hassan (resigned on 1 August 2016)	866	7	1,858	2,731
	1,392	10	2,140	3,542

	Fees	Benefits-in-kind (based on an estimated monetary value)	Other remuneration	Total
	RM'000	RM'000	RM'000	RM'000
Non-executive Directors				
Haji Md Ja'far Abdul Carrim	150	22	187	359
Datuk Haji Faisal Siraj	120	-	65	185
Dato' Mohd Ali Mohd Tahir	120	-	56	176
Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir	120	-	102	222
Charles Lew Foon Keong (retired at Annual General Meeting on 11 May 2016)	43	-	14	57
	553	22	424	999

	Fees
	RM'000
Shariah Committee	
Dr. Ghazali Jaapar	95
Prof. Dr. Joni Tamkin Borhan	84
Assoc. Prof. Dr. Amir Shaharuddin	84
Wan Abdul Rahim Kamil Wan Mohamed Ali	83
Mohd Fadhly Md. Yusoff	83
Shabnam Mohamad Mokhtar	84
	513

31 TAXATION

	2017	2016
	RM'000	RM'000
Malaysian income tax:		
- Current tax	**110,354**	113,283
- (Over)/under provision in respect of prior financial years	**(755)**	1,345
Deferred tax (Note 12)	**(641)**	(11,255)
	108,958	103,373

The numerical reconciliation between the effective tax rate and the applicable statutory income tax rate are as follows:

	2017	2016
	%	%
Tax at Malaysian statutory income tax rate	**24.0**	24.0
Tax effects in respect of:		
Expenses not deductible for tax purposes	**0.1**	0.1
(Over)/under provision in respect of prior financial years	**(0.2)**	0.3
Temporary differences not recognised in prior financial years	**(0.8)**	(0.3)
Non-taxable income	**(0.4)**	(0.2)
Effective tax rate	**22.7**	23.9

32 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the financial year by the weighted average number of ordinary shares in issue during the financial year.

	2017	2016
Net profit for the financial year (RM'000)	**367,392**	324,784
Weighted average number of ordinary shares in issue ('000)	**1,273,424**	1,185,446
Basic earnings per share (sen)	**28.85**	27.40

33 INCOME TAX EFFECTS RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

			2017			2016
	Before tax	**Tax effects**	**Net of tax**	Before tax	Tax effects	Net of tax
	RM'000	**RM'000**	**RM'000**	RM'000	RM'000	RM'000
Financial investments AFS:						
- Net fair value gain and net amount transfer to income statement	**21,072**	**(5,057)**	**16,015**	9,541	(2,290)	7,251

34 RELATED PARTY TRANSACTIONS

(a) Related parties and relationships

The related parties of, and their relationship with the Bank are as follows:

Related parties	**Relationship**
RHB Bank Berhad	Holding company
Employees' Provident Fund ('EPF')	Holding company's substantial shareholder, a fund body that is significantly influenced by government
Subsidiaries of RHB Bank Berhad as disclosed in its financial statements	Subsidiaries of the holding company
Subsidiaries, associates and joint ventures of EPF as disclosed in its financial statements	Reporting entities that EPF has control or significant influence
Key management personnel	The key management personnel of the Bank consists of: - All Directors of the Bank and - Members of the Group Management Committee ('GMC')
Related parties of key management personnel (deemed as related to the Bank)	(i) Close family members and dependents of key management personnel (ii) Entities that are controlled, jointly controlled or significantly influenced by, or for which voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

(b) Related party transaction

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances.

Other related parties of the Bank comprise of transactions or balances with the companies in the RHB Bank Berhad Group.

All related party transactions are entered into in the normal course of business at agreed terms between the related parties.

34 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related party transaction (continued)

	Holding company	EPF and EPF Group of companies	Key management personnel	Other related companies
	RM'000	RM'000	RM'000	RM'000
2017				
Income				
Commission	-	-	-	146
Income derived from investment of depositors' funds	50,727	19,746	-	-
Other income	77,693	4	-	-
	128,420	19,750	-	146
Expenditure				
Profit expense on deposits and placements	26,816	108	4,971	1,251
Profit expense on investment account	310,130	-	-	-
Reimbursement of operating expenses to holding company	239,036	-	-	-
Other expenses	435	-	-	1,584
	576,417	108	4,971	2,835
Amounts due from				
Cash and short-term funds	10,403	-	-	-
Deposits and placements with banks and other financial institutions	14,613	-	-	-
Securities purchased under resale agreements	1,587,979	-	-	-
Financial investments AFS	-	45,214	-	-
Financing and advances	-	792,394	-	-
Derivative assets	321,607	-	-	-
	1,934,602	837,608	-	-
Amounts due to				
Derivative liabilities	14,588	-	-	-
Demand and investment deposits	-	101,668	755	25,861
Deposits and placements of banks and other financial institutions	211,477	-	-	-
Investment account due to designated financial institutions	8,102,698	-	-	-
Other liabilities	168,364	-	-	259
	8,497,127	101,668	755	26,120

34 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related party transaction (continued)

	Holding company RM'000	EPF and EPF Group of companies RM'000	Key management personnel RM'000	Other related companies RM'000
2016				
Income				
Commission	-	-	-	132
Income derived from investment of depositors' funds	58,713	30,737	-	-
Other income	-	-	-	6
	58,713	30,737	-	138
Expenditure				
Profit expense on deposits and placements	33,521	382	-	606
Profit expense on investment account	260,622	-	-	-
Reimbursement of operating expenses to holding company	158,318	-	-	-
Other expenses	1,898	-	-	3,363
	454,359	382	-	3,969
Amounts due from				
Securities purchased under resale agreements	2,353,950	-	-	-
Financing and advances	-	765,640	-	-
Derivative assets	46,452	-	-	-
	2,400,402	765,640	-	-
Amounts due to				
Derivative liabilities	364,325	-	-	-
Demand and investment deposits	1,797	382,658	77	20,564
Deposits and placements of banks and other financial institutions	1,142,864	-	-	-
Investment account due to designated financial institutions	6,622,471	-	-	-
Other liabilities	769,591	-	-	668
	8,901,048	382,658	77	21,232

34 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management personnel

The remuneration of key management personnel are as follows:

	2017	2016
	RM'000	RM'000
Short-term employee benefits:		
- Fees	**607**	553
- Salary and other remuneration	**2,264**	3,529
- Defined contribution plan	**218**	427
- Benefits-in-kind (based on an estimated monetary value)	**24**	32
	3,113	4,541

The above remuneration includes Directors' remuneration as disclosed in Note 30.

(d) Credit exposures arising from transactions with connected parties

Credit exposures with connected parties as per BNM's revised Guidelines on Credit Transactions and Exposures with Connected Parties are as follows:

	2017	2016
Outstanding credit exposure with connected parties (RM'000)	**1,767,706**	1,607,926
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures (%)	**3.74**	4.22
Percentage of outstanding credit exposures with connected parties which is non-performing or in default (%)	**-**	0.01

The credit exposures above are derived based on BNM's revised Guidelines on Credit Transactions and Exposures with Connected Parties, which are effective on 1 January 2008.

35 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to customers.

	2017	2016
	RM'000	RM'000
Transaction-related contingent items	**195,298**	127,119
Short-term self-liquidating trade related contingencies	**111,779**	74,479
Obligations under underwriting agreements	**-**	76,000
Commitment to buy back the Islamic securities arising from the Sell and Buy Back ('SBBA') transaction	**629,085**	-
Irrevocable commitments to extend credit:		
- Maturity more than one year	**5,800,512**	4,824,220
Foreign exchange related contracts*:		
- Less than one year	**7,910,145**	7,577,185
- One year to less than five years	**1,713,345**	766,434
- More than five years	**949,178**	999,623
Profit rate related contracts*:		
- Less than one year	**3,690,000**	2,585,000
- One year to less than five years	**767,338**	2,279,448
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	**2,513,842**	2,183,074
Total	**24,280,522**	21,492,582

* These derivatives are revalued on gross position basis and the unrealised gains or losses has been reflected in the income statement and statement of financial position as derivative assets and liabilities.

36 OPERATING LEASE COMMITMENTS

The Bank has lease commitments in respect of rented premises which are classified as operating leases. A summary of the non-cancellable long term commitments, net of sub-leases, is as follows:

	2017	2016
	RM'000	RM'000
Within one year	**4,250**	3,552
Between one to five years	**5,069**	2,103
	9,319	5,655

37 CAPITAL COMMITMENTS

	2017	2016
	RM'000	RM'000
Capital expenditure for property, plant and equipment:		
- Authorised and contracted for	**6,460**	3,084

38 FINANCIAL RISK MANAGEMENT

(a) Financial risk management objectives and policies

Risk is inherent in the Bank's activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Bank is exposed to a range of other risk types such as market, liquidity, operational, legal, Shariah, strategic and cross-border, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

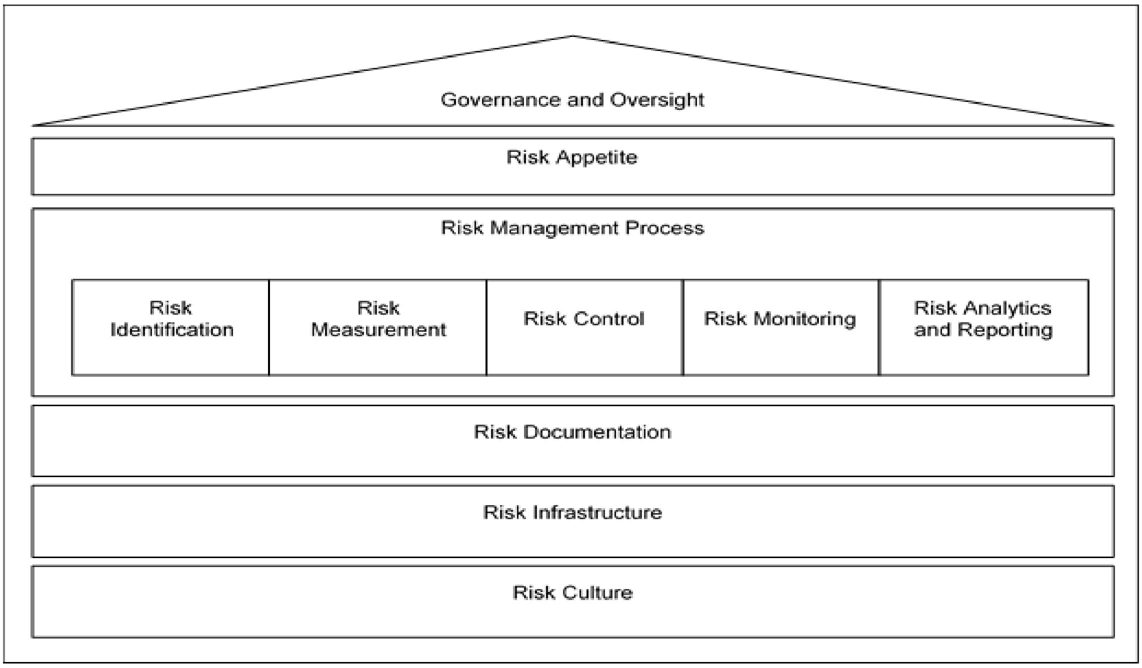
Effective risk management is fundamental to being able to drive sustainable growth and shareholder's value, while maintaining competitive advantage, and is thus a central part of the proactive risk management of the Bank's operating environment.

The Group Risk Management Framework governs the management of risks in the Group, as follows:

(1) It provides a holistic overview of the risk and control environment of the Group, with risk management aimed towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and controls in the organisation.

(2) It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is realised through building up capabilities and infrastructure in risk management sophistication, and enhanced risk quantification to optimise risk-adjusted returns.

The Group Risk Management Framework is represented in the following diagram:



38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are:

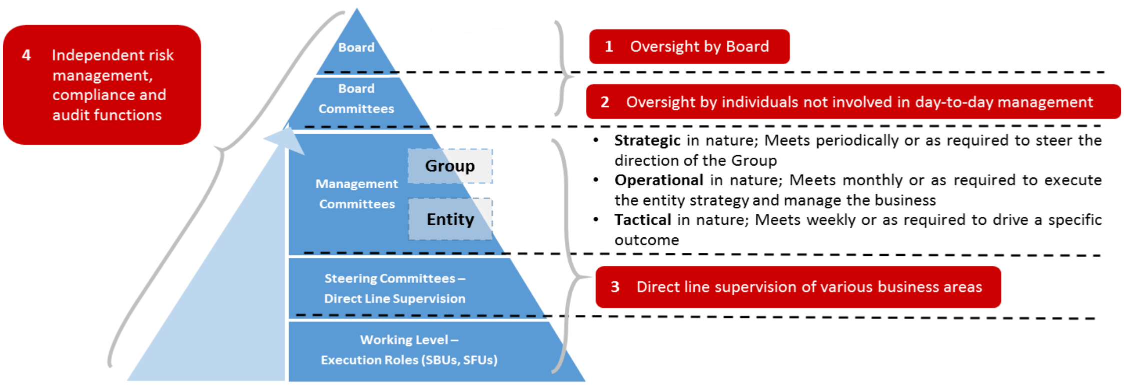
(1) Risk governance from the Board of Directors of various operating entities within the Group

The ultimate responsibility of the Boards of Directors in the Group is to ensure that an effective risk management strategy is in place and uniformly understood across the Group. The Group has a structured framework to support the Board's oversight responsibilities.

<u>Risk Governance and Organisation</u>

The Board Risk Committee ('BRC') is the principal Board Committee that provides oversight over risk management for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, frameworks, policies and models. An Islamic Risk Management Committee ('IRMC') has also been established to assist the Board of Directors of the Bank on issues relevant and unique to Islamic finance.

The responsibility for the supervision of the day-to-day management of enterprise risk and capital matters is delegated to the Group Capital and Risk Committee ('GCRC') comprising Senior Management of the Group and which reports to the BRC/IRMC and the GMC. There are other committees set up to manage specific areas of risks in the Group. An overview of this governance framework at Group level is as below:



38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are (continued):

<u>Risk Culture</u>

(2) Clear understanding of risk management ownership

Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group. The Group adopts the principle that 'Risk and Compliance is Everyone's Responsibility'.

The Strategic Business Groups ('SBGs') and Strategic Functional Groups ('SFGs') of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risks. The business units manage certain defined risks supported by the services provided by the functional units, including the risk management function. The approach is based on the 'three lines of defence' model as depicted below:

FIRST LINE Business/Functional Level	• Responsible for managing day-to-day operational risks and compliance issues • Business Risk and Compliance Officer is to assist business/functional unit in day-to-day risks and compliance matters
SECOND LINE Group Risk Management & Group Compliance	• Responsible for oversight, establishing governance and providing support to business/functional unit on risk and compliance matters
THIRD LINE Group Internal Audit	• Provide independent assurance to the Board that risk and compliance management functions effectively as designed

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are (continued):

Risk Environment and Infrastructure

(3) Institutionalisation of a risk-focused organisation

In addition to risk ownership, a risk-focused culture is promoted throughout the Group through strengthening of the central risk management function and continuous reinforcement of a risk and control environment within the Group. There is a continuous review of business activities and processes to identify significant risk areas and implement control procedures to operate within established corporate policies and limits.

Group Risk and Credit Management is independent of the business function to ensure that the necessary balance in risk/return decisions is not compromised by short term pressures to generate revenues. The said function is headed by the Group Chief Risk Officer.

The business and functional heads are accountable for risk management in their businesses and functions, and for overseas operations where they have governance responsibilities. The business and functional units have clear segregation of duties to ensure that business processes are functioning effectively. There is accountability delegated to the appropriate authority to enable them to execute their respective authorities in meeting the business strategies without compromising the risk management process.

The primary responsibility for managing risks, therefore, rests with the business managers who are best equipped to ensure that risk management and control are continuously focused on the way business is conducted. There is a continuous review of business activities and processes to identify significant risk areas and implement control procedures to operate within established corporate policies and limits.

The risk management processes within the Bank seek to identify, measure, monitor and control risk so that risk exposures are adequately managed and the expected returns adequately compensate the risks.

- Identification: The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and ensure that the risks can be managed and controlled within the risk appetite of the Bank and specific entity, where necessary.
- Measurement: Risks are measured, assessed and aggregated using comprehensive qualitative and quantitative risk measurement methodologies, and the process also serves as an important tool as it provides an assessment of capital adequacy and solvency.
- Controlling and Monitoring: Controls, triggers and limits are used to manage risk exposures and to facilitate early identification of potential problem on a timely basis.
- Analytics and Reporting: Risk analysis and reports prepared at the respective entities and consolidated level as well as business level are regularly escalated to the senior management and relevant Boards to ensure that the risks remain within the established appetite and to support an informed decision-making process.

The Bank recognises that effective implementation of the risk management system and process must be supported by a robust set of documentation and infrastructure. Towards this end, the Bank has established frameworks, policies and other relevant control documents to ensure clearly defined practices and processes are implemented consistently across the Bank.

In terms of risk infrastructure, the Bank has organised its resources and talents into specific functions, and invested into technology, including data management to support the Bank’s risk management activities.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are (continued):

Risk Appetite

(4) Alignment of risk management to business strategies

The Group Risk Management Framework serves to align the Group's business strategy to risk strategy, and vice-versa. This is articulated through the risk appetite setting and the Group's annual business and financial budgetary plan, which is facilitated by the integration of risk measures in capital management.

Risk appetite is set by the Board and reported through various metrics that enable the Bank to manage capital constraints and shareholder's expectations. The risk appetite is a key component of the management of risks and describes the types and level of risk that the Bank is prepared to accept in delivering its strategy.

(5) Optimisation of risk-adjusted return

One of the objectives of capital management is to reflect a risk-adjusted return assumed by the businesses throughout the Group. By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholder value by facilitating the allocation of capital to the businesses.

The medium to long-term strategy and principle of risk management of the Group is to intensify the integration of capital management within the Group. The Group is progressively implementing a risk-adjusted return based framework for allocation of capital to business units and for performance measurement and management.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Major Areas of Risk

As a banking institution with key activities covering retail, business banking, corporate banking and advisory services, treasury products and services, the Bank is subject to business risks which are inherent in the financial services industry. Generally, these business risks can be broadly classified as follows:

(i) Market risk - the risk of loss arising from adverse movements in market indicators, such as profit rates, credit spreads, equity prices, currency exchange rates and commodity prices.

(ii) Liquidity risk - the risk of the Bank being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due and transact at a reasonable cost. Liquidity risk also arises from the inability to manage unplanned decreases or changes in funding sources.

(iii) Credit risk - the risk of loss arising from customers' or counterparties' failure to fulfil their financial and contractual obligations in accordance with the agreed terms. It stems primarily from the Bank's lending/financing, trade finance and its funding, investment and trading activities from both on- and off-balance sheet transactions.

(iv) Operational risk - the risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events , which also includes IT, legal and Shariah non-compliance risk but excludes strategic and reputational risk.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

To mitigate the various business risks of the Bank, the following has been put in place:

Market risk

- A framework of risk policies, measurement methodologies and limits, as approved by the Board, which controls the Bank's financial market activities as well as to identify potential risk areas early in order to mitigate against any adverse effects arising from market volatility.
- The Group Asset and Liability Committee ('Group ALCO') and the GCRC performs a critical role in the oversight of the management of market risk and supports the IRMC and BRC in the overall market risk management.
- The Group Risk Management function forms a centralised function to support Senior Management to operationalise the processes and methods, to ensure adequate risk control and oversight are in place.
- The Bank applies risk monitoring and assessment tools to measure trading book positions and market risk factors. Statistical and non-statistical risk assessment tools applied include Value-at-Risk ('VaR'), sensitivity analysis and stress testing.
- Market risk is primarily monitored and controlled via a structure of limits and triggers i.e. cut loss, VaR, trading and notional limit set in accordance with the size of positions and risk tolerance appetites.
- Periodic stress testing are applied to the Bank to ascertain market risk under abnormal market conditions.

Liquidity risk

- The Group ALCO plays a fundamental role in the asset and liability management of the Bank and establishes strategies to assist in controlling and reducing any potential exposures to liquidity risk.
- The liquidity risk management process involves establishing liquidity risk management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions.
- Limits on the minimum portion of maturing funds available to meet obligations and the minimum level of inter-bank and other borrowing facilities are set to ensure adequate cover for withdrawals arising from unexpected levels of demand.
- Defined liquidity management ratios are maintained and monitored.
- The Bank has established a Liquidity Incident Management Procedure to manage any potential adverse liquidity incidences, and which can be implemented on a timely basis so that appropriate actions can be taken to mitigate against any unexpected market developments.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Credit risk

- The Bank abides to the Board approved credit policy which supports the development of a strong credit culture and with the objective of maintaining a well-diversified portfolio that addresses credit risk, and mitigates concern for unexpected losses.
- Industry best practices are incorporated into this policy.
- Group Credit Committee ('GCC') is responsible for ensuring adherence to the Board approved credit risk appetite as well as the effectiveness of credit risk management. GCC is the senior management committee empowered to approve or reject all financial investments, counterparty credit and lending/financing up to the defined threshold limits.
- Group Investment Underwriting Committee ('GIUC') deliberates, approves and rejects stockbroking/equities/futures business related proposals such as equity underwriting, equity derivatives and structured products, and share margin financing.
- GCC and GIUC submit to the Board Credit Committee ('BCC') for affirmation or veto if the financing facilities exceed a pre-defined threshold.
- The Bank also ensures that internal processes and credit underwriting standards are adhered to before credit proposals are approved. All credit proposals are first evaluated by the originating business units before being evaluated prior to submission to the relevant committees for approval. With the exception of credit applications for consumer and approved products under program lending/financing which can be approved by business units' supervisors, all other credit facilities are subject to independent assessment by a team of dedicated and experienced credit evaluators in Head Office. For proper checks and controls, joint approval is required for all discretionary lending between business and independent credit underwriters. Financing which are beyond the delegated lending authority limits will be escalated to the relevant committees for approval.
- Internal credit rating models are an integral part of the Bank's credit risk management, decision-making process, and regulatory capital calculations.
- Clients' accounts are reviewed at regular intervals and weakening credits are transferred to Loan Recovery for more effective management.
- Counterparty, industry and product exposure limits/directions are set and risk reward relationship are mapped with the aim of maintaining a diverse credit profile and track the changing risk concentrations in response to market changes and external events.
- The Bank has obtained BNM's approval to apply the Internal Ratings-Based ('IRB') approach for credit risk, whereby more advanced Basel II approaches and key program components are implemented, which includes (i) enhancing the returns of the Bank using established credit risk framework and methodologies, (ii) implementing and using empirical credit scoring models for consumer financing and credit grading models for business financing, and (iii) designing and implementing modelling of expected and unexpected losses.
- Plans are underway to migrate other material portfolios to the IRB approach for credit risk.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Operational risk

- The Group Risk Management function is responsible for the development of group-wide operational risk policies, framework and methodologies, and providing guidance and information to the business units on operational risk areas. The respective business units are primarily responsible for managing operational risk on a day-to-day basis. Some of the operational risk tools used include Risk and Control Self-Assessment, Key Risk Indicators, Incident and Loss Management.

- The Bank's operational risk management system has integrated applications to support the operational risk management process. This system facilitates the Bank' capabilities for the Advanced Measurement Approach of the Basel II Framework in the future.

- The Bank has Business Continuity Planning ('BCP') programmes for the major critical business operations and activities at the Head Office, data centre, and branch locations. The BCP programmes are subject to regular testing to ensure efficacy, reliability and functionality.

- There is continuous refinement of existing policies, procedures and internal control measures; and regular internal review, compliance monitoring, and audits are performed to prevent and/or minimise unexpected losses.

- Regular operational risk reporting is made to senior management, relevant committees and board to facilitate the identification of adverse operational lapses, taking of prompt corrective actions, and ensuring appropriate risk mitigation decision making and action plans.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category

	Financing and receivables	Assets at fair value through the profit and loss	Financial investments AFS	Financial investments HTM	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2017					
Assets					
Cash and short-term funds	2,029,860	-	-	-	2,029,860
Securities purchased under resale agreements	1,587,979	-	-	-	1,587,979
Deposits and placements with banks and other financial institutions	447,210	-	-	-	447,210
Financial assets HFT	-	172,536	-	-	172,536
Financial investments AFS	-	-	3,394,493	-	3,394,493
Financial investments HTM	-	-	-	3,820,734	3,820,734
Financing and advances	42,701,794	-	-	-	42,701,794
Derivative assets	-	327,978	-	-	327,978
Other financial assets	7,617	-	-	-	7,617
	46,774,460	500,514	3,394,493	3,820,734	54,490,201

	Liabilities at fair value through the profit and loss	Other financial liabilities at amortised cost	Total
	RM'000	RM'000	RM'000
Liabilities			
Deposits from customers	-	37,850,205	37,850,205
Deposits and placements of banks and other financial institutions	-	4,394,801	4,394,801
Investment account due to designated financial institutions	-	8,102,698	8,102,698
Obligations on secuirities sold under repurchase agreements	-	604,163	604,163
Bills and acceptances payable	-	9,216	9,216
Derivative liabilities	327,723	-	327,723
Subordinated obligations	-	755,393	755,393
Other financial liabilities	-	281,991	281,991
	327,723	51,998,467	52,326,190

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category (continued)

	Financing and receivables	Assets at fair value through the profit and loss	Financial investments AFS	Financial investments HTM	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2016					
Assets					
Cash and short-term funds	3,436,239	-	-	-	3,436,239
Securities purchased under resale agreements	2,353,950	-	-	-	2,353,950
Deposits and placements with banks and other financial institutions	537,141	-	-	-	537,141
Financial assets HFT	-	10,177	-	-	10,177
Financial investments AFS	-	-	3,459,647	-	3,459,647
Financial investments HTM	-	-	-	2,820,123	2,820,123
Financing and advances	33,841,566	-	-	-	33,841,566
Derivative assets	-	402,763	-	-	402,763
Other financial assets	114,720	-	-	-	114,720
	40,283,616	412,940	3,459,647	2,820,123	46,976,326

	Liabilities at fair value through the profit and loss	Other financial liabilities at amortised cost	Total
	RM'000	RM'000	RM'000
Liabilities			
Deposits from customers	-	29,419,928	29,419,928
Deposits and placements of banks and other financial institutions	-	6,430,194	6,430,194
Investment account due to designated financial institutions	-	6,622,471	6,622,471
Bills and acceptances payable	-	9,050	9,050
Derivative liabilities	400,812	-	400,812
Recourse obligation on financing sold to Cagamas	-	815,243	815,243
Subordinated obligations	-	503,187	503,187
Other financial liabilities	-	814,059	814,059
	400,812	44,614,132	45,014,944

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

Market risk sensitivity assessment is based on the changes in key variables, such as profit rates and foreign currency rates, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the assets and liabilities position of the Bank.

The scenarios used are based on the assumption that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables. The Bank seeks to ensure that the profit rate risk profile is managed to minimise losses and optimise net revenues.

(i) Profit rate sensitivity analysis

The profit rate sensitivity results below shows the impact on profit after tax and equity of financial assets and financial liabilities bearing floating profit rate and fixed rate financial assets and financial liabilities:

	Impact on profit after tax RM'000	Impact on equity RM'000
2017		
+100 bps	**33,212**	**(102,890)**
-100 bps	**(32,068)**	**109,717**
2016		
+100 bps	(3,498)	(113,332)
-100 bps	3,652	121,600

The results above represent financial assets and liabilities that have been prepared on the following basis:

(i) Impact on the profit after tax is the sum of valuation changes on fixed income instruments held in the trading portfolio and earnings movement for all short term profit rate sensitive assets and liabilities (with maturity or re-pricing tenure of up to one year) that is not held in the trading portfolio. Earnings movement for the short term profit rate sensitive assets and liabilities uses a set of risk weights with its respective time band to simulate the 100 bps (2016: 100 bps) profit rate change impact. For assets and liabilities with non-fixed maturity e.g. current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of these profit bearing assets and liabilities.

(ii) Impact on equity represents the changes in fair values of fixed income instruments held in the AFS portfolio arising from the shift in the profit rate.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Foreign currency sensitivity analysis

The foreign currency sensitivity represents the effect of the appreciation or depreciation of the foreign currency rates on the currency position, while other variables remain constant.

	Impact on profit after tax RM'000
2017	
+10%	**1,254**
-10%	**(1,254)**
2016	
+10%	(632)
-10%	632

Impact on the profit after tax is estimated on the assumption that foreign exchange move by the same amount and all other variables are held constant and are based on a constant reporting date position.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates:

	Non-trading book								
2017	**Up to 1 month**	**>1 - 3 months**	**>3 - 6 months**	**>6 - 12 months**	**>1 - 3 years**	**Over 3 years**	**Non-profit sensitive**	**Trading book**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
ASSETS									
Cash and short-term funds	1,937,560	-	-	-	-	-	92,300	-	2,029,860
Securities purchased under resale agreements	-	968,712	609,921	-	-	-	9,346	-	1,587,979
Deposits and placements with banks and other financial institutions	-	414,627	30,000	-	-	-	2,583	-	447,210
Financial assets HFT	-	-	-	-	-	-	-	172,536	172,536
Financial investments AFS	200,000	15,004	115,363	120,262	600,774	2,309,485	33,605 #	-	3,394,493
Financial investments HTM	10,000	1,672,002	218,123	223,468	278,465	1,401,427	17,249	-	3,820,734
Financing and advances:									
- Performing	29,557,681	625,940	344,756	57,303	2,478,619	9,384,282	181,909	-	42,630,490
- Impaired	-	-	-	-	-	-	71,304 *	-	71,304
Other assets	-	-	-	-	-	-	90,934	-	90,934
Derivative assets	-	-	35	-	-	-	-	327,943	327,978
Statutory deposits with BNM	-	-	-	-	-	-	1,116,200	-	1,116,200
Deferred tax assets	-	-	-	-	-	-	16,513	-	16,513
Property, plant and equipment	-	-	-	-	-	-	6,193	-	6,193
Intangible assets	-	-	-	-	-	-	5,039	-	5,039
TOTAL ASSETS	31,705,241	3,696,285	1,318,198	401,033	3,357,858	13,095,194	1,643,175	500,479	55,717,463

Included impairment loss.
* This represents outstanding impaired financing after deducting individual impairment allowance and collective impairment allowance.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

	Non-trading book								
2017	**Up to 1 month**	**>1 - 3 months**	**>3 - 6 months**	**>6 - 12 months**	**>1 - 3 years**	**Over 3 years**	**Non-profit sensitive**	**Trading book**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
LIABILITIES									
Deposits from customers	8,924,939	4,722,821	10,988,768	7,887,756	4,651	2,061	5,319,209	-	37,850,205
Deposits and placements of banks and other financial institutions	1,446,420	2,768,363	56,652	-	101,859	19,990	1,517	-	4,394,801
Investment account due to designated financial institutions	-	-	-	911,150	2,411,380	4,497,775	282,393	-	8,102,698
Obligations on securities sold under repurchase agreements	603,909	-	-	-	-	-	254	-	604,163
Bills and acceptances payable	-	-	-	-	-	-	9,216	-	9,216
Derivative liabilities	-	-	55	3,217	-	-	-	324,451	327,723
Subordinated obligations	-	-	-	-	500,000	250,000	5,393	-	755,393
Other liabilities	-	-	-	-	-	-	345,792	-	345,792
Provision for tax and zakat	-	-	-	-	-	-	15,623	-	15,623
TOTAL LIABILITIES	10,975,268	7,491,184	11,045,475	8,802,123	3,017,890	4,769,826	5,979,397	324,451	52,405,614
TOTAL EQUITY	-	-	-	-	-	-	3,311,849	-	3,311,849
TOTAL LIABILITIES AND EQUITY	10,975,268	7,491,184	11,045,475	8,802,123	3,017,890	4,769,826	9,291,246	324,451	55,717,463
On-balance sheet profit sensitivity gap	20,729,973	(3,794,899)	(9,727,277)	(8,401,090)	339,968	8,325,368			
Off-balance sheet profit sensitivity gap	-	(220,000)	95,000	(650,000)	(425,000)	-			
TOTAL PROFIT-SENSITIVITY GAP	20,729,973	(4,014,899)	(9,632,277)	(9,051,090)	(85,032)	8,325,368			

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

	Non-trading book								
2016	Up to 1 month	>1 - 3 months	>3 - 6 months	>6 - 12 months	>1 - 3 years	Over 3 years	Non-profit sensitive	Trading book	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS									
Cash and short-term funds	3,414,852	-	-	-	-	-	21,387	-	3,436,239
Securities purchased under resale agreements	665,451	489,273	1,187,178	-	-	-	12,048	-	2,353,950
Deposits and placements with banks and other financial institutions	-	220,632	-	315,738	-	-	771	-	537,141
Financial assets HFT	-	-	-	-	-	-	-	10,177	10,177
Financial investments AFS	-	-	40,001	283,305	384,067	2,719,718	32,556 #	-	3,459,647
Financial investments HTM	25,000	1,039,234	50,033	56,224	596,555	1,033,314	19,763	-	2,820,123
Financing and advances:									
- Performing	22,469,539	525,572	336,374	49,219	623,488	9,522,874	173,793	-	33,700,859
- Impaired	-	-	-	-	-	-	140,707 *	-	140,707
Other assets	-	-	-	-	-	-	171,730	-	171,730
Derivative assets	-	-	-	-	899	-	-	401,864	402,763
Statutory deposits with BNM	-	-	-	-	-	-	1,051,050	-	1,051,050
Deferred tax assets	-	-	-	-	-	-	20,929	-	20,929
Property, plant and equipment	-	-	-	-	-	-	6,576	-	6,576
Intangible assets	-	-	-	-	-	-	4,750	-	4,750
TOTAL ASSETS	26,574,842	2,274,711	1,613,586	704,486	1,605,009	13,275,906	1,656,060	412,041	48,116,641

\# Included impairment loss.

* This represents outstanding impaired financing after deducting individual impairment allowance and collective impairment allowance.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

	Non-trading book								
2016	Up to 1 month	>1 - 3 months	>3 - 6 months	>6 - 12 months	>1 - 3 years	Over 3 years	Non-profit sensitive	Trading book	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
LIABILITIES									
Deposits from customers	11,279,431	6,414,917	5,135,151	3,932,822	44,092	432	2,613,083	-	29,419,928
Deposits and placements of banks and other financial institutions	2,812,328	2,640,632	49,337	315,738	400,000	160,874	51,285	-	6,430,194
Investment account due to designated financial institutions	5,662	-	5,839	417,123	1,102,815	4,806,007	285,025	-	6,622,471
Bills and acceptances payable	-	-	-	-	-	-	9,050	-	9,050
Derivative liabilities	-	-	-	678	7,525	666	-	391,943	400,812
Recourse obligation on financing sold to Cagamas	-	-	-	801,342	-	-	13,901	-	815,243
Subordinated obligations	-	-	-	-	-	500,000	3,187	-	503,187
Other liabilities	-	-	-	-	-	-	957,863	-	957,863
Provision for tax and zakat	-	-	-	-	-	-	29,451	-	29,451
TOTAL LIABILITIES	14,097,421	9,055,549	5,190,327	5,467,703	1,554,432	5,467,979	3,962,845	391,943	45,188,199
TOTAL EQUITY	-	-	-	-	-	-	2,928,442	-	2,928,442
TOTAL LIABILITIES AND EQUITY	14,097,421	9,055,549	5,190,327	5,467,703	1,554,432	5,467,979	6,891,287	391,943	48,116,641
On-balance sheet profit sensitivity gap	12,477,421	(6,780,838)	(3,576,741)	(4,763,217)	50,577	7,807,928			
Off-balance sheet profit sensitivity gap	-	-	-	(225,000)	(710,000)	(90,000)			
TOTAL PROFIT-SENSITIVITY GAP	12,477,421	(6,780,838)	(3,576,741)	(4,988,217)	(659,423)	7,717,928			

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk

Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds upon maturity, extensions of credit and working capital needs.

The Bank has adopted the BNM's liquidity standard on Liquidity Coverage Ratio, to ensure maintenance of adequate stock of unencumbered high-quality liquid assets to survive the liquidity needs for 30 calendar day under liquidity stress condition. The Bank continues to report Net Stable Funding Ratio under the Basel III observation reporting to BNM.

The Bank seeks to project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity:

2017	Up to 1 week	1 week to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	No 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	1,757,412	272,448	-	-	-	-	-	2,029,860
Securities purchased under resale agreements	-	-	975,560	612,419	-	-	-	1,587,979
Deposits and placements with banks and other financial institutions	-	-	417,106	30,104	-	-	-	447,210
Financial assets HFT	-	-	-	-	-	172,536	-	172,536
Financial investments AFS	-	-	15,004	115,581	121,694	2,941,594	200,620	3,394,493
Financial investments HTM	10,000	-	1,672,002	223,053	225,335	1,690,344	-	3,820,734
Financing and advances	698,661	3,239,159	627,124	1,950,488	1,198,708	34,987,654	-	42,701,794
Other assets	1	7,808	-	-	-	-	83,125	90,934
Derivative assets	1,571	15,995	73,762	95,894	54,341	86,415	-	327,978
Statutory deposits with BNM	-	-	-	-	-	-	1,116,200	1,116,200
Deferred tax assets	-	-	-	-	-	-	16,513	16,513
Property, plant and equipment	-	-	-	-	-	-	6,193	6,193
Intangible assets	-	-	-	-	-	-	5,039	5,039
TOTAL ASSETS	2,467,645	3,535,410	3,780,558	3,027,539	1,600,078	39,878,543	1,427,690	55,717,463

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity (continued):

2017	Up to 1 week	1 week to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	No specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
LIABILITIES								
Deposits from customers	9,758,640	4,126,733	4,795,720	11,195,747	7,966,481	6,884	-	37,850,205
Deposits and placements of banks and other financial institutions	98,613	1,348,628	2,768,375	56,760	-	122,425	-	4,394,801
Investment account due to designated financial institutions	-	-	-	-	937,147	7,165,551	-	8,102,698
Obligations on securities sold under repurchase agreements	604,163	-	-	-	-	-	-	604,163
Bills and acceptances payable	9,216	-	-	-	-	-	-	9,216
Derivative liabilities	1,112	14,039	73,648	95,343	57,120	86,461	-	327,723
Subordinated obligations	-	-	-	5,393	-	750,000	-	755,393
Other liabilities	206,792	29,313	26,460	-	19,425	-	63,802	345,792
Provision for tax and zakat	-	-	-	-	-	-	15,623	15,623
TOTAL LIABILITIES	10,678,536	5,518,713	7,664,203	11,353,243	8,980,173	8,131,321	79,425	52,405,614
TOTAL EQUITY	-	-	-	-	-	-	3,311,849	3,311,849
TOTAL LIABILITIES AND EQUITY	10,678,536	5,518,713	7,664,203	11,353,243	8,980,173	8,131,321	3,391,274	55,717,463

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity (continued):

2016	Up to 1 week	1 week to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	No 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	1,333,971	2,102,268	-	-	-	-	-	3,436,239
Securities purchased under resale agreements	670,558	-	490,701	1,192,691	-	-	-	2,353,950
Deposits and placements with banks and other financial institutions	-	-	221,403	-	315,738	-	-	537,141
Financial assets HFT	-	-	-	83	-	10,094	-	10,177
Financial investments AFS	2,215	9,774	10,737	49,212	283,305	2,903,785	200,619	3,459,647
Financial investments HTM	26,387	6,537	1,047,216	53,889	56,224	1,629,870	-	2,820,123
Financing and advances	779,786	1,303,962	527,374	465,980	492,250	30,272,214	-	33,841,566
Other assets	105,825	8,896	-	-	-	-	57,009	171,730
Derivative assets	14,880	12,466	71,771	102,033	125,065	76,548	-	402,763
Statutory deposits with BNM	-	-	-	-	-	-	1,051,050	1,051,050
Deferred tax assets	-	-	-	-	-	-	20,929	20,929
Property, plant and equipment	-	-	-	-	-	-	6,576	6,576
Intangible assets	-	-	-	-	-	-	4,750	4,750
TOTAL ASSETS	2,933,622	3,443,903	2,369,202	1,863,888	1,272,582	34,892,511	1,340,933	48,116,641

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity (continued):

2016	Up to 1 week	1 week to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	No specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
LIABILITIES								
Deposits from customers	7,603,799	6,140,298	6,491,690	5,185,878	3,953,480	44,783	-	29,419,928
Deposits and placements of banks and other financial institutions	403,232	2,406,145	2,631,449	49,396	315,738	624,234	-	6,430,194
Investment account due to designated financial institutions	-	6,026	-	6,214	475,786	6,134,445	-	6,622,471
Bills and acceptances payable	9,050	-	-	-	-	-	-	9,050
Derivative liabilities	6,498	14,330	71,263	101,069	125,367	82,285	-	400,812
Recourse obligation on financing sold to Cagamas	-	-	-	-	815,243	-	-	815,243
Subordinated obligations	-	-	-	-	-	503,187	-	503,187
Other liabilities	766,026	12,311	16,652	-	19,070	-	143,804	957,863
Provision for tax and zakat	-	-	-	-	-	-	29,451	29,451
TOTAL LIABILITIES	8,788,605	8,579,110	9,211,054	5,342,557	5,704,684	7,388,934	173,255	45,188,199
TOTAL EQUITY	-	-	-	-	-	-	2,928,442	2,928,442
TOTAL LIABILITIES AND EQUITY	8,788,605	8,579,110	9,211,054	5,342,557	5,704,684	7,388,934	3,101,697	48,116,641

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The following table presents the cash outflows for the Bank's financial liabilities by remaining contractual maturities on an undiscounted basis. The balances in the table below will not agree to the balances reported in the statement of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and profit payments.

2017	Up to 1 month	1 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
LIABILITIES							
Deposits from customers	13,896,522	16,185,088	8,181,978	5,080	2,501	-	38,271,169
Deposits and placements of banks and other financial institutions	1,450,382	2,840,958	-	130,188	19,906	-	4,441,434
Investment account due to designated financial institutions	-	-	970,164	2,870,324	509,259	5,333,370	9,683,117
Obligations on securities sold under repurchase agreements	604,265	-	-	-	-	-	604,265
Bills and acceptances payable	9,216	-	-	-	-	-	9,216
Derivative liabilities:							
-Gross settled derivatives:							
- Inflow	(253,028)	(2,342,420)	(1,060,062)	(389,394)	(345,590)	(527,558)	(4,918,052)
- Outflow	268,389	2,525,659	1,133,357	460,683	406,511	579,548	5,374,147
- Net settled derivatives	61	969	1,675	(3,257)	(597)	-	(1,149)
Subordinated obligations	-	18,475	18,475	536,775	268,300	-	842,025
Other financial liabilities	236,105	26,461	19,425	-	-	-	281,991
TOTAL FINANCIAL LIABILITIES	16,211,912	19,255,190	9,265,012	3,610,399	860,290	5,385,360	54,588,163

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The following table presents the cash outflows for the Bank's financial liabilities by remaining contractual maturities on an undiscounted basis. The balances in the table below will not agree to the balances reported in the statement of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and profit payments. (continued)

2016	Up to 1 month	1 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
LIABILITIES							
Deposits from customers	13,759,676	11,807,473	4,069,069	46,096	515	-	29,682,829
Deposits and placements of banks and other financial institutions	2,793,494	2,685,562	372,177	500,175	167,961	-	6,519,369
Investment account due to designated financial institutions	-	-	-	702,975	3,475,892	3,798,980	7,977,847
Bills and acceptances payable	9,051	-	-	-	-	-	9,051
Derivative liabilities:							
-Gross settled derivatives:							
- Inflow	(392,366)	(1,954,500)	(1,314,325)	(258,381)	(238,054)	(605,126)	(4,762,752)
- Outflow	414,638	2,131,485	1,411,655	278,096	242,738	603,019	5,081,631
- Net settled derivatives	(91)	1,225	2,064	755	(4,246)	-	(293)
Recourse obligation on financing sold to Cagamas	23,773	139,393	668,841	-	-	-	832,007
Subordinated obligations	-	12,375	512,375	-	-	-	524,750
Other financial liabilities	778,337	16,652	19,070	-	-	-	814,059
TOTAL FINANCIAL LIABILITIES	17,386,512	14,839,665	5,740,926	1,269,716	3,644,806	3,796,873	46,678,498

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The following table presents the contractual expiry by maturity of the Bank's commitments and contingencies:

	Less than 1 year	**Over 1 year**	**Total**
	RM'000	**RM'000**	**RM'000**
2017			
Transaction-related contingent items	**122,516**	**72,782**	**195,298**
Short-term self-liquidating trade-related contingencies	**87,417**	**24,362**	**111,779**
Commitment to buy back the Islamic securities arising from the Sell and Buy Back ('SBBA') transaction	**-**	**629,085**	**629,085**
Irrevocable commitments to extend credit	**-**	**5,800,512**	**5,800,512**
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	**1,405,272**	**1,108,570**	**2,513,842**
TOTAL COMMITMENTS AND CONTINGENCIES	**1,615,205**	**7,635,311**	**9,250,516**

	Less than 1 year	Over 1 year	Total
	RM'000	RM'000	RM'000
2016			
Transaction-related contingent items	20,413	106,706	127,119
Short-term self-liquidating trade-related contingencies	12,108	62,371	74,479
Obligations under underwriting agreements	-	76,000	76,000
Irrevocable commitments to extend credit	-	4,824,220	4,824,220
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	3,693	2,179,381	2,183,074
TOTAL COMMITMENTS AND CONTINGENCIES	36,214	7,248,678	7,284,892

Undrawn financing and advances commitments are recognised at activation stage and include commitments which are unconditionally cancellable by the Bank. The Bank expects that not all of the contingent liabilities and undrawn financing commitments will be drawn before expiry.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk

(i) Maximum exposure to credit risk

The maximum exposure to credit risk at the statement of financial position is the amounts on the statement of financial position as well as off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers. The table below shows the maximum exposure to credit risk for the Bank:

	2017	2016
	RM'000	RM'000
Credit risk exposure relating to on-balance sheet assets:		
Short-term funds (exclude cash in hand)	**2,009,202**	3,427,875
Securities purchased under resale agreements	**1,587,979**	2,353,950
Deposits and placements with banks and other financial institutions	**447,210**	537,141
Financial assets and investments portfolios (exclude shares and perpetual sukuk):		
- HFT	**172,536**	10,177
- AFS	**3,193,873**	3,259,028
- HTM	**3,820,734**	2,820,123
Financing and advances	**42,701,794**	33,841,566
Other financial assets	**7,617**	114,720
Derivative assets	**327,978**	402,763
	54,268,923	46,767,343
Credit risk exposure relating to off-balance sheet assets:		
Commitments and contingencies	**9,250,516**	7,284,892
Total maximum credit risk exposure	**63,519,439**	54,052,235

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(ii) Collaterals

The main types of collateral obtained by the Bank are as follows:

(a) Fixed deposits, Commodity Murabahah Deposit-i, negotiable instrument of deposits, Islamic negotiable instrument of deposits, foreign currency deposits and cash deposits/margins;
(b) Land and/or buildings;
(c) Vessels and automobiles;
(d) Quoted shares, unit trusts, government bonds and securities and private debt securities;
(e) Other tangible business assets, such as inventory and equipment

The Bank also accepts non-tangible securities as support, such as guarantees from individuals, corporates and institutions, bank guarantees, debentures, assignment of contract proceeds, which are subject to internal guidelines on eligibility.

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements mitigate credit risk) held for financing and advances balances as at 31 December 2017 for the Bank are 66.7% (2016: 68.9%) respectively. The financial effect of collateral held for the remaining on-balance sheet assets are insignificant.

(iii) Credit quality

The Bank assesses credit quality of financing and advances using internal rating techniques tailored to the various categories of products and counterparties. These techniques have been developed internally and combine statistical analysis with credit officer's judgment.

Credit quality description is summarised as follows:

Credit Quality	Description
Good	Exposures exhibit strong capacity to meet financial commitments with no cause of concern to the Bank
Fair	Exposures exhibit fairly acceptable capacity to meet financial commitments and may require varying degrees of concern to the Bank
No Rating	Counterparties which do not satisfy the criteria to be rated based on internal credit grading system

The credit quality of financial assets other than financing and advances are determined based on the ratings of counterparties as defined by Moody's or equivalent ratings of other international rating agencies as defined below:

- AAA to AA3
- A1 to A3
- Baa1 to Baa3
- P1 to P3

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iii) Credit quality (continued)

(a) Financing and advances

Financing and advances are summarised as follows:

	2017	2016
	RM'000	RM'000
Neither past due nor impaired	**39,079,609**	29,174,659
Past due but not impaired	**3,550,881**	4,526,200
Individually impaired	**343,961**	393,096
Gross financing and advances	**42,974,451**	34,093,955
Less: Individual impairment allowance	**(42,612)**	(15,864)
Collective impairment allowance	**(230,045)**	(236,525)
Net financing and advances	**42,701,794**	33,841,566

(i) Financing and advances neither past due nor impaired

Analysis of financing and advances that are neither past due nor impaired analysed based on the Bank's internal credit grading system is as follows:

	2017	2016
	RM'000	RM'000
Good	**17,998,549**	15,400,194
Fair	**792,436**	123,738
No Rating	**20,288,624**	13,650,727
Neither past due nor impaired	**39,079,609**	29,174,659

Financing and advances classified as non-rated mainly comprise financing under the Standardised Approach for credit risk.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iii) Credit quality (continued)

(a) Financing and advances (continued)

(ii) Financing and advances past due but not impaired

Analysis of ageing of financing and advances that are past due but not impaired is as follows:

	2017	2016
	RM'000	RM'000
Past due up to 30 days	**3,072,249**	3,820,928
Past due 31 to 60 days	**372,076**	536,144
Past due 61 to 90 days	**106,556**	169,128
Past due but not impaired	**3,550,881**	4,526,200

(iii) Impaired financing and advances

Financing and advances that are individually determined to be impaired are as follows:

	2017	2016
	RM'000	RM'000
Individually impaired financing	**343,961**	393,096

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iii) Credit quality (continued)

(b) Short term funds, deposits and placements with banks and other financial institutions, securities purchased under resale agreements, financial assets and investments portfolios, other financial assets and derivative assets of the Bank are summarised as follows:

	Short-term funds, deposits and placements with banks and other financial institutions	Securities purchased under resale agreements	Financial assets HFT	Financial investments AFS	Financial investments HTM	Other financial assets	Derivative assets
	RM'000		RM'000	RM'000	RM'000	RM'000	RM'000
2017							
Neither past due nor impaired	**2,456,412**	**1,587,979**	**172,536**	**3,193,873**	**3,820,734**	**7,617**	**327,978**
2016							
Neither past due nor impaired	3,965,016	2,353,950	10,177	3,259,028	2,820,123	114,720	402,763

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iii) Credit quality (continued)

(c) Analysis of short-term funds, deposits and placements with banks and other financial institutions, securities purchased under resale agreements, financial assets and investments portfolios, other financial assets and derivative assets of the Bank that are neither past due nor impaired by rating agency definition are as follows:

2017	Short-term funds, deposits and placements with banks and other financial institutions RM'000	Securities purchased under resale agreements RM'000	Financial assets HFT RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Other financial assets RM'000	Derivative assets RM'000
AAA to AA3	14,641	1,587,979	-	1,237,955	141,833	-	324,225
A1 to A3	102,717	-	-	20,352	-	-	-
P1 to P3	414,790	-	-	-	-	-	-
Non-rated of which:	1,924,264	-	172,536	1,935,566	3,678,901	7,617	3,753
- Malaysian Government Investment Issues	-	-	172,536	648,592	335,325	-	-
- BNM	1,400,849	-	-	-	-	-	-
- Private debt securities	-	-	-	1,277,571	1,473,702	-	-
- Khazanah bonds	-	-	-	9,403	21,799	-	-
- Negotiable Islamic debt certificates	-	-	-	-	1,838,090	-	-
- Others	523,415	-	-	-	9,985	7,617	3,753
	2,456,412	1,587,979	172,536	3,193,873	3,820,734	7,617	327,978

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iii) Credit quality (continued)

(c) Analysis of short-term funds, deposits and placements with banks and other financial institutions, securities purchased under resale agreements, financial assets and investments portfolios, other financial assets and derivative assets of the Bank that are neither past due nor impaired by rating agency definition are as follows:

2016	Short-term funds, deposits and placements with banks and other financial institutions RM'000	Securities purchased under resale agreements RM'000	Financial assets HFT RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Other financial assets RM'000	Derivative assets RM'000
AAA to AA3	356,370	2,353,950	-	1,343,937	301,722	-	68,133
A1 to A3	-	-	-	149,447	-	-	-
Non-rated of which:	3,608,646		10,177	1,765,644	2,518,401	114,720	334,630
- Malaysian Government Investment Issues	-	-	10,177	691,196	402,619	-	-
- BNM	3,071,576	-	-	-	-	-	-
- Private debt securities	-	-	-	1,065,453	309,289	-	-
- Khazanah bonds	-	-	-	8,995	20,872	-	-
- Negotiable Islamic debt certificates	-	-	-	-	895,234	-	-
- Others	537,070	-	-	-	890,387	114,720	334,630
	3,965,016	2,353,950	10,177	3,259,028	2,820,123	114,720	402,763

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

Credit risk exposure analysed by industry in respect of the Bank's financial assets, including commitments and contingencies, are set out below:

2017	Short-term funds, and deposits and placements with banks and other financial institutions	Securities purchased under resale agreements	Financial assets HFT	Financial investments AFS @	Financial investments HTM	Financing and advances #	Other financial assets *	Commitments and contingencies	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture, hunting, forestry and fishing	-	-	-	160,536	120,225	1,122,652	-	289,501	1,692,914
Mining and quarrying	-	-	-	-	-	245,208	426	2,658	248,292
Manufacturing	-	-	-	-	101,157	1,214,436	496	626,629	1,942,718
Electricity, gas and water	-	-	-	352,873	700,029	187,516	-	15,278	1,255,696
Construction	-	-	-	185,917	-	2,981,228	-	1,988,111	5,155,256
Real estate	-	-	-	131,165	126,287	1,274,802	-	-	1,532,254
Purchase of landed property	-	-	-	-	-	11,674,157	-	-	11,674,157
General commerce	-	-	-	10,016	132,766	1,265,732	2,539	309,342	1,720,395
Transport, storage and communication	-	-	-	724,976	107,137	4,870,770	-	195,491	5,898,374
Finance, insurance and business services	1,055,563	1,587,979	-	730,799	1,914,308	3,768,181	324,517	1,981,074	11,362,421
Government and government agencies	1,400,849	-	172,536	897,591	618,825	3,864,895	-	-	6,954,696
Others	-	-	-	-	-	10,462,262	7,617	3,842,432	14,312,311
	2,456,412	1,587,979	172,536	3,193,873	3,820,734	42,931,839	335,595	9,250,516	63,749,484

@ Exclude equity instrument and perpetual sukuk amounting to RM200,620,000.
# Excludes collective impairment allowance amounting to RM230,045,000.
* Other financial assets include other assets amounting to RM7,617,000 and derivative assets amounting to RM327,978,000.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

Credit risk exposure analysed by industry in respect of the Bank's financial assets, including commitment and contingencies, are set out below (continued):

2016	Short-term funds, and deposits and placements with banks and other financial institutions	Securities purchased under resale agreements	Financial assets HFT	Financial investments AFS @	Financial investments HTM	Financing and advances #	Other financial assets *	Commitments and contingencies	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture, hunting, forestry and fishing	-	-	-	204,967	100,076	865,419	-	578,728	1,749,190
Mining and quarrying	-	-	-	-	-	370,536	-	6,697	377,233
Manufacturing	-	-	-	-	-	892,318	-	481,020	1,373,338
Electricity, gas and water	-	-	-	362,654	307,829	165,035	20,685	21,780	877,983
Construction	-	-	-	139,939	200,173	1,415,337	-	1,463,291	3,218,740
Real estate	-	-	-	171,068	29,619	896,869	-	-	1,097,556
Purchase of landed property	-	-	-	-	-	9,006,419	-	806,236	9,812,655
General commerce	-	-	-	-	-	904,735	-	370,530	1,275,265
Transport, storage and communication	-	-	-	355,753	76,636	4,162,512	-	253,258	4,848,159
Finance, insurance and business services	741,886	2,353,950	-	779,403	117,774	3,936,215	68,133	1,005,975	9,003,336
Government and government agencies	3,223,130	-	10,177	799,374	1,532,491	3,018,691	309,198	-	8,893,061
Consumption credit	-	-	-	-	-	-	-	461,216	461,216
Others	-	-	-	445,870	455,525	8,444,005	119,467	1,836,161	11,301,028
	3,965,016	2,353,950	10,177	3,259,028	2,820,123	34,078,091	517,483	7,284,892	54,288,760

@ Exclude equity instrument and perpetual sukuk amounting to RM200,619,000.
# Excludes collective impairment allowance amounting to RM236,525,000.
* Other financial assets include other assets amounting to RM114,720,000 and derivative assets amounting to RM402,763,000.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair Value of Financial Instruments

The Bank analyses its financial instruments measured at fair value into three categories as described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

The table below analyses financial instruments carried at fair value analysed by level within the fair value hierarchy:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2017				
Financial assets				
Financial assets HFT:				
- money market instruments	**-**	**172,536**	**-**	**172,536**
Financial investments AFS:	**-**	**3,193,873**	**200,620**	**3,394,493**
- money market instruments	**-**	**688,480**	**-**	**688,480**
- unquoted securities	**-**	**2,505,393**	**200,620**	**2,706,013**
Derivative assets	**-**	**327,978**	**-**	**327,978**
	-	**3,694,387**	**200,620**	**3,895,007**
Financial liabilities				
Derivative liabilities	**-**	**327,723**	**-**	**327,723**
2016				
Financial assets				
Financial assets HFT:				
- money market instruments	-	10,177	-	10,177
Financial investments AFS:	-	3,259,028	200,619	3,459,647
- money market instruments	-	754,927	-	754,927
- unquoted securities	-	2,504,101	200,619	2,704,720
Derivative assets	-	402,763	-	402,763
	-	3,671,968	200,619	3,872,587
Financial liabilities				
Derivative liabilities	-	400,812	-	400,812

There were no transfers between Level 1 and 2 during the financial year.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair Value of Financial Instruments (continued)

(i) Valuation techniques

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. This would include quoted securities and unit trusts.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Bank then determines fair value based upon valuation techniques that use market parameters including but not limited to yield curves, volatilities and foreign exchange rates as inputs. The majority of valuation techniques employ only observable market data. These would include certain bonds, government bonds, corporate debt securities and derivatives.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market date, (unobservable inputs). This category includes unquoted shares held for socio-economic reasons, non-transferable and nontradable perpetual notes/sukuk, impaired securities and unquoted corporate financing stocks. For unquoted corporate financing stocks, discounted cash flow analysis has been performed to determine the recoverability of the instruments.

(ii) Reconciliation of fair value measurements in Level 3:

The following represents the changes in Level 3 instruments for the Bank:

<u>Financial investments AFS</u>

	2017	2016
	RM'000	RM'000
Balance as at the beginning of the financial year	**200,619**	201,162
Profit recognised	**11,900**	11,900
Payment received	**(11,899)**	(11,894)
Impairment losses	**-**	(549)
Balance as at the end of the financial year	**200,620**	200,619

39 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of each financial assets and liabilities presented on the statement of financial position of the Bank approximates the carrying amount as at the reporting date, except for the following:

	Carrying value	Fair value
2017	**RM'000**	**RM'000**
Financial assets		
Financial investments HTM	**3,820,734**	**3,822,095**
Financing and advances	**42,701,794**	**42,707,274**
Financial liabilities		
Deposits from customers	**37,850,205**	**37,894,547**
Deposits and placements of banks and other financial institutions	**4,394,801**	**4,384,542**
Investment account due to designated financial institutions	**8,102,698**	**7,873,600**
Subordinated obligations	**755,393**	**759,318**
2016		
Financial assets		
Deposits and placements with banks and other financial institutions	537,141	585,012
Financial investments HTM	2,820,123	2,809,581
Financing and advances	33,841,566	35,217,671
Financial liabilities		
Deposits from customers	29,419,928	29,425,141
Deposits and placements of banks and other financial institutions	6,430,194	6,466,056
Investment account due to designated financial institutions	6,622,471	6,573,820
Recourse obligation on financing sold to Cagamas	815,243	821,965
Subordinated obligations	503,187	505,572

39 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The following table analyses within the fair value hierarchy of the Bank's assets and liabilities not measured at fair value but for which fair value is disclosed:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2017				
Financial assets				
Financial investments HTM	**-**	**2,657,421**	**1,164,674**	**3,822,095**
Financing and advances	**-**	**42,707,274**	**-**	**42,707,274**
Financial liabilities				
Deposits from customers	**-**	**37,894,547**	**-**	**37,894,547**
Deposits and placements of banks and other financial institutions	**-**	**4,384,542**	**-**	**4,384,542**
Investment account due to designated financial institutions	**-**	**7,873,600**	**-**	**7,873,600**
Subordinated obligations	**-**	**759,318**	**-**	**759,318**
2016				
Financial assets				
Deposits and placements with banks and other financial institutions	-	585,012	-	585,012
Financial investments HTM	-	1,929,165	880,416	2,809,581
Financing and advances	-	35,217,671	-	35,217,671
Financial liabilities				
Deposits from customers	-	29,425,141	-	29,425,141
Deposits and placements of banks and other financial institutions	-	6,466,056	-	6,466,056
Investment account due to designated financial institutions	-	6,573,820	-	6,573,820
Recourse obligation on financing sold to Cagamas	-	821,965	-	821,965
Subordinated obligations	-	505,572	-	505,572

39 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

(i) Cash and short-term funds and deposits and placements with financial institutions

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

(ii) Securities purchased under resale agreements

The fair values of securities purchased under resale agreements with maturities of less than six months approximate the carrying values. For securities purchased under resale agreements with maturities of six months and above, the estimated fair values are based on discounted cash flows using prevailing market rates for the remaining term to maturity.

(iii) Financial assets HFT, financial investments HTM and AFS

The estimated fair value for financial assets HFT, financial investments HTM and AFS is based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been assessed by reference to market indicative yield or net tangible asset backing of the investee. Where discounted cash flow technique is used, the estimated future cash flows are discounted using the prevailing market rates for a similar instrument at the date of statement of financial position.

(iv) Financing and advances

For floating rate financing, the carrying value is generally a reasonable estimate of fair value.

For fixed rate financing, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of financing with similar credit risk and maturities.

The fair values of impaired financing are represented by their carrying value, net of impairment allowance.

(v) Other assets and liabilities

The carrying value less any estimated impairment allowance for financial assets and liabilities included in 'other assets and liabilities' are assumed to approximate their fair values as these items are not materially sensitive to the shift in market profit rates.

(vi) Deposits from customers

For deposits from customers with maturities of less than six months, the carrying amounts are reasonable estimates of their fair values. For deposits with maturities of six months and above, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

(vii) Deposits and placements of banks and other financial institutions, investment account due to designated financial institutions, obligations on securities sold under repurchase agreements and bills and acceptances payable.

The estimated fair values of deposits and placements of banks and other financial institutions, investment account due to designated financial institutions, obligations on securities sold under repurchase agreements and bills and acceptances payable with maturities of less than six months approximate the carrying values. For the items with maturities of six months and above, the fair values are estimated based on discounted cash flows using prevailing money market profit rates with similar remaining period to maturity.

39 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(viii) Recourse obligation on financing sold to Cagamas

For amounts due to Cagamas with maturities of less than one year, the carrying amounts are a reasonable estimate of their fair values. For amounts due to Cagamas with maturities of more than one year, fair value is estimated based on discounted cash flows using prevailing money market profit rates with similar remaining period to maturity.

(ix) Subordinated obligations

The estimated fair value of subordinated obligations is generally based on quoted and observable market prices at the date of statement of financial position.

(x) Credit related commitments and contingencies

The net fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risks and attract fees in line with market prices for similar arrangements. They are not presently sold nor traded. The fair value may be represented by the present value of fees expected to be received, less associated costs.

(xi) Foreign exchange and profit rate related contracts

The fair values of foreign exchange and profit rate related contracts are the estimated amounts the Bank would receive to sell or pay to transfer the contracts at the date of statement of financial position.

40 CAPITAL ADEQUACY

BNM guidelines on capital adequacy requires the Bank to maintain an adequate level of capital to withstand any losses which may result from credit and other risks associated with financing operations. The capital adequacy ratio is computed based on the eligible capital in relation to the total risk-weighted assets as determined by BNM.

The capital adequacy ratios of the Bank are as follows:

	2017	2016
	RM'000	RM'000
Common Equity Tier-I ('CET-I') Capital / Tier-I Capital		
Share capital	**1,273,424**	1,273,424
Retained profits	**1,787,323**	766,058
Statutory reserve	**-**	762,388
AFS reserve	**(15,929)**	(31,944)
	3,044,818	2,769,926
Less:		
Deferred tax assets	**(17,140)**	(25,748)
Intangible assets (include associated deferred tax liabilities)	**(4,412)**	-
Ageing Reserve and Liquidity Reserve*	**(4,296)**	(2,891)
Total CET-I / Total Tier-I Capital	**3,018,970**	2,741,287
Tier-II Capital		
Subordinated obligations	**750,000**	500,000
Collective impairment allowance and regulatory reserve^	**343,212**	290,408
Total Tier-II Capital	**1,093,212**	790,408
Total Capital	**4,112,182**	3,531,695

<u>Capital ratios</u>

CET-I capital ratio	**10.376%**	10.868%
Tier-I capital ratio	**10.376%**	10.868%
Total capital ratio	**14.134%**	14.002%

The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:

	2017	2016
	RM'000	RM'000
Credit risk-weighted assets	**34,726,152**	29,623,743
Credit risk-weighted assets absorbed by PSIA	**(7,269,199)**	(5,665,344)
Market risk-weighted assets	**240,688**	63,426
Operational risk-weighted assets	**1,397,487**	1,200,381
Total risk-weighted assets	**29,095,128**	25,222,206

40 CAPITAL ADEQUACY (CONTINUED)

In accordance with BNM’s “Guidelines on the Recognition and Measurement of Profit Sharing Investment Account ('PSIA') as Risk Absorbent”, the credit and market risks of the assets funded by the Restricted Profit Sharing Investment account ('RPSIA') which qualifies as risk absorbent are excluded from the risk weighted capital ratio (RWCR) calculation. As at 31 December 2017, credit risks relating to RPSIA assets excluded from the RWCR calculation amounted to RM7,269,199,000 (2016: RM5,665,344,000).

^ Excludes collective impairment allowance attributable to financing and advances classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on “Classification and Impairment Provisions for Financing”. Include the qualifying regulatory reserve under the Standardised Approach for non-impaired financing and advances of RM204,312,000 (2016: RM158,516,000)

* Pursuant to the Basel II Market Risk para 5.19 and 5.20 – Valuation Adjustments, the Capital Adequacy Framework (Basel II-RWA) calculation shall account for the ageing, liquidity and holding back adjustments on its trading portfolio.

	2017	2016
	RM'000	RM'000
Risk-weighted assets by each major risk category are as follows:		
(i) Credit Risk		
0%	**-**	-
20%	**1,046,934**	856,154
35%	**2,257,303**	806,423
50%	**889,206**	867,392
75%	**6,301,341**	8,799,347
100%	**24,096,462**	18,138,791
150%	**134,906**	155,636
	34,726,152	29,623,743
Less: Credit risk weighted assets absorbed by PSIA	**(7,269,199)**	(5,665,344)
(ii) Market Risk Capital Adequacy Framework	**240,688**	63,426
(iii) Basic Indicator Operational Risk Capital Charge	**1,397,487**	1,200,381
	29,095,128	25,222,206

41 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined RHB Bank's Group Management Committee as its chief operating decision-maker.

The business segment results are prepared based on the Bank's internal management reporting, which reflect the organisation's management structure. Internal allocation of costs has been used in preparing the segmental reporting.

The Bank's business segment can be organised into the following main segments reflecting the Bank's internal reporting structure:

(a) Wholesale Banking

(i) Corporate and investment banking

Corporate and Investment banking caters to financing and managing relationship of corporate customers including public listed corporations and its related entities, multinational corporations, financial institutions, government and state owned entities as well as high net worth individual related to the above. The division also generates fee-based income from private debt securities issuances ('PDS'), financing restructuring and syndication as well as general and project advisory services.

(ii) Treasury

Treasury operation is involved in money market operation and securities trading on behalf of the Bank and also for the Bank's customers. The division also provides solutions to serve investment needs of the Bank and the Bank's customers.

(b) Business banking

Business banking caters to funding or lending needs of small and medium sized enterprises. The products and services offered to customers include term financing, revolving financing and hire purchase financing.

(c) Retail banking

Retail banking focuses on providing products and services to individual customers. The products and services offered to customers include term financing (house and shop house financing), Islamic automobile financing business with concentration on the financing of high demand and popular passenger motor vehicles, deposit portfolios (savings and current account), credit cards, remittance services, investment products (term deposit/investment account) and bancatakaful products.

41 SEGMENT REPORTING (CONTINUED)

2017	Wholesale Banking				
	Corporate and Investment Banking	Treasury	Business Banking	Retail Banking	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	894,189	449,995	152,300	1,012,025	2,508,509
Inter-segment revenue	(58,290)	519,730	(474)	(460,966)	-
Segment revenue	835,899	969,725	151,826	551,059	2,508,509
Depositors' payout	(626,735)	(783,539)	(38,767)	(190,539)	(1,639,580)
Net income	209,164	186,186	113,059	360,520	868,929
Operating overheads	(44,353)	(21,394)	(46,104)	(206,393)	(318,244)
Depreciation of property, plant and equipment	(353)	(80)	(814)	(1,344)	(2,591)
Amortisation of computer software	(305)	(427)	(212)	(902)	(1,846)
Allowance for impairment on financing and advances	1,159	-	(53,235)	(14,658)	(66,734)
Segmental results	165,312	164,285	12,694	137,223	479,514
Impairment losses written back on other assets					336
Profit before taxation and zakat					479,850
Zakat					(3,500)
Profit after zakat before taxation					476,350
Taxation					(108,958)
Net profit for the financial year					367,392

Note: Total segment revenue comprise of net profit income and other operating income.

41 SEGMENT REPORTING (CONTINUED)

	Wholesale Banking				
<u>2017</u>	Corporate and Investment Banking	Treasury	Business Banking	Retail Banking	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Segment assets	20,487,482	10,411,651	2,875,102	21,827,440	55,601,675
Unallocated assets					99,275
Deferred tax assets					16,513
Total assets					55,717,463
Segment liabilities	20,392,163	19,268,148	2,758,567	9,625,320	52,044,198
Unallocated liabilities					361,416
Total liabilities					52,405,614
<u>Other segment items:</u>					
Capital expenditure	544	-	599	2,868	4,011

41 SEGMENT REPORTING (CONTINUED)

	Wholesale Banking				
2016	Corporate and Investment Banking	Treasury	Business Banking	Retail Banking	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	781,774	440,380	110,557	905,793	2,238,504
Inter-segment revenue	(161,983)	546,168	22,775	(406,960)	-
Segment revenue	619,791	986,548	133,332	498,833	2,238,504
Depositors' payout	(422,431)	(854,078)	(40,770)	(166,777)	(1,484,056)
Net income	197,360	132,470	92,562	332,056	754,448
Operating overheads	(34,000)	(12,462)	(54,982)	(146,777)	(248,221)
Depreciation of property, plant and equipment	(21)	(17)	40	(1,753)	(1,751)
Amortisation of computer software	(127)	(598)	(140)	(1,237)	(2,102)
Allowance for impairment on financing and advances	(5,621)	-	(27,712)	(36,835)	(70,168)
Segmental results	157,591	119,393	9,768	145,454	432,206
Impairment losses made on other assets					(549)
Profit before taxation and zakat					431,657
Zakat					(3,500)
Profit after zakat before taxation					428,157
Taxation					(103,373)
Net profit for the financial year					324,784

Note: Total segment revenue comprise of net profit income and other operating income.

41 SEGMENT REPORTING (CONTINUED)

	Wholesale Banking				
2016	Corporate and Investment Banking	Treasury	Business Banking	Retail Banking	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Segment assets	16,372,436	11,935,707	2,257,270	17,174,445	47,739,858
Unallocated assets					355,854
Deferred tax assets					20,929
Total assets					48,116,641
Segment liabilities	13,323,951	22,332,000	2,516,061	6,028,874	44,200,886
Unallocated liabilities					987,313
Total liabilities					45,188,199
Other segment items:					
Capital expenditure	69	376	57	1,177	1,679

42 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 27 February 2018.

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

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

We, Dato' Abd Rahman Dato' Md Khalid and Dato' Adissadikin Ali, being two of the Directors of RHB Islamic Bank Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 6 to 108 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2017 and financial performance of the Bank for the financial year ended on 31 December 2017 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 27 February 2018.

DATO' ABD RAHMAN DATO' MD KHALID
DIRECTOR

DATO' ADISSADIKIN ALI
CHIEF EXECUTIVE OFFICER/
MANAGING DIRECTOR

Kuala Lumpur
27 February 2018

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

I, Khairul Hakeem Mohamed Sahari, the Officer primarily responsible for the financial management of RHB Islamic Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 6 to 108 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declaration Act, 1960.

KHAIRUL HAKEEM MOHAMED SAHARI

Subscribed and solemnly declared by the abovenamed Khairul Hakeem Mohamed Sahari at Kuala Lumpur in Malaysia on 27 February 2018.

Before me:

COMMISSIONER FOR OATHS
Kuala Lumpur

RHB ISLAMIC BANK BERHAD (680329-V)
Incorporated in Malaysia

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF RHB ISLAMIC BERHAD

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

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

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 December 2017 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 6 to 108.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

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

Independence and other ethical responsibilities

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

Information other than the financial statements and auditors' report thereon

The Directors of the Bank are responsible for the other information. The other information comprises the Directors' Report which we obtained prior to the date of this auditors' report, and the 2017 Annual Report, which is expected to be made available to us after that date. Other information does not include the financial statements of the Bank and our auditors' report thereon.

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

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

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF RHB ISLAMIC BERHAD (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Responsibilities of the Directors for the financial statements

The Directors of the Bank are responsible for the preparation of the financial statements of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Bank that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

(d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF RHB ISLAMIC BERHAD (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

SOO HOO KHOON YEAN
02682/10/2019 J
Chartered Accountant

Kuala Lumpur
27 February 2018