AFFIN ISLAMIC BANK BERHAD (709506-V)

ANNUAL REPORT 2016

Building AFFINITY

Our **Vision**

A premier partner for
Financial Growth and
Innovative Services.

Cover **Rationale**

Seeking AFFINITY with our customers, partners, employees and the community we serve marks the way forward for AFFIN ISLAMIC. It drives a new phase of evolution where we go beyond the conventional to reshape our existing portfolio and introduce new possibilities.

Our Mission

To provide innovative financial solutions and services to target customers in order to generate profits and create value for our shareholders and other stakeholders.

In so doing, we provide opportunities for employees to contribute and excel; and be competitive in providing our solutions and services to our valued customers.

We shall conduct our business with integrity and professionalism in compliance with good corporate governance, principles and practices.

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Corporate Information

NAME

Affin Islamic Bank Berhad (Co. No.: 709506-V)

DATE OF INCORPORATION

13 September 2005

PRINCIPAL ACTIVITIES

Affin Islamic Bank Berhad is principally involved in the carrying out of Islamic banking and finance related services. Other associate companies are primarily engaged in property management services.

BOARD OF DIRECTORS

CHAIRMAN

YBhg. Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara)
(Non-Independent Non-Executive Director)

DIRECTORS

YBhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)
(Non-Independent Non-Executive Director)

YBhg. Tan Sri Dato' Seri Mohamed Jawhar
(Non-Independent Non-Executive Director)
(Redesignated w.e.f. 1 June 2016)

En. Mohd Suffian Bin Haji Haron
(Non-Independent Non-Executive Director)
(Redesignated w.e.f. 1 June 2016)

YBhg. Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman
(Non-Independent Non-Executive Director)
(Redesignated w.e.f. 25 October 2016)

Assoc. Prof. Dr. Said. Bouheraoua
(Independent Non-Executive Director)

Dr. Rosnah Binti Omar
(Independent Non-Executive Director)
(Appointed as Director w.e.f. 19 December 2016)

YBhg. Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin
(Non-Independent Non-Executive Director)
(Completed his tenure of directorship w.e.f. 4 October 2016)

CHIEF EXECUTIVE OFFICER

En. Nazlee Bin Khalifah

SECRETARY

Nimma Safira Binti Khalid

REGISTERED OFFICE

17th Floor, Menara AFFIN,
80, Jalan Raja Chulan,
50200 Kuala Lumpur.
Tel : 03-2055 9000
Fax : 03-2026 1415

AUTHORISED SHARE CAPITAL

No of shares
1,000,000,000

Par value
RM1.00

Total
RM1,000,000,000

ISSUED AND PAID-UP SHARE CAPITAL

No of shares
460,000,002

Par value
RM 1.00

Total
RM460,000,002

SUBSTANTIAL SHAREHOLDER

No of shares
Affin Bank Berhad
460,000,002

EXTERNAL AUDITORS

PricewaterhouseCoopers
(No. AF: 1146)

Corporate Structure

as at 31 December 2016

LEMBAGA TABUNG ANGKATAN TENTERA

Lembaga Tabung Angkatan Tentera

58.48%

35.42%

Boustead Holdings Berhad

Boustead Holdings Berhad

20.69%

BEA 東亞銀行

Bank of East Asia Limited

23.52%

OTHERS

20.37%

AFFIN HOLDINGS

AFFIN HOLDINGS BERHAD

- 100% AFFIN BANK
  AFFIN Bank Berhad
  - 100% AFFIN ISLAMIC
    AFFIN Islamic Bank Berhad
    - 50% **AFFIN-i Nadayu Sdn Bhd** [1]
      (jointly owned by AFFIN Islamic Bank Berhad and Jurus Positif Sdn Bhd with a 50:50 ownership)
    - 16.7% **Raeed Holdings Sdn Bhd** [5]
    - 30% **KL South Development Sdn Bhd** [1]
      (jointly owned by AFFIN Islamic Bank Berhad and Albatha Bukit Kiara Holdings Sdn Bhd with a 30:70 ownership)
  - 100% **ABB Nominee (Tempatan) Sdn Bhd**
  - 100% **PAB Properties Sdn Bhd**
  - 100% **ABB Trustee Berhad** [2]
    (80% held in trust by Directors of AFFIN Bank Berhad)
  - 100% **AFFIN Recoveries Berhad** [4]
  - 100% **AFFIN Factors Sdn Bhd** [3]
  - 100% **ABB Nominee (Asing) Sdn Bhd**
  - 100% **AFFIN Futures Sdn Bhd** [3]
  - 100% **ABB IT & Services Sdn Bhd** [3]
  - 100% **BSNCB Nominees (Tempatan) Sdn Bhd** [3]
  - 100% **AFFIN-ACF Nominees (Tempatan) Sdn Bhd** [3]
  - 100% **PAB Property Development Sdn Bhd** [3]
  - 100% **BSNC Nominees (Tempatan) Sdn Bhd** [3]
- 100% **AFFIN MoneyBrokers Sdn Bhd**
- 100% **AFFIN-ACF Holdings Sdn Bhd**
- 100% **AFFIN Investment Berhad**
  (formerly known as AFFIN Investment Bank Berhad)

AFFIN HWANG CAPITAL

- 100% **AFFIN Hwang Investment Bank Berhad**
  - 100% **AFFIN Hwang Nominees (Tempatan) Sdn Bhd**
  - 100% **AFFIN Hwang Nominees (Asing) Sdn Bhd**
  - 100% **AFFIN Hwang Futures Sdn Bhd**
  - 100% **AFFIN Nominees (Tempatan) Sdn Bhd**
  - 100% **AFFIN Nominees (Asing) Sdn Bhd**
  - 70% **AFFIN Hwang Asset Management Berhad**
    - 100% **Asian Islamic Investment Management Sdn Bhd**
    - 100% **AFFIN Capital Services Berhad**
      (formerly known as AFFIN Fund Management Berhad)
- 51% **AXA AFFIN Life Insurance Berhad**
- 36.9% **AXA AFFIN General Insurance Berhad**

[1] Associate companies.
[2] Acquired by Affin Investment Bank Berhad on 25 January 2017.
[3] Under members voluntary winding-up.
[4] Dormant companies – inactive but company currently holding asset.
[5] Equally owned by Affin Islamic Bank Berhad, Bank Kerjasama Rakyat Malaysia Berhad, Bank Islam Malaysia Berhad, Bank Muamalat Malaysia Berhad, Maybank Islamic Berhad and Bank SImpanan Nasional.

Board of Directors

LEFT TO RIGHT:

YBHG. JEN. TAN SRI DATO' SERI ISMAIL BIN HAJI OMAR (BERSARA)

Chairman / Non-Independent Non-Executive Director

YBHG. TAN SRI DATO' SERI LODIN BIN WOK KAMARUDDIN

Non-Independent Non-Executive Director
(Completed his tenure of directorship w.e.f. 4 October 2016)

LEFT TO RIGHT:

YBHG. LAKSAMANA MADYA TAN SRI DATO' SERI AHMAD RAMLI BIN MOHD NOR (BERSARA)

Non-Independent Non-Executive Director

YBHG.TAN SRI DATO' SERI MOHAMED JAWHAR

Non-Independent Non-Executive Director
(Redesignated w.e.f. 1 June 2016)

EN. MOHD SUFFIAN BIN HAJI HARON

Non-Independent Non-Executive Director
(Redesignated w.e.f. 1 June 2016)

LEFT TO RIGHT:

YBHG. TAN SRI DATO' SRI ABDUL AZIZ BIN ABDUL RAHMAN

Non-Independent Non-Executive Director
(Redesignated w.e.f. 25 October 2016)

ASSOC. PROF. DR. SAID BOUHERAOUA

Independent Non-Executive Director

DR. ROSNAH BINTI OMAR

Independent Non-Executive Director
(Appointed as Director w.e.f. 19 December 2016)

Profile of Directors

LEFT TO RIGHT:

YBHG. JEN. TAN SRI DATO' SERI ISMAIL BIN HAJI OMAR (BERSARA)

YBHG. TAN SRI DATO' SERI LODIN BIN WOK KAMARUDDIN

YBHG. JEN. TAN SRI DATO' SERI ISMAIL BIN HAJI OMAR (BERSARA)

Chairman / Non-Independent Non-Executive Director

Jen. Tan Sri Dato' Seri Ismail Bin Haji Omar, aged 75, was appointed as the Director and Chairman of AFFIN ISLAMIC on 1 April 2006. He is also the Chairman of Board Loan Review and Recovery Committee of AFFINBANK.

He was formerly the Chief of Defence Force (CDF) of Malaysia from 1995 until his retirement in 1998, after 38 years of military service. He graduated from the Royal Military Academy, Sandhurst, United Kingdom in 1961 and subsequently attended professional and management development courses at several institutions including the Land Forces Command and Staff College, Canada; the United Nations International Peace Academy, Vienna; the National Defence College, India and the National Institute of Public Administration (INTAN), Malaysia.

His military service saw Key Command and Staff appointments at all levels of the Armed Forces. As CDF, his responsibilities included key roles in Malaysia's Regional and International Defence Relations.

He was the Chairman of Affin Holdings Berhad and Affin-ACF Finance Berhad from 1999, prior to joining the Issuer. He currently holds directorships in the Material Subsidiary, ABB Trustee Berhad, EP Engineering Sdn Bhd and Global Medical Alliance Sdn Bhd.

Jen. Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara) attended all 10 scheduled monthly Board Meetings and all 10 Special Board Meetings held during the financial year ended 31 December 2016.

YBHG. TAN SRI DATO' SERI LODIN BIN WOK KAMARUDDIN

Non-Independent Non-Executive Director
(Completed his tenure of directorship with the Bank w.e.f. 4 October 2016)

Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin, aged 67, was reappointed to the Board of Directors of AFFIN ISLAMIC on 4 October 2010. He was appointed as the Managing Director of Affin Holdings Berhad in February 1991 and redesignated as Deputy Chairman on 1 July 2008.

He has extensive experience in managing a provident fund and in the establishment, restructuring and management of various business interests ranging from plantation, trading, financial services, property development to oil and gas, pharmaceuticals and shipbuilding.

Tan Sri Dato' Seri Lodin is the Chief Executive of Lembaga Tabung Angkatan Tentera (LTAT) and the Deputy Chairman/ Group Managing Director of Boustead Holdings Berhad. Prior to joining LTAT, he was the General Manager of Fraser's Hill Development Coorperation for 9 years.

He is also the Chairman of Boustead Heavy Industries Corporation Berhad, Boustead Naval Shipyard Sdn Bhd, Pharmaniaga Berhad and Boustead Petroleum Marketing Sdn Bhd. He sits on the Board of The University of Nottingham in Malaysia, Minority Shareholder Watchdog Group, FIDE Forum, AFFINBANK, Affin Hwang Investment Bank Berhad, AXA Affin Life Insurance Berhad and Boustead Plantations Berhad.

Tan Sri Dato' Seri Lodin graduated from the University of Toledo, Ohio, USA with a Bachelor of Business Administration and a Master of Business Administration. Among the many awards he received todate include the Chevalier De La Legion D'Honneur from the French Government, the Malaysian Outstanding Entrepreneurship Award, the Degree of Laws honoris causa from the University of Nottingham, United Kingdom, the UiTM Alumnus of the Year 2010 Award and The BrandLaureate Most Eminent Brand ICON Leadership Award 2012 by Asia Pacific Brands Foundation. He is also a Chartered Banker, AICB.

Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin attended all 8 scheduled monthly Board Meetings and 6 out of 9 special Board Meetings held from January until completion of his tenure of directorship on 4 October 2016.

Profile of Directors

LEFT TO RIGHT:

YBHG. LAKSAMANA MADYA TAN SRI DATO' SERI AHMAD RAMLI BIN MOHD NOR (BERSARA)

YBHG.TAN SRI DATO' SERI MOHAMED JAWHAR

YBHG. LAKSAMANA MADYA TAN SRI DATO' SERI AHMAD RAMLI BIN MOHD NOR (BERSARA)

Non-Independent Non-Executive Director

Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor, aged 72, was appointed to the Board of Directors of AFFIN ISLAMIC on 1 July 2006. He is currently a member of Board Nomination and Remuneration Committee of AFFIN ISLAMIC and a member of Board Loan Review and Recovery Committee of AFFINBANK (representing AFFIN ISLAMIC).

He graduated from the Brittania Royal Naval College Dartmouth, United Kingdom in 1965, the Indonesia Naval Staff College in 1976, the United States Naval War College and Naval Post-Graduate School Monterey in 1981. He also holds a Masters Degree in Public Administration from the Harvard University, United States of America. He was in the Malaysian Navy and retired as Chief of Royal Malaysian Navy in 1999.

Presently he is the Executive Deputy Chairman / Managing Director of Boustead Heavy Industries Corporation Berhad. He is also the Board member of Favelle Favco Berhad, Maritime Institute of Malaysia, Irat Hotels & Resorts Sdn Bhd, BCM Electronics Corporations SdnBhd, Intan Permata Properties Sdn Bhd, Ibu Kota Steel Industries Sdn Bhd, Boustead Naval Shipyard Sdn Bhd, Perstim Industries SdnBhd, BHIC Assets Holdings SdnBhd and CB International Engineering Sdn Bhd.

Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor attended all 10 scheduled monthly Board Meetings and 9 out of 10 Special Board Meetings held during the financial year ended 31 December 2016.

YBHG.TAN SRI DATO' SERI MOHAMED JAWHAR

Non-Independent Non-Executive Director

Tan Sri Dato' Seri Mohamed Jawhar, aged 72, was appointed to the Board of Directors of AFFIN ISLAMIC on 1 July 2006 and was subsequently redesignated to Non-Independent Non-Executive Director w.e.f. 1 June 2016. He is currently a member of Board of Nomination and Remuneration Committee of AFFINBANK and AFFIN ISLAMIC, Board Audit Committee, Board Risk Management Committee and Board Oversight Transformation Committee of AFFINBANK.

His other positions include: Non-Independent Non-Executive Director, AFFINBANK; Non-Executive Chairman, New Straits Times Press (Malaysia) Berhad; Member of Securities Commission Malaysia; Member, Operations Review Panel, Malaysian Anti-Corruption Commission; Distinguished Fellow, Institute of Diplomacy and Foreign Relations (IDFR); Distinguished Fellow, Malaysian Institute of Defence and Security (MiDAS); Fellow, Institute of Public Security of Malaysia (IPSOM), Ministry of Home Affairs; Board Member, Institute of Advanced Islamic Studies (IAIS); and Member, Laureate Advisory Board, INTI International University and Colleges. He is also the Expert and Eminent Person from Malaysia for the ASEAN Regional Forum (ARF).

He was also the Co-Chair, Network of East Asia Think-Tanks (NEAT) 2005-2006; Chairman, Malaysian National Committee, Pacific Economic Cooperation Council (PECC) 2006-2010; and Co-Chair, Council for Security Cooperation in the Asia Pacific (CSCAP) 2007-2009.

He served with the Government for over 20 years before he joined Institute of Strategic & International Studies (ISIS) Malaysia as Deputy Director-General in 1990. He was appointed Director-General in March 1997 and was subsequently appointed Chairman and CEO in 2006. He was appointed Chairman ISIS Malaysia on 9 January 2010 and relinquished the position on 8 January 2015.

EN. MOHD SUFFIAN BIN HAJI HARON

During his Government service, his positions include Director-General, Department of National Unity; Under-Secretary, Ministry of Home Affairs; Director (Analysis) Research Division, Prime Minister's Department; and Principal Assistant Secretary, National Security Council. He also served as Counselor in the Malaysian Embassies in Indonesia and Thailand.

He currently holds directorships in AFFINBANK, SistemTelevisyen Malaysia Berhad, EkuitiNasionalBerhad and the Securities Commission.

Tan Sri Dato' Seri Mohamed Jawhar attended all 10 scheduled monthly Board Meetings and all 10 Special Board Meetings held during the financial year ended 31 December 2016.

EN. MOHD SUFFIAN BIN HAJI HARON

Non-Independent Non-Executive Director

En. Mohd Suffian Bin Haji Haron, aged 71, was appointed to the Board of Directors of AFFIN ISLAMIC on 1 July 2006 and was subsequently redesignated to Non-Independent Non-Executive Director w.e.f. 1 June 2016. He is currently a member of Board Nomination and Remuneration Committee of AFFINBANK and AFFIN ISLAMIC, Board Loan Review and Recovery Committee, Board Risk Management Committee and Board Oversight Transformation Committee of AFFINBANK.

He graduated from the University of Malaya (1970) with a Bachelor of Economics and holds a Master of Business Administration from University of Oregon (USA) in 1976.

He started his career as a Diplomatic and Administrative Officer, attached to the Prime Minister's Department and the Ministry of Public Enterprises. Whilst at the Prime Minister's Department, he was also assigned as Assistant to the Special Economic Adviser to the Government. He served as the Board of Directors of Fraser's Hill Development Corporation, the State Development Corporations of Perak, Pahang and Terengganu as well as the Board of Directors of Bank Pembangunan Malaysia Berhad, Kompleks Kewangan Malaysia Berhad, HICOM and the Council of Majlis Amanah Rakyat (MARA). After thirteen years of service, he left the Government Service to serve a GLC involved in international business, after which he ventured on his own to be the Managing Director of Insurance Broking Company. Amongst his other involvements after that were in the securities industry and asset management activities. He has also served as a Director of Hitachi Sales (Malaysia) Sdn Bhd, Meiden Electric Engineering Sdn Bhd, Far East Computers (India) and Affin Discount Berhad. He also brings with him vast experience in general trading, power generation and transmission, aircraft maintenance as well as the oil and gas services sectors.

Presently he is a Board member of AFFINBANK, ABB Trustee Berhad, L.K & Associates Sdn Bhd and Pharmaniaga Berhad.

En. Mohd Suffian Bin Haji Haron attended all 10 scheduled monthly Board Meetings and all 10 Special Board Meetings held during the financial year ended 31 December 2016.

Profile of Directors

LEFT TO RIGHT:

YBHG. TAN SRI DATO' SRI ABDUL AZIZ BIN ABDUL RAHMAN

ASSOC. PROF. DR. SAID BOUHERAOUA

YBHG. TAN SRI DATO' SRI ABDUL AZIZ BIN ABDUL RAHMAN

Non-Independent Non-Executive Director

Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman, aged 70, was appointed to the Board of Directors of AFFIN ISLAMIC on 1 November 2011 and was subsequently redesignated to Non-Independent Non-Executive Director w.e.f. 25 October 2016. He is currently a member of Board Nomination and Remuneration Committee of AFFIN ISLAMIC, Board Audit Committee and Board Risk Management Committee of AFFINBANK.

He graduated with a Bachelor of Commerce from University of New South Wales, Sydney, Australia. He is a member of the Malaysian Institute of Certified Public Accountants (MICPA) and the Malaysian Institute of Accountants (MIA).

He has served as Chairman and Board member of several government institutions, agencies and public listed companies, both in Australia and Malaysia. At the corporate level, he was with PricewaterhouseCoopers Sydney, Malaysia Airlines Berhad and Managing Director of Bank Kerjasama Rakyat Malaysia Berhad before venturing into politics and public service as the Pahang State Assemblyman, State Executive Councillor and Deputy Chief Minister of Pahang. He was a Senator of Malaysian Parliament for a maximum period of two (2) terms.

Presently he is a Board member of International Islamic University Malaysia, Chuan Huat Resources Berhad, Alam Venture Sdn Bhd, Arcoza Holdings Sdn Bhd, Green Effect Sdn Bhd, IIUM Holdings Sdn Bhd, Bagan Datoh Solar Farm Sdn Bhd, Tanah Makmur Berhad and Asian Healthcare Group Bhd.

Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman attended all 10 scheduled monthly Board Meetings and 9 out of 10 Special Board Meetings held during the financial year ended 31 December 2016.

ASSOC. PROF. DR. SAID BOUHERAOUA

Independent Non-Executive Director

Assoc. Prof. Dr. Said Bouheraoua, an Algerian, aged 49, was appointed to the Board of Directors of AFFIN ISLAMIC on 19 June 2014. He is currently the Chairman of Board Nomination and Remuneration Committee and Shariah Committee of AFFIN ISLAMIC, and a member of Board Audit Committee and Board Oversight Transformation Committee of AFFINBANK.

Dr. Said obtained his Ph.D in Fiqh/UsulFiqh (Shariah) from International Islamic University Malaysia (IIUM) in 2002. He was also an Associate Professor at Department of Islamic Law, Ahmad Ibrahim Kulliyyah of Laws, IIUM. He is currently a Director of Research Affairs Department at the International Shariah Research Academy for Islamic Finance (ISRA) and the editor-in-chief of ISRA International Journal of Islamic Finance.

Dr. Said has throughout his career as Lecturer/Researcher published several books and articles in international referred journals. He has also presented papers in international conferences and conducted training sessions in Islamic finance in Malaysia and abroad.

Dr. Said Bouheraoua attended 9 out of 10 scheduled monthly Board Meetings and 9 out of 10 Special Board Meetings held during the financial year ended 31 December 2016.

Profile of Directors

DR. ROSNAH BINTI OMAR

DR. ROSNAH BINTI OMAR

Independent Non-Executive Director
(Appointed as Director w.e.f. 19 December 2016)

Dr. Rosnah Binti Omar, a Malaysian aged 63, was appointed to the Board of Directors of AFFIN ISLAMIC on 19 December 2016.

Dr. Rosnah has more than 30 years of Banking and Finance experience since 1976, having worked for Bank Bumiputra Malaysia Berhad (Kuala Lumpur, London and New York), Prudential Bache (London), Bankers Trust International (London) Security Pacific Hoare Govett (London) and NM Rothschild (Singapore). Her working exposure covered commercial and investment banking in Malaysia, London, New York and Singapore and asset management in Malaysia. She became Board Member of all the Bank Bumiputra Malaysia Berhad financial subsidiaries in Merchant Banking, Securities Company, Futures entity and offshore operations in Labuan. She was also a Managing Director and Board Director in NM Rothschild in Singapore. She represented Rothschild in Bumiputra Merchant Bank, KN Kenanga Asset Management and Investment Management in Malaysia.

In 2000, Dr. Rosnah ventured in the risk management advisory business as Executive Director of PK Tech. Sdn Bhd responsible for the Information Technology risk management strategy for the company. Subsequently, she became Chief Executive Officer at Malaysia Building Society Berhad, a subsidiary of the Employees Provident Fund and a listed company on the KLSE from 2001-2003.

Dr. Rosnah was appointed the Director-General of the Labuan Offshore Financial Services Authority by the Malaysian Government effective July 2003-June 2005. She was on the Board of the Islamic International Financial Market (IIFM) based in Bahrain and attended the first program in International Centre for Leadership in Finance (ICLIF) conducted by the ICLIF Leadership and Governance Centre in Malaysia.

Dr. Rosnah became Chairman and Managing Director of Rothschild Malaysia Sdn. Bhd. in 2006. Dr. Rosnah left Rothschild in 2008 after having re-established Rothschild's Investment Banking operations in Malaysia to pursue her interest in Islamic Finance and Risk Management advisory. She was adviser on Islamic Finance for the Commonwealth Business Council in London from April 2009 - December 2010 and on Banking Risk in Malaysia with Algorithmics (Singapore) from June 2009 - June 2010. She has completed the Financial Institutions Directors' Education (FIDE) program and the Advanced Risk Management conducted by ICLIF. She completed her PhD in Islamic Banking and Finance at the International Islamic University Malaysia in the International Institute of Islamic Banking and Finance.

Management Team

01 02

01. EN NAZLEE BIN KHALIFAH
Chief Executive Officer

02. EN FERDAUS TOH BIN ABDULLAH
Deputy Chief Executive Officer

03. EN HAZLAN BIN HASAN
Head, Islamic Client Solutions

04. EN MOHD FAIZ BIN RAHIM
Head, Shariah Supervisory

05. EN MOHD FIZAR BIN MOHIDIN
Head, Islamic Treasury

06. EN MOHD RUSLEE BIN OMAR
Head, Strategic Business Alliances

03 04 05 06

07 08 09 10

07. PN ZURINA AYU BINTI SAMSUDIN
Head, Product Development

08. PN JOZAIMAH BINTI JOHAN ALI
Head, Strategic Management

09. PN RADZIAH BINTI AHMAD
Head, Islamic Consumer & Bancatakaful

10. CIK NORAZLINDA BINTI MOHD FADZIL
Head, Promotion and Marketing Communications

Profile of Shariah Committee

as at 9 March 2017

LEFT TO RIGHT:

ASSOCIATE PROFESSOR DR. SAID BOUHERAOUA

ASSOCIATE PROFESSOR DR. AHMAD AZAM OTHMAN

ASSOCIATE PROFESSOR DR. ZULKIFLI HASAN

ASSOCIATE PROFESSOR DR. SAID BOUHERAOUA

Associate Professor Dr. Said Bouheraoua was appointed as a Director of AFFIN ISLAMIC on 19 June 2014. Dr. Said, an Algerian, obtained a Bachelor in Fiqh and Usul Fiqh from the University of Algiers in 1991, Master of Quran and Sunnah in 1998 and Ph.D in Fiqh/Usul Fiqh (Shariah) from International Islamic University Malaysia (IIUM) in 2002. He was also an Associate Professor at Department of Islamic Law, Ahmad Ibrahim Kulliyyah of Laws, IIUM. He is currently the Director of Research Affairs Department at the International Shariah Research Academy for Islamic Finance (ISRA), and is the editor-in-chief of ISRA International Journal of Islamic Finance. Dr. Said has throughout his career as Lecturer/ Researcher published four books, five chapters in books and several articles in international referred journals. He has also presented several papers in international conferences and conducted several training sessions in Islamic finance in Malaysia and abroad.

ASSOCIATE PROFESSOR DR. AHMAD AZAM OTHMAN

Dr. Ahmad Azam Othman is currently an Associate Professor at Islamic Law Department, Ahmad Ibrahim Kulliyyah of Laws (AIKOL), International Islamic University Malaysia (IIUM). He was the Director of Harun M. Hashim Law Centre, AIKOL, IIUM and the Head of Islamic Law Department, AIKOL, IIUM. His specialised areas are Islamic Law of Property, Obligations, Transactions, Personal Bankruptcy, Banking and Takaful as well as comparative laws. He has vast experience in teaching for postgraduate as well as undergraduate courses. He is also an internal examiner and supervisor to a number of PhD Theses and Master Dissertation in various areas including Islamic Banking, Islamic Microfinance, Islamic Capital Market, Takaful and Waqf. Dr. Ahmad Azam Othman holds a PhD from University of Wales, UK. In addition, he holds a Master of Comparative Laws from IIUM where he also obtained his LLB (Bachelor of Laws) and LLB.S (Bachelor of Shariah) as his first degree.

ASSOCIATE PROFESSOR DR. ZULKIFLI HASAN

Associate Professor Dr. Zulkifli Hasan is an Associate Professor and the Dean of Shariah and Law Faculty, Islamic Science University of Malaysia (USIM). He is also a Shariah panel for the Institute of Fatwa Management and Research, USIM. Besides these appointments, he is involved as editor and reviewer for various journals such as the Malaysian Journal of Shariah and Law, the International Journal of Business and Finance Research, Shariah Law Reports and the Global Islamic Finance Magazine. His industry experience was as an in-house advocate and solicitor for Bank Muamalat Malaysia Berhad, member of Rules and Regulations Working Committee for Association of Islamic Banking Institutions Malaysia and member of corporate governance working committee for Awqaf South Africa. He also underwent internship at Hawkamah, the Institute for Corporate Governance, Dubai International Financial Centre whereby he was involved in developing corporate governance guidelines for Islamic Financial Institutions in the Middle East and North Africa (MENA) as well as in the Task Force on Environmental, Social and Governance (ESG) which led towards development of the S&P/ Hawkamah Pan Arab ESG Index. His articles have been numerously published in various academic journals and he has presented many papers in various conferences both local and abroad. His research includes corporate and Shariah governance and regulation in Islamic finance. His recent book entitled 'Shari'ah Governance in Islamic Banks: Edinburgh Guides to Islamic Finance' published by the Edinburgh University Press, UK is available in the market. Dr. Zulkifli also received the prestigious Global Islamic Finance Award as the Upcoming Scholar 2016. Dr. Zulkifli Hasan holds a PhD in Islamic Finance from Durham University, UK. Besides this, he holds a Master of Comparative Laws from International Islamic University of Malaysia where he also obtained his LLB (Bachelor of Laws) and LLB.S (Bachelor of Shariah) as his first degree.

Profile of Shariah Committee

LEFT TO RIGHT:

USTAZ MOHAMMAD MAHBUBI ALI

DR. NOR FAHIMAH MOHD RAZIF

USTAZ AHMAD ALFISYAHRIN JAMILIN

USTAZ MOHAMMAD MAHBUBI ALI

Mohammad Mahbubi Ali is currently a research fellow at International Institute of Advanced Islamic Studies (IAIS) of Malaysia. He was previously a researcher at the International Shari'ah Research Academy (ISRA) for Islamic Finance. During his stint in ISRA, he has contributed to numerous ISRA's research publications, mainly Central Bank of Malaysia's Shari'ah Standards. He also serves as a Shariah Consultant for various advisory and consultancy services including ZICO Shariah Advisory and Roosdiono & Partners. In his young age, he has managed to contribute extensively in Islamic Finance through his regular writings featured in the Islamic Finance News (IFN), Business Islamica, The General Council for Islamic Banks and Financial Institutions (CIBAFI) and many others. He has published numerous articles in international and local refereed academic journals, written several book chapters and presented a number of papers in various international conferences. His paper entitled: "A Framework of Income Purification for Islamic Financial Institutions," co-authored with Dato' Dr. Asyraf Wajdi Dusuki and Lokmanulhakim Hussain, was conferred best paper presentation in Sharia Economics Conference, University of Hannover, Germany, 2013.

He received a bachelor degree in Shari'ah Business and Finance from Islamic Business School, Tazkia Indonesia and Chartered Islamic Finance Professional (CIFP) from INCEIF, The Global University in Islamic Finance, Malaysia. He is a PhD candidate in Islamic Banking and Finance from the Institute of Islamic Banking and Finance, International Islamic University Malaysia (IIUM).

DR. NOR FAHIMAH MOHD RAZIF

(Appointed w.e.f. 1 February 2016)

Dr. Nor Fahimah Mohd Razif is currently a senior lecturer at Department of Fiqh and Usul, University of Malaya (UM). She started her career as Executive for the Project Management Office under the Islamic Capital Market Development Project at the Securities Commission Malaysia. She was previously attached at the International Shari'ah Research Academy for Islamic Finance (ISRA) as a Research Assistant to conduct research on hedging mechanism through option product in Islamic finance.

She also wrote numerous articles in the field of Islamic economics, Islamic finance, sukuk and debt from Islamic perspective, which some were presented in international and local Islamic banking and finance proceedings and conferences also published in books and journals. Her specialized area are transactional law (Fiqh al-Muamalat), Islamic Capital Market as well as Islamic Finance.

Dr. Nor Fahimah holds a Bachelor's Degree in Fiqh and Usul from University of Malaya. She also has completed her PhD (Fiqh al-Muamalat) from the same university which her thesis is related to Islamic hedging and derivatives instruments.

USTAZ AHMAD ALFISYAHRIN JAMILIN

(Voluntary leave w.e.f. 5 August 2016)

Ahmad Alfisyahrin Jamilin was the Head of Shariah at First Gulf Bank, United Arab Emirates. He was previously the Chief Shariah Officer at Al Rajhi Bank Malaysia and Shariah Counsel at HSBC (Amanah) Middle East based in Dubai, United Arab Emirates. Alfisyahrin came with a colorful experience in his career where he was a Vice President in Global Markets and Structured Investment for Al Rajhi Bank Malaysia and a Shariah specialist for Sukuk and syndication for Global HSBC Amanah while he holds a Bachelor in Shariah (honours) from the Islamic University of Madinah, Saudi Arabia.

Alfisyahrin practiced Islamic banking and finance in multiple areas such as front-liner, product structurer and developer, Shariah specialist and documentation expert. He used to be the originator, transactor and developer for Sukuk and Treasury products and transactions, and had experience in the conversion of conventional bank to Islamic. Apart from that, he undertake corporate financial advisory for specialised or non-vanilla requirements in the areas which include general corporate finance, structured finance, capital management, contract finance and project finance, managing global Shariah affairs in the global Islamic banking presence including but not limited to United Arab Emirates, Bahrain, Qatar, Saudi Arabia, United States of America, United Kingdom, Mauritius, Bangladesh, Malaysia, Indonesia, Brunei and Singapore. He also has experience in establishing and managing Shariah division and fund custodial and administrative services by providing Shariah advisory, equity screening, audit and purification process.

Management Discussion & Analysis

"AFFIN ISLAMIC BANK BERHAD GAINED TRACTION ON SEVERAL STRATEGIC FRONTS AND ACHIEVED NEW MILESTONES ON ITS 10TH ANNIVERSARY IN 2016. STAYING ON TRACK OF ITS BUSINESS STRATEGY, THE BANK SUCCESSFULLY NAVIGATED THROUGH A CHALLENGING ENVIRONMENT OF CONTRACTING MARGINS AND INTENSIFIED COMPETITION AND CONTINUED TO REGISTER GROWTH IN ALL KEY PARAMETERS."

Management Discussion & Analysis

PROFIT AFTER ZAKAT AND TAXATION

+32.8%

2015 : RM84.8 MILLION

2016 : **RM112.6** MILLION

2016 OBJECTIVE & STRATEGY

AFFIN ISLAMIC aspires to be a major player in Malaysia's Islamic Financial Services industry. In 2016, we continued to emerge in distinct Islamic banking areas, supported by strategic marketing to niche customer segments.

The Bank's business strategy for the year was to focus on increasing revenue by emphasising transactional banking and improving business efficiency. At Group level, a Priority Islamic Policy was implemented in June 2016 as a strategic move to align with Bank Negara Malaysia's 10-year Financial Sector Strategic Blueprint in which we aim to enhance our Islamic financing portfolio to 40% of Group portfolio by the year 2019.

Under this new business approach and on best effort basis, all accounts and facility applications are encouraged to be booked under Islamic banking. This supports societal and national development as a whole through the generation of annual Zakat contributions and Corporate Social Responsibility initiatives.

Growing on AFFINITY amidst challenges

The market environment in 2016 was challenged by significant volatility amidst uncertainty over growth prospects on the back of fluctuating commodity prices, moderating global economic growth and foreign exchange volatility. The rise in general prices as well as weaknesses in the labour market also contributed to higher risk of delinquencies and more intense competition industry-wide for both financing and deposit.

AFFIN ISLAMIC was prudent in preserving its asset quality during this challenging time. We adopted proactive monitoring of potential problematic accounts and were prudent in making decisions for both credit extension and investment opportunities. The Bank also focused on new collaborative possibilities between Islamic financial institutions to reinforce our foundation and sustainability within the Islamic banking industry.

Earnings Per Share (EPS)

2015 23.5 sen

2016 24.4 sen

+3.8%

Profit Before Zakat And Taxation

2015 RM117.4 million

2016 RM146.3 million

+24.6%

Total Assets

2015 RM13.4 billion

2016 RM15.3 billion

+14.2%

Net Financing, Advances & Other Financing
2015 RM9.2 billion
2016 RM 11.9 billion
+29.3%

Deposits From Customers
2015 RM10.0 billion
2016 RM 10.5 billion
+5%

Shareholders' Equity
2015 RM1.0 billion
2016 RM 1.2 billion
+20%

One such significant collaboration was the establishment and launch of the Investment Account Platform ("IAP") on 17 February 2016, together with five other Islamic banks. IAP is the first Shariah-compliant digital investment platform that has penetrated the Islamic finance domain. Currently in the infancy phase, IAP is expected to gain higher participation momentum in the future from the growing demand of online crowdfunding that has the support of robust risk management infrastructure. The platform benefits entrepreneurs and small and medium enterprises (SME) that require financing in a more structured and cost-effective manner by allowing investors to invest directly into business ventures and enjoy higher potential returns.

There were three inaugural investment accounts offered on the IAP during the year, one of which was developed by AFFIN ISLAMIC. The Bank embarked on its pioneering IAP venture with ICT Zone Ventures Berhad for a total financing of RM4 million. This is to aid in the supply of computer notebook for Program Latihan Khidmat Negara (PLKN) on rental basis.

Islamic Banking comprehensively protects the interest of its customer through:

- Provision of capped financing rate under Islamic financial packages.
- Establishment of financial justice by prohibiting unlawful gain and paving the way of sharing the risk and net profit/loss between the Bank and customer.
- Ensuring benefits to all classes rich and poor alike.
- Promoting simplicity and transparency with stricter standards, contracts and an asset-focused approach.
- Providing stable investments, in which risky investments with uncertainty and hazard are avoided.

Management Discussion & Analysis

On 30 March 2016, AFFIN ISLAMIC, together with seven other banks, participated in Syndicated Islamic Financing Facility with UDA Holdings Berhad. This was for a syndicated facility of up to RM500 million to partly-fund the property developer's eight upcoming projects, which includes serviced apartments at Jalan Sultan Ismail in Kuala Lumpur and condominiums in Cheras.

AFFIN ISLAMIC achieved another milestone with the signing of a memorandum of understanding (MOU) on 5 October 2016 with the Islamic Corporation for the Development of the Private Sector (ICD), at ICD Headquarters in Jeddah, Saudi Arabia. ICD is the private sector arm of Islamic Development Bank Group in Saudi Arabia. The MOU inked was towards identifying areas for strategic collaborations within the Asian region. Through this collaboration, both parties will offer technical and advisory support on product development and Shariah concepts such as placement of funds, lines of finance and liquidity management. It is hoped that this strategic alliance will raise new revolutionary possibilities in the Islamic Finance landscape.

The year also saw the Bank's collaboration with Danajamin to provide financing facility of RM160 million to KNM Group Berhad for projects related to Refinery and Petrochemical Integrated Development (RAPID) in Pengerang, Johor.

Promoting AFFINITY to SMEs and Millennials

AFFIN ISLAMIC continues to explore consumer-friendly and excellent services in order to improve customer experience. The core strategy for the year was to concentrate on marketing and promotional activities for the SME and millennials segments.

The Bank is enhancing its services by strengthening the SME's facility creation processes and developing new business products that will offer higher profitability. For the consumer segment, the Bank will continue to leverage on its Mortgage and Hire Purchase portfolio.

In the effort to widen customer reach among the millennials, all marketing campaigns are geared towards the technology-savvy trend by utilising online engagement and social media interaction. This included social media campaigns and collaboration with The New Straits Times Press Malaysia (NSTP) as the main sponsor for Harian Metro Mountain Bike Grand Prix 2016 to promote a healthy lifestyle. The event consists of a series of road and off road cycling competitions which received overwhelming response from local and international cyclists, and garnered wide coverage in the print and online media. Supplementing our online efforts, we extended our reach to younger consumers via a more direct approach, such as presenting talks to universities.

These targeted efforts were fortified by mass advertising in order to increase brand visibility among the public. We ran a nationwide advertisement campaign in shopping malls, Light Rail Transit (LRT) stations and digital screens at selected locations. In the near future we aim to venture further into digital marketing by actively promoting our products and campaigns on the Youtube channel.

Growing AFFINITY through product expansion

Two new products were launched during the year. The first was AFFIN Education Financing-i, which offers Shariah-compliant financing facility with a financing amount from RM5,000 to RM150,000 to deserving students from universities/colleges to further their studies in Diploma/Degree/Postgraduate courses. For this product, AFFIN ISLAMIC collaborates with Management & Science University (MSU) as one of its panel universities.

The other new product launched was the Restricted Investment Account (RIA) under a Mudarabah concept (profit sharing and loss bearing). The RIA offers returns based on performance of underlying assets, investment into specified assets with mandate by customers and maturity and withdrawal conditions agreed at inception.

AFFINITY Involvement in the industry

In 2016, AFFIN ISLAMIC firmly imprinted its footprints in several prominent industry events.

On 10-12 May 2016, AFFIN ISLAMIC participated in the Global Islamic Finance Forum (GIFF 2016). The forum promoted intellectual discussions and business ideas aimed at spurring growth in the Islamic Finance industry and forging international market linkages. Our Chief Executive Officer (CEO), En Nazlee Khalifah was appointed the GIFF 2016 Organising Chairman.

Subsequently, on 21-23 November 2016, the Bank participated in the 13th Annual Kuala Lumpur Islamic Finance Forum (KLIFF 2016). This platform facilitated the nurturing of key client relationships and developing solutions to issue-centric matters in collaboration with other participants, from regulators to professionals in legal and financial services industries.

The 6th ISRA-IRTI-Durham University Strategic Round was held on 31 December 2016 to discuss holistic solutions for financial inclusion and poverty alleviation through the use of Islamic social finance. Our Deputy CEO, En Ferdaus Toh Abdullah represented the Islamic Banks in Malaysia with his presentation on the establishment of social justice that alleviates poverty in both wealth creation and distribution.

The Bank is committed to continuously support societal and industry growth with the development of innovative consumer-centric products and a corporate responsibility mindset.

Community Engagement

Collaborations were also sought with local communities as AFFIN ISLAMIC undertook to support worthy causes through community outreach programmes and zakat (business tithes) contributions. In 2016, AFFIN ISLAMIC contributed a total of RM3.1 million in zakat to different causes and sectors of the underserved population.

We contributed a total of RM1.1 million to deserving individuals and charitable organisations. From this sum, AFFIN ISLAMIC under the AFFINBANK Group worked with the New Straits Times Press (Malaysia) Berhad and became the main sponsor for Harian Metro Kotak Rezeki 2016, a programme to distribute 10,000 boxes worth RM144,000 of food baskets containing dates, food and beverages to the poor and underprivileged, including welfare homes, orphanages, single mothers, poor families and security forces all over Malaysia. Zakat contribution for Kotak Rezeki benefitted 11,000 recipients nationwide.

The year marked a significant milestone for AFFIN ISLAMIC as the Bank celebrated its 10th Anniversary in 2016. The Bank decided to celebrate with the underprivileged by distributing RM120,000 to 12 orphanages throughout Malaysia. Celebrations were held in each orphanage with the children being entertained with scrumptious food, fun activities and motivational talks by our Shariah officers.

The Bank contributed a total of RM1 million to 10 state zakat centres (Johor, Perak, Selangor, Perlis, Kedah, Melaka, Kelantan, Terengganu, Kuala Lumpur and Pulau Pinang). A total of RM207,740 was channelled towards knowledge causes (Fisabilillah), inclusive of Muallaf activities. Our Muallaf contributions included RM40,000 to Multiracial Reverted Muslim (MRM) and RM25,000 to Interactive Da'wah Training Centre to assist newly reverted Muslims. As educational aid, AFFIN ISLAMIC contributed RM450,000 to support deserving students pursuing tertiary education at local universities of higher learning such as Universiti Teknologi MARA (UiTM), Management & Science University (MSU), Universiti Putra Malaysia (UPM) and Universiti Kebangsaan Malaysia (UKM).

In addition, we contributed RM350,000 to Tabung Zakat Angkatan Tentera Malaysia, which manages funds to be allocated to deserving members of the armed forces.

Asnaf category	Amount (RM)
Fakir Miskin (Poor & needy)	1,081,850.00
Fisabilillah	207,740.00
Gharimin (Settling of debts for eligible recipients)	29,188.75
Muallaf (Assisted reverted Muslims through organisations)	31,500.00
Amil	534.68
Others*	1,800,000.00
Total	3,150,813.43

* Pusat Zakat Negeri, Tabung Zakat ATM and Universities

Besides zakat contribution, through the AFFIN Barakah Charity Account-i, AFFIN ISLAMIC contributed a total of 50 wheelchairs worth RM18,500 to Hospital Kuala Lumpur (HKL). This Wadiah savings account enables account holders to donate a certain percentage of their monthly earned profit/ dividend (or 'Hibah') to a worthy cause.

The Bank also collaborated with our parent bank, AFFINBANK on several corporate sustainability initiatives. In 2016, we joined forces to hold a 'Majlis Berbuka Puasa Bersama Anak-Anak Yatim' to bring festive cheer to orphans. About 160 orphans from four orphanages in the Klang Valley were invited to a 'buka puasa' (breaking of fast) dinner which was attended by Senior Management from both banks during the month of Ramadhan.

In addition, AFFIN ISLAMIC jointly sponsored the Utusan Malaysia Tutor Pull-out Programme where specially prepared Tutor Pull-outs were distributed to primary and secondary school students. AFFIN ISLAMIC also jointly sponsored My Coral: MSU Eco-Marine Youth Expedition 2016 which saw participation from 60 Management Science University (MSU) students and 20 employees from the AFFINBANK Group. The programme comprised coral reef replanting, creation of a turtle sanctuary, beach cleaning and free medical checkups for the local community to increase awareness on nature preservation and the importance of basic health checks.

Management Discussion & Analysis

2017 AFFIN ISLAMIC'S STRATEGIC THRUST:

Products		Existing (Customer)	New (Customer)
	New	**3 Islamic Product Expansion** Expanding Product Offerings	**4 Smart Partnership Business** Business Partnership (Musharakah)
	Existing	**1 Optimizing Resources** Voluntary Conversion from conventional to Shariah-compliant product	**2 New Customer Segment** • Focused target segments *(SME and Milennials population)* • Promote Priority Islamic Policy

GROWTH IN 2016

Notwithstanding the challenging year, the Bank recorded outstanding results.

For the financial year ended 31 December 2016 (FY16), AFFIN ISLAMIC registered a 32.8% increase in profit after zakat and taxation (PAZT) to RM112.6 million. This was on the back of 29.1% financing growth and 5.0% deposit growth. Net financing income grew from RM240.3 million to RM275.4 million, an increment of 14.6%.Total assets stood at RM15.3 billion, a 14.2% increase from 2015. The Bank's good asset quality was reflected by an improvement of 0.7% in gross impaired financing ratio from 1.5% to 0.8%. Net impaired financing ratio declining substantially to 0.6% from 1.1% the previous year, while Return on Equity ('ROE') and Return on Asset ('ROA') improving to 10.58% and 0.79% respectively.

The Bank's deposit portfolio continued to grow by 5.0% despite intense competition for deposits during the year. This was a result of various collaborations with our parent, AFFINBANK. These included promotions such as the OMG Deposit Campaign, Joyful Raya Merdeka Deposit Campaign, 20% Cash Back for Debit/Credit Card usage, AFFIN E-Fair campaign (for online services, bill payment and financing). The Bank's financing portfolio benefitted from RM2.7 billion to record 29.1% growth from the previous year. Together, these enabled AFFIN ISLAMIC to end the year with total assets of RM15.3 billion, an expansion by 14.2% from the previous financial year.

In an increasingly competitive environment, it is important to operate at a high level of efficiency, and constant efforts towards this end have sustained our cost to income ratio at 48.2%. This played a part in the increase in profits as reported above.

MOVING FORWARD

Risks and opportunities in 2017

In 2017, Malaysia's national real Gross Domestic Product's growth is expected to edge up moderately between 4.0% to 5.0%. Although the economy is slowly rebounding, it will be a staggered and uneven recovery. The operating environment for the banking industry in Malaysia is expected to remain challenging as asset quality and profitability continue to be negatively impacted.

However, we are optimistic in retaining our competitive edge and business growth with our Priority Islamic Policy. Through Priority Islamic, both our financing and deposit portfolio base are expected to increase steadily. As at December 2016, we have successfully achieved our aim to increase our Islamic financing portfolio by 29.1%. Moving forward, the Bank anticipates higher funding cost and compression of Net Profit Margin (NPM) mainly due to stiff competition for deposits among domestic banks and OPR reduction. Four strategic thrusts have been identified to guide our journey in 2017.

These encompass Optimising Resources, Growing New Customer Segments, Catalysing Islamic Product Expansion and Furthering Smart Partnership Business.

It is our aspiration to become the preferred bank for the SME and millennials segments. The Bank is solidifying our network presence and customer reach with the upcoming launch of mobile banking and enhanced internet banking to reach out to these segments by addressing the significant change in market trends, whereby we are seeing increased utilisation of online transactions and online marketing channels such as Facebook, Instagram, Youtube and Twitter.

The Bank also targets to further enhance our financing portfolio, in line with the Priority Islamic implementation; with a dedicated focus on resilient and recession proof industries.

Corporate Diary

07 JAN 2016

AFFIN ISLAMIC's Director, YBhg. Tan Sri Dato' Seri Mohamed Jawhar presented a zakat contribution to KDYTM Tengku Mahkota Pahang, Tengku Abdullah ibni Sultan Ahmad Shah.

04 FEB 2016

CEO of AFFIN ISLAMIC, En. Nazlee Khalifah, presented zakat contribution to Vice Chancellor of Universiti Utara Malaysia, YBhg.Prof. Dato' Seri Dr. Mohamed Mustafa Ishak.

17 FEB 2016

AFFIN ISLAMIC and five Islamic banking institutions launched the first bank-intermediated financial technology 'fintech' platform known as the Investment Account Platform (IAP). The IAP was launched by Governor of Bank Negara Malaysia, YBhg.Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz.

30 MAR 2016

AFFIN ISLAMIC participated in Syndicated Islamic Financing Facility with UDA Holdings Berhad.

01 APR 2016

2016 marks a significant milestone for AFFIN ISLAMIC as the Bank celebrated its 10th Anniversary.

10-12 MAY 2016

GIFF 5.0 is organised by the Association of Islamic Banking Institutions Malaysia (AIBIM), where AFFIN ISLAMIC is a member and Encik Nazlee Khalifah is the Organising Chairman.

01 JUN 2016

Officiated by AFFINBANK's MD/CEO En. Kamarul Ariffin Mohd Jamil, Kotak Rezeki is a programme to distribute 10,000 boxes of food baskets to eligible individuals.

21 JUN 2016

AFFIN ISLAMIC contributed zakat funds to 'Tabung Zakat Angkatan Tentera Malaysia'. The zakat contribution was presented by AFFINBANK's MD/CEO En Kamarul Ariffin to Minister of Defence, YB Datuk Seri Hishammuddin Tun Hussein.

Corporate Diary

24 JUN 2016

AFFINBANK & AFFIN ISLAMIC teamed up to be the main sponsor of Mountain Bike Grand Prix 2016. The event consists of a series of road and off road cycling competitions.

18 OCT 2016

Hospital Kuala Lumpur (HKL) received 50 wheelchairs derived from customers' contributions through AFFIN Barakah Charity Account-i.

28 & 29 JUL 2016

The AFFIN ISLAMIC 10th Anniversary celebration continues with employees visiting to orphanage homes in 12 states.

22 OCT 2016

The Harian Metro Mountain Bike (Grand Prix) continued at the second location in Lukut, Negeri Sembilan.

30 JUL 2016

The first Mountain Bike Grand Prix 2016 kicked off in Kulim, Kedah and attracted over 1,200 participants nationwide.

05 OCT 2016

AFFIN ISLAMIC inked an MOU with Islamic Corporation for the Development of the Private Sector (ICD) in Saudi Arabia.

25 NOV 2016

AFFIN ISLAMIC embarked on its first Investment Account Platform (IAP) venture with ICT Zone Ventures Berhad, an ICT equipment leasing and rental enterprise. The event was witnessed by BNM Deputy Governor, Encik Abdul Rasheed Ghaffour and BNM Assistant Governor Dato' Bakarudin Ishak.

10 OCT 2016

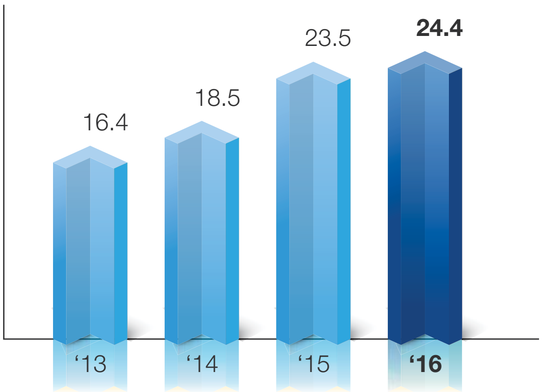
A financing facility with KNM Group Berhad was inked for projects related to the Refinery and Petrochemical Integrated Development (RAPID) in Pengerang, Johor.

03 DEC 2016

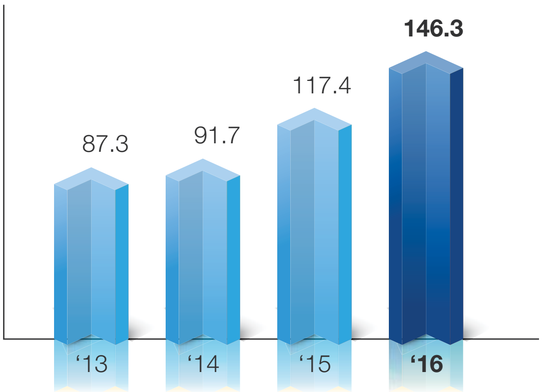
Mountain Bike Grand Prix's final event was held in Universiti Teknologi Malaysia Skudai, Johor. Director, Consumer Banking AFFINBANK, En. Idris Abd Hamid and Deputy Group Editor Harian Metro, En. Ahmad @ Salim Bachok flagged off the Mountain Bike event.

Financial Highlights

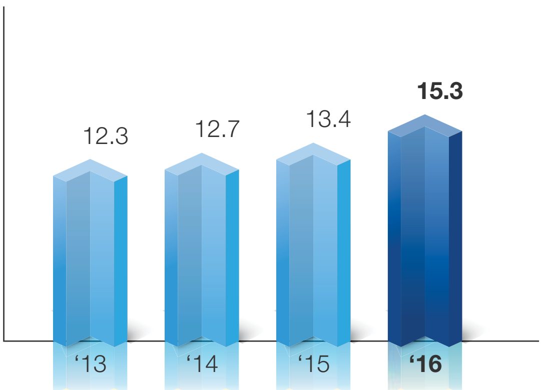
Earnings Per Share (EPS)
Sen



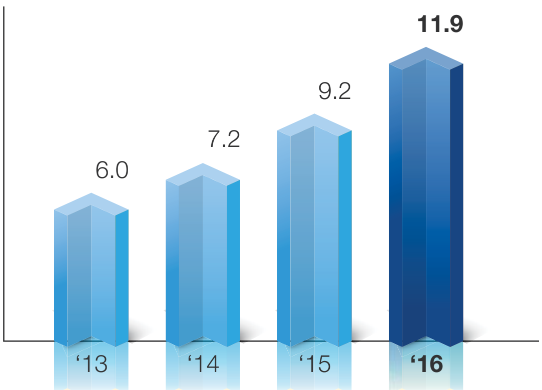
Profit Before Zakat And Taxation
RM'million



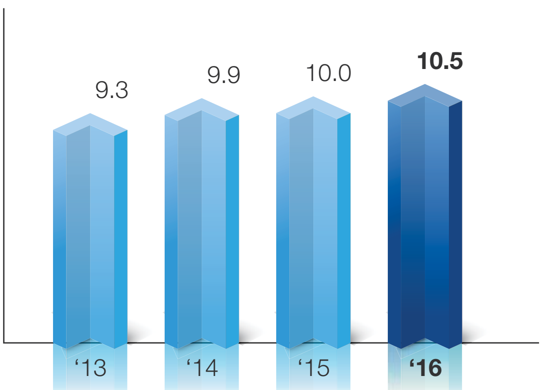
Total Assets
RM'billion



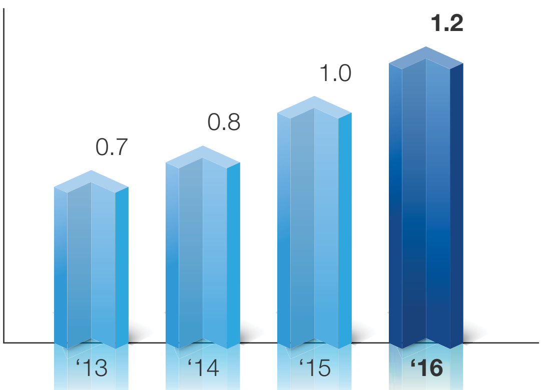
Net Financing, Advances & Others Financing
RM'billion



Deposits From Customers
RM'billion



Shareholders' Equity
RM'billion



Statement on Corporate Governance

The Board of Directors ('the Board') of AFFIN ISLAMIC BANK BERHAD ('the Bank') and Management seek to embrace high standards and principles of Corporate Governance in all areas of the Islamic banking industry towards enhancing business prosperity and corporate integrity, having the ultimate objective of safeguarding shareholder's value and interest of the stakeholders. The Board continuously reviews its governance model to ensure its relevance, effectiveness and ability to meet the challenges of the future. The Board provides guidance and oversight of the Bank's strategic agenda and operations. The Board acknowledges its responsibility to act diligently and responsibly in accordance with legislation and regulations in serving the interests of shareholder, customers, employees and the community at large.

The Board and Management are fully committed and constantly strive in ensuring the Bank operates in accordance with the Islamic Financial Services Act 2013 ('IFSA'), Malaysian Code of Corporate Governance 2012 ('MCCG'), Bank Negara Malaysia Policy Document on Corporate Governance dated 3 August 2016 ('BNM CG'), Shariah Governance Framework for Islamic Financial Institutions ('SGF2010') and other applicable laws and regulations. The Board and Management place great importance on the safety and soundness of the Bank as an Islamic financial institution where risks and business prudence are appropriately balanced in line with Shariah Principles. Throughout 2016 and to-date, the Bank continues to conduct its business with integrity and exert a high level of transparency and objectivity.

The Bank adhere to the fit and proper requirement for Directors pursuant to the IFSA. The Board and Management remain dedicated in ensuring adherence to Code of Ethics for the Financial Services Industry issued by the Financial Services Professional Board in December 2015 ('FPSB-01'), which aims at instilling the five values, namely, discipline, integrity, humility, caring and creativity. The Board and Management set a high ethical business standard and practice for business conduct and the code of behaviour for employees. The responsibility for implementing the policies and guidelines within the contemplation of the Code of Ethics rest primarily with the Management with oversight by the Board Audit Committee. In addition, the Bank also has its own Code of Ethics that sets out sound principles and standards of best practices which are observed by the employees.

The following sections set out the commitment of the Bank in applying the best principles of Corporate Governance and the extent of compliance with the recommended practice.

BOARD OF DIRECTORS

The Board is committed in establishing long term sustainable value to the shareholders as well as the stakeholders. Testament to the Board's commitment in this respect, the Board is pleased to report that the Bank has complied with the principles and recommendations of the MCCG. The Board had adopted a Group Policy on the maximum tenure of service for Independent Non-Executive Directors ('INED') to be in line with the BNM CG. In relation to this, BNM has allowed transitional arrangements for the Bank to fully comply with all other requirement thereunder.

Board's Role and Responsibilities

The Board acknowledges its role and responsibilities for the overall performance of the Bank.

The Board's responsibilities remain within the framework of IFSA, MCCG, BNM CG and the Bank's Board Policy Manual. The Board exercises great perseverance and diligence to ensure that high ethical standards are upheld and that the interests of stakeholders are not compromised. These include responsibility for determining the Bank's general policies and strategies for approving business plans including targets and budgets and in approving major strategic decisions.

The Bank's Board Policy Manual, which sets out the key corporate governance principles of the Bank, clearly defines the role and responsibilities of the Board, Chairman and the CEO in the areas of strategy setting, management of the company, integrity of internal control and communication, succession planning and risk management.

Statement on Corporate Governance

Board Composition and Balance

The Board had, during the financial year ended 2016, undertaken changes at board leadership level pursuant to the requirement set out in the BNM CG.

The Board believes that it is important to build and refresh itself since it serves as a strategic asset and a source of long term competitive advantage for the Bank in today's highly competitive world. This includes a long term succession plan for the Board which is of equal importance.

The Board as a team, collectively provide a collection of mixed of skills, knowledge and competencies which include banking, accountancy, finance, strategic management, business administration and risk management.

The Board composition comprised a majority of independent directors since year 2011. The Board currently comprise eight (8) directors, two (2) of whom are Independent Non-Executive Directors ('INED') and six (6) Non-Independent Non-Executive Directors ('NINED'); the Chairman of the Board is a NINED. The profiles of the directors are set out in this Annual Report.

The composition of INEDs was initially 57.14% of the Board prior to the re-designation of YBhg. Tan Sri Dato' Seri Mohamed Jawhar, En. Mohd Suffian Bin Haji Haron and YBhg. Tan Sri Dato' Sri Abd Aziz Bin Abdul Rahman; they have served the Bank for a period of more than (nine) 9 years. Consequently, the Board has undertaken important steps to initiate and effect changes at its level which will position the Bank for continued growth and create sustained value. In relation to this, the Board had made concerted efforts and continue its focus in ensuring that the Board's composition fall within the contemplation of the BNM CG requirement on majority INEDs within the stipulated time frame.

The current two (2) INEDs have no relationships or circumstances which are likely to affect, or could appear to affect their judgment. They bring with them an external perspective and viewpoint and assist in developing proposals on strategy. Further, they scrutinize the performance of the Management in meeting approved goals and objectives, and monitor the risk profile of the Bank's business and the reporting of monthly business performance.

The Board Nomination and Remuneration Committee (BNRC) and the Board have upon their annual assessment, concluded that the two (2) INEDs continue to demonstrate conduct and behaviour that are essential indicators of independence, and that each of them continues to fulfil the definition of independence pursuant to the BNM CG.

The role of INEDs are particularly important in ensuring that the strategies proposed by the Management are fully deliberated and evaluated impartially in line with the long term objectives of the Bank. No individual or small group of individuals dominate the Board's decision making process. Notwithstanding, the BNRC determines on an annual basis whether an INED remains objective and is free from relationship or influence that could undermine his ability to execute an independent judgment.

Notwithstanding that, at this juncture the Board consists of a majority of NINEDs. Whilst it continues its efforts to have a majority of INEDs, the Board is committed and strongly believes that all directors act in the best interest of the Bank through the adoption of sound corporate governance standards and practice.

Board Committees

The Board has established a number of Board Committees whose compositions and terms of reference are in accordance with the BNM CG and consistent with the recommendations of the MCCG.

In relation to this, the Board has delegated specific of its authority and responsibilities to these Board Committees, which operate under approved terms of reference of the respective Board Committees, primarily to assist the Board in the execution of its duties and responsibilities. The Board Committees shall report the outcome of their meetings to the Board for deliberation at the Board's level, if required. Reports and deliberations are incorporated into the minutes of the Board meetings. The various Board Committees are listed as below:-

Board Nomination and Remuneration Committee (BNRC)

On 27 September 2016, the Board approved the adoption of Affin Holdings Berhad's ("AHB") approval at its meeting held on 11 August 2016 on the group policy to establish a joint Board Nomination and Remuneration Committee for the Bank.

Previously, the Bank's Board Nominating Committee (BNC) and Board Remuneration Committee (BRC) were separate.

The attendance of Members at the BNC meetings in 2016 is reflected as follows:-

		Number of Board Meetings	
No.	**Name of Director**	**Attendance**	**No. of Meetings**
1.	YBhg. Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman *Chairman / Independent Non-Executive Director* *(Appointed as Chairman of BNC w.e.f. 1 June 2016)*	6	6
2.	YBhg. Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin *Member / Non-Independent Non-Executive Director* *(Completed his tenure of directorship with the Bank w.e.f. 4 October 2016)*	4	6
3.	YBhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor *Member / Non-Independent Non-Executive Director*	6	6
4.	YBhg. Tan Sri Dato' Seri Mohamed Jawhar ^ *Member / Non-Independent Non-Executive Director*	6	6
5.	En. Mohd Suffian Bin Haji Haron ^ *Member / Non-Independent Non-Executive Director*	6	6

Note: ^ Redesignated to Non-Independent Non-Executive Director w.e.f. 1 June 2016

The attendance of Members at the BRC meetings in 2016 is reflected as follows:-

		Number of Board Meetings	
No.	**Name of Director**	**Attendance**	**No. of Meetings**
1.	YBhg. Tan Sri Dato' Seri Mohamed Jawhar ^ *Chairman / Independent Non-Executive Director*	2	2
2.	YBhg. Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin *Member / Non-Independent Non-Executive Director* *(Completed his tenure of directorship with the Bank w.e.f. 4 October 2016)*	2	2
3.	YBhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor *Member / Non-Independent Non-Executive Director*	2	2

Note: ^ Redesignated to Non-Independent Non-Executive Director w.e.f. 1 June 2016

The BNRC is responsible for providing a formal and transparent procedure for the appointment of Chief Executive Officer and Senior Management. The BNRC also developing the remuneration policy for Directors, Chief Executive Officer, Senior Management and other material risk takers, whereby it assesses the effectiveness of individual Director, the Board as a whole and the performance of the Chief Executive Officer as well as Senior Management.

BNRC reviews and recommends the process for successions planning for the Board, Chief Executive Officer and Senior Management; making appropriate recommendations to the Board, ensures that compensation is competitive and consistent with the Bank's culture and strategic objectives. The BNRC obtains advice from experts in compensation and benefits, both internally and externally.

Statement on Corporate Governance

Board Nomination and Remuneration Committee (BNRC)

The attendance of Members at the BNRC meetings in 2016 is reflected as follows:

		Number of Board Meetings	
No.	**Name of Director**	**Attendance**	**No. of Meetings**
1.	Associate Professor Dr. Said Bouheraoua *Chairman / Independent Non-Executive Director* *(Appointed as Chairman w.e.f. 15 November 2016)*	1	1
2.	En. Mohd Suffian Bin Haji Haron ^ *Member / Non-Independent Non-Executive Director*	1	1
3.	YBhg. Tan Sri Dato' Seri Mohamed Jawhar ^ *Member / Non-Independent Non-Executive Director*	1	1
4.	YBhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara) *Member / Non-Independent Non-Executive Director*	1	1
5.	YBhg. Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman ^^ *Member / Non-Independent Non-Executive Director*	1	1

Note: ^ Redesignated to Non-Independent Non-Executive Director w.e.f. 1 June 2016
^^ Redesignated to Non-Independent Non-Executive Director w.e.f. 25 October 2016

Shariah Committee (SC)

The key responsibilities of the Shariah Committee are to advise the Board on Shariah matters pertaining to the Islamic operations and to deliberate and endorse Shariah related matters. The Shariah Committee is supported by the Shariah compliance and research functions.

Members at the SC meetings in 2016 is reflected as follows:

		Number of Meetings	
No.	**Name of Director**	**Attendance**	**No. of Meetings**
1.	Associate Professor Dr. Said Bouheraoua	8	8
2.	Associate Professor Dr. Ahmad Azam Othman	8	8
3.	Associate Professor Dr. Zulkifli Hasan	8	8
4.	Ustaz Mohammad Mahbubi Ali	8	8
5.	Ustaz Ahmad Alfisyahrin Jamilin *(Voluntary leave w.e.f. 5 August 2016)*	4	5
6.	Dr. Nor Fahimah Mohd Razif *(Appointed w.e.f. 1 February 2016)*	7	7

Board Committee That Are Established At Group Level

In addition to the above, there are group committees (which are established at AFFIN Bank Berhad) to assist the Board and Management in governing the business activities and operations of the Bank.

Board Risk Management Committee (BRMC)

The BRMC is responsible for overseeing management's activities in managing credit, market, liquidity, operational, legal reputational and other risks so as to ensure that the risk management process is adequately in place and function effectively.

The attendance of Members at the BRMC meetings in 2016 is reflected as follows:

No.	Name of Director	Number of Board Meetings Attendance	No. of Meetings
1.	En. Abd Malik Bin A Rahman *Chairman / Independent Non-Executive Director* *(Appointed as Chairman w.e.f. 25 October 2016)*	2	2
2.	YBhg. Tan Sri Mohd Ghazali Bin Mohd Yusoff *Member / Independent Non-Executive Director*	8	8
3.	YBhg. Tan Sri Dato' Seri Mohamed Jawhar ^ *Member / Non-Independent Non-Executive Director*	8	8
4.	YBhg. Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman ^^ *Member / Non-Independent Non-Executive Director* *(Represent AFFIN ISLAMIC)*	8	8
5.	En. Mohd Suffian Bin Haji Haron *Member / Independent Non-Executive Director*	8	8

Note: ^ Redesignated to Non-Independent Non-Executive Director w.e.f. 1 June 2016
^^ Redesignated to Non-Independent Non-Executive Director w.e.f. 25 October 2016

Board Loan Review and Recovery Committee (BLRRC)

The BLRRC is responsible in providing critical review of loans and other credit facilities with higher risk implications, after due process of checking, analysis, review and recommendation by the Financings Group Risk Management function, and if found necessary, exercise the power to veto financing applications that have been approved by the Group Management Loan Committee.

The attendance of Members at the BLRRC meetings in 2016 is reflected as follows:

No.	Name of Director	Number of Board Meetings Attendance	No. of Meetings
1.	YBhg. Jen. Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara) *Chairman / Non-Independent Non-Executive Director*	14	14
2.	YBhg. Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin *Member / Non-Independent Non-Executive Director* *(Completed his tenure of directorship with the Bank w.e.f. 4 October 2016)*	11	14
3.	En. Mohd Suffian Bin Haji Haron ^ *Member / Non-Independent Non-Executive Director*	14	14
4.	YBhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara) *Member / Non-Independent Non-Executive Director* *(Represent AFFIN ISLAMIC)*	14	14

Note: *^ Redesignated to Non-Independent Non-Executive Director w.e.f. 1 June 2016*

Statement on Corporate Governance

Board Audit Committee (BAC)

The BAC is responsible for providing oversight on reviewing the adequacy and integrity of the internal control systems and oversees the work of the internal and external auditors.

The attendance of Members at the BAC meetings in 2016 is reflected as follows:

No.	Name of Director	Number of Board Meetings Attendance	No. of Meetings
1.	YBhg. Tan Sri Mohd Ghazali Bin Mohd Yusoff *Chairman / Independent Non-Executive Director* *(Appointed as Chairman w.e.f. 25 October 2016)*	9	9
2.	YBhg. Tan Sri Dato' Seri Mohamed Jawhar ^ *Member / Non-Independent Non-Executive Director*	9	9
3.	YBhg. Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman ^^ *Member / Non-Independent Non-Executive Director* *(Represent AFFIN ISLAMIC)*	9	9
4.	Assoc. Prof. Dr. Said Bouheraoua *Member / Independent Non-Executive Director* *(Represent AFFIN ISLAMIC)*	7	9

Note: ^ Redesignated to Non-Independent Non-Executive Director w.e.f. 1 June 2016
^^ Redesignated to Non-Independent Non-Executive Director w.e.f. 25 October 2016

Board Oversight Transformation Committee (BOTC)

The Board had at its meeting held on 26 July 2016 approved the establishment of BOTC and its terms of reference.

The BOTC is responsible for overseeing the transformation plan (AFFINITY Programme), secure the consistency of strategic decision and ensure that the transformation plan is implemented effectively in a timely manner.

The attendance of Members at the BOTC meetings in 2016 is reflected as follows:

No.	Name of Director	Number of Board Meetings Attendance	No. of Meetings
1.	En. Abd Malik Bin A Rahman *Chairman / Independent Non-Executive Director*	2	2
2.	YBhg. Tan Sri Dato' Seri Mohamed Jawhar ^ *Member / Non-Independent Non-Executive Director*	2	2
3.	En. Mohd Suffian Bin Haji Haron ^ *Member / Non-Independent Non-Executive Director*	2	2
4.	Assoc. Prof. Dr. Said Bouheraoua *Member / Independent Non-Executive Director* *(Represent AFFIN ISLAMIC)*	2	2

Note: ^ *Redesignated to Non-Independent Non-Executive Director w.e.f. 1 June 2016*

Independence and Conflict of Interest

It is the Directors' responsibility to declare whether they have a potential or actual interest in any transaction of the Bank. Where issues involve conflict of interest, the interested Directors declared and abstained from discussing or voting on the matter. This is important to mitigate risk arising from potential conflict of interest situation or undue influence from interested parties.

New Appointment and Re-appointment to the Board

Pursuant to provisions of the IFSA and policy documents and guidelines issued by BNM, all appointment and reappointment of directors are subject to the approval of BNM, and the BNM approval will be for a specific term of appointment.

The proposed appointments of new Board members, as well as re-appointment of the Board members are recommended by the BNRC to ensure that the level and make-up of its members are of the necessary credibility, integrity and calibre with the required skills and knowledge.

The re-appointment of a director would be subject to the fit and proper criteria as approved by the Board and based on the peer evaluation on his/her effectiveness, contribution and participation. This in line with Principle 2, Recommendation 2.2 of MCCG.

Re-election of Directors

In accordance with the Section 91(a) of the Company's Articles of Association, at least one-third (1/3) of the Directors for the time being, or, if their number is not three (3) or a multiple of three (3), the number nearest to one-third (1/3), shall retire from office at each Annual General Meeting and they may offer themselves for re-election.

Continuing Education

The Board of Directors recognises the importance of continuous education and training, to ensure they remain updated with the latest developments in the areas related to their duties. All newly appointed Non-Executive Directors are furnished by the Bank with copies of the IFSA and other relevant legislation governing the banking industry to facilitate their understanding and requirements of banking business. All Directors have attended various training programmes organised internally as well as externally by the relevant authorities such as BNM, Securities Commission (SC) and Bursa Malaysia Berhad (Bursa Malaysia). All Directors are required to complete the Financial Institutions Directors' Education training (FIDE) organised by BNM within one year from the date of appointment. The Board member acknowledge the importance of upgrading members' skills set and competencies in facing current as well as future competitive and innovative disruptions. The members of the Board keep abreast with the relevant developments in business, banking and finance industry as well as new regulatory requirements on a continuous basis through various conferences, seminars and training programmes. The development and training programmes attended by the Directors during the financial year ended 31 December 2016 are set out below.

Statement on Corporate Governance

YBhg. Jen. Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara)		
Trainer/Organiser	Course Title	Date
1. BNM	BNM Annual Report 2015/Financial Stability & payment System Report 2015 – Briefing Session	23 March 2016
2. MINDA	Corporate Directors Advanced Programme (CDAP): Cyber Security Risk Management for the Boardroom and C-Suite	24 March 2016
3. AHB	Half Day Talk On i) Shariah Non-Compliance Risk And Its Impact to Islamic Banks ii) Malaysia Financial Reporting Standard (MFRS) 9 - Financial Instruments And Key Audit Matters iii) Internal Capital Adequacy Assessment Process (ICAAP)	26 September 2016

YBhg. Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin (Completed his tenure of Directorship with the Bank w.e.f. 4 October 2016)		
Trainer/Organiser	Course Title	Date
1. FIDE	Economic and Financial Services Sector: Trends and Challenges Moving Forward for the Banking Industry	3 March 2016
2. SEACEN	SEACEN Conference on Central Bank Cooperation and Mandates in Honor of Former Governor of Bank of Thailand Dr. Puey Unghakorn	14 March 2016
3. SC	Global Emerging Markets Programme 2016 – Risk Vulnerability of Global Markets: Reinforcing Resilience in Emerging Markets	15 March 2016
4. ICLIF	Independent Directors Programme : "The Essence of Independence"	28 March 2016
5. BNM	3rd BNM-FIDE Forum Annual Dialogue with Governor of BNM	29 March 2016
6. FIDE	FIDE Forum 2nd Distinguished Board Leadership Series – "Avoiding Financial Myopia" by Professor Jeffrey L. Sampler	19 April 2016
7. MINDA	CG Breakfast Series with Directors "The Strategy, the Leadership, the Stakeholders and the Board"	6 May 2016
8. AHB	Risk Management Workshop on Cyber Security and Fraud by IBM	9 May 2016
9. AIBIM	Global Islamic Finance Forum (GIFF) 5.0	11 May 2016
10. FIDE	Briefing Session B For Directors: Implementation of FIDE Forum's Directors Register by FIDE Forum	2 June 2016
11. WIEF	12th World Islamic Economic Forum by World Islamic Economic Foundation	2 August 2016
12. FIDE	FinTech: Business Opportunity of Disruptor? By Mr. Markus Gnirck and Mr. Veiverne Yuen	4 August 2016
13. Bursa Malaysia	Advocacy Sessions on Management Discussion & Analysis ("MD&A") For Chief Executive Officers ("CEO") and Chief Financial Officers ("CFO") Of Listed Companies by Bursa Malaysia	8 August 2016
14. Affin Hwang	Affin Hwang Capital Conference Series 2016 : Navigating Through Shifting Sands	11 August 2016
15. BNM & The World Bank	2016 Global Symposium on Innovative Financial Inclusion "Harnessing Technology for Inclusive Finance"	21 September 2016
16. AHB	Half Day Talk On i) Shariah Non-Compliance Risk And Its Impact to Islamic Banks ii) Malaysia Financial Reporting Standard (MFRS) 9 - Financial Instruments And Key Audit Matters iii) Internal Capital Adequacy Assessment Process (ICAAP)	26 September 2016

YBhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)		
Trainer/Organiser	Course Title	Date
1. BNM	3rd BNM-FIDE Forum Annual Dialogue with Governor of BNM	29 March2016
2. FIDE	Directors and Officers Liability Insurance: Are Directors Sufficiently Protected for Exercising Their Fiduciary Duty	5 April 2016
3. Affin Hwang Capital	Affin Hwang Capital Conference Series 2016 : Navigating Through Shifting Sands	11 August 2016
4. MIDAS	MiDAS Talk 14/2016 "Malaysia in Facing the Triangle of Conflict in Southeast Asia"	8 November 2016
5. FIDE	Strategy to Leverage Technology for Business Solutions	14 November 2016

YBhg. Tan Sri Dato' Seri Mohamed Jawhar		
Trainer/Organiser	Course Title	Date
1. MINDA	Corporate Directors Advanced Programme (CDAP): Cyber Security Risk Management for the Boardroom and C-Suite	24 March 2016
2. BNM	3rd BNM-FIDE Forum Annual Dialogue with Governor of BNM	29 March 2016
3. FIDE	Directors and Officers Liability Insurance: Are Directors Sufficiently Protected for Exercising Their Fiduciary Duty	5 April 2016
4. FIDE	Global Islamic Finance Forum (GIFF) 5.0	10 – 12 May 2016
5. FIDE	FIDE Forum's Directors Register: "Identify the Right Board Talent"	14 September 2016
6. BNM & The World Bank	2016 Global Symposium on Innovative Financial Inclusion "Harnessing Technology for Inclusive Finance"	21 – 22 September 2016

En. Mohd Suffian Bin Haji Haron		
Trainer/Organiser	Course Title	Date
1. FPLC	Annual National Seminar on Directors' Duties, Governance, Regulatory Updated & Current Issues 2016	26 – 27 January 2016
2. FIDE	Briefing on Directors Register	17 February 2016
3. FIDE	An Exclusive Session for Directors: Implementation of FIDE Forum's Directors Register	1 June 2016
4. FIDE	3rd Distinguished Board Leadership Series – "Effective Board Evaluation" by Ms Beverly Behan	25 July 2016
5. FIDE	Strategy to Leverage Technology for Business Solutions	14 November 2016

YBhg. Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman		
Trainer/Organiser	Course Title	Date
1. AWS	8th Annual Corporate Government Summit 2016	21 & 22 March 2016
2. MINDA	Corporate Directors Advanced Programme (CDAP): Cyber Security Risk Management for the Boardroom and C-Suite	24 March 2016
3. BNM	3rd BNM-FIDE Forum Annual Dialogue with Governor of BNM	29 March 2016
4. AIBIM	Global Islamic Finance Forum (GIFF) 5.0	10-12 May 2016
5. FIDE	Strategy to Leverage Technology for Business Solutions	14 November 2016
6. MeLearn Global	4th Annual Corporate Governance Symposium 2016. -"It Starts From You"	28 & 29 November 2016

Associate Prof Dr Said Bouheraoua		
Trainer/Organiser	Course Title	Date
1. FPLC	Annual National Seminar on Directors' Duties	26 & 27 January 2016
2. BNM	3rd BNM-FIDE Forum Annual Dialogue with Governor of BNM	29 March 2016
3. AIBIM	Global Islamic Finance Forum (GIFF) 5.0	10-12 May 2016
4. FIDE	Securities Commission – FIDE Forum Dialogue: FinTech's Impact on Financial Institutions	29 August 2016

Dr. Rosnah Binti Omar		
Trainer/Organiser	Course Title	Date
1. ICLIF	Independent Directors Programme: "The Essence of Independence"	28 March 2016
2. FIDE	Directors and Officers Liability Insurance: Are Directors Sufficiently Protected for Exercising Their Fiduciary Duty	5 April 2016
3. FIDE	Avoiding Financial Myopia by Professor Jeffrey I. Sampler	19 April 2016
4. RedMoney Group	Shariah Governance, Audit, Risk Management & Reporting	20 April 2016
5. AHB	Risk Management Workshop on Cyber-Security & Fraud	9 May 2016
6. FIDE	An Exclusive Session for Directors: Implementation of FIDE Forum's Directors Register	1 June 2016
7. FIDE	3rd Distinguished Board Leadership Series – "Effective Board Evaluation" by Ms Beverly Behan	25 July 2016
8. LTAT	Power Talk: What will distinguish the Great Board of Tomorrow" by Beverly Behan	25 July 2016
9. ICLIF/FIDE	FIDE ICAAP (Internal Capital Adequacy Assessment Process – Banks Programme	15-16 August 2016
10. AHB	Half Day Talk on • Malaysia Financial Reporting Standard (MFRS) 9 – Financial Instrument; • Key Audit Matters; • Internal Capital Adequacy Assessment Process (ICAAP); and • Shariah Non-Compliance Risk and Its Impact toIslamic Bank	26 September 2016
11. FIDE	Technology-based Innovation that Counts by Steven Lewis, Patrick Menard and Shankar Kanabiran, Ernst & Young	2 November 2016

Abbreviation

Affin Hwang - Affin Hwang Investment Bank Berhad
AHB - Affin Holdings Berhad
AIBIM - Association of Islamic Banking Institutions Malaysia
AWS - Asian World Summit
BNM - Bank Negara Malaysia
FIDE - Financial Institutions Directors' Education
FPLC - Federation of Public Listed Companies Berhad
ICLIF - The Iclif Leadership and Governance Centre
LTAT - Lembaga Tabung Angkatan Tentera
MIDAS - Malaysia Institute of Defence and Security
MINDA - Malaysian Directors Academy
SC - Securities Commission
WIEF - World Islamic Economic Forum Foundation

Meetings and Supply of Information to the Board

Board meetings are scheduled in advance at the beginning of calendar year with additional meetings duly convened as and when necessary to review progress reports on the Bank's financial performance, approved strategies, business plans and significant policies as well as to consider business and other proposals which require the Board's approval. For the financial year ended 31 December 2016, twenty (20) Board meetings were held i.e 10 monthly scheduled Board Meetings and 10 Special Board Meetings. Meetings are usually held at the Board Room at 19th Floor, Menara Affin, 80, Jalan Raja Chulan, 50200 Kuala Lumpur.

The Board has full and timely access to information with Board via BoardPac software distributed papers in advance of meetings to enable the Directors to obtain further explanation, where necessary, in order to be properly briefed prior to the meetings. The Board papers include the minutes of previous Board meeting, minutes of meeting of Board Committees and reports relevant to the issues of the meetings covering all related banking aspects such as financial, investment, information technology, operational, human resource and regulatory compliance matters. Chief Executive Officer keeps the Board informed, on timely basis, of all material matters affecting the Bank's performance and major developments.

Members of the Senior Management are invited to attend the Board meetings to present and brief the Board on matters/reports relating to their areas of responsibility as and when required.

All the Board members have unrestricted access to timely and accurate information and access to the advice and services of the Company Secretary, who is responsible for ensuring that the Board meeting's procedures are followed and that all applicable rules and regulations are complied with.

Procedures are in place for Directors to seek independent professional advice at the Bank's expense. The Bank also provides the Board full access to necessary materials and relevant information including the services of the Company Secretary in order for the Board to fulfill their duties and specific responsibilities.

The Directors' commitment in carrying out their duties and responsibilities is affirmed by their attendance at the Board of meetings held during the financial year ended 31 December 2016, as reflected below:

No.	Name of Director	Number of Board Meetings	
		Attendance	No. of Meetings
1.	YBhg. Jen. Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara) *Chairman / Non-Independent Non-Executive Director*	20	20
2.	YBhg. Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin *Non-Independent Non-Executive Director* *(Completed his tenure of directorship with the Bank w.e.f. 4 October 2016)*	14	17
3.	YBhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara) *Non-Independent Non-Executive Director*	19	20
4.	YBhg. Tan Sri Dato' Seri Mohamed Jawhar ^ *Non-Independent Non-Executive Director*	20	20
5.	En. Mohd Suffian Bin Haji Haron ^ *Non-Independent Non-Executive Director*	20	20
6.	YBhg. Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman ^^ *Non-Independent Non-Executive Director*	20	20
7.	Associate Professor Dr. Said Bouheraoua *Member / Independent Non-Executive Director*	18	20
8.	Dr. Rosnah Binti Omar *Independent Non-Executive Director* *(Appointed as Director w.e.f. 19.12.2016)*	Not Applicable	

Note: ^ Redesignated to Non-Independent Non-Executive Director w.e.f. 1 June 2016
^^ Redesignated to Non-Independent Non-Executive Director w.e.f. 25 October 2016

Statement on Corporate Governance

DIRECTORS' REMUNERATION

The Bank acknowledges the importance of attracting and retaining Directors with high calibre having the necessary skills, qualifications and experience for effective Board oversight of the Bank's business activities and affairs.

The Bank believes that one area that the Board needs to focus on in order to remain effective in the discharge of its duties and responsibilities is the setting of a fair and comprehensive remuneration package that commensurate with the expertise, skills, responsibilities and the risks of being a director of a financial institution.

The determination of remuneration packages for Non-Executive Directors (NEDs) including the non-executive Chairman is a matter for the Board as a whole following the relevant recommendation made by the BNRC after independent benchmarking with relevant external peers.

Remuneration package for Non-executive Directors is structured such that it is competitive with the industry and consistent with the Bank's business policy and so as to link to their level of responsibilities undertaken and contribution to the effective functioning of the Board. Non-executive Directors' emoluments mainly consist of three (3) components – an annual fee as a Board member, an allowance for attendance of meetings and a committee fee.

The make-up of the Chief Executive Officer's remuneration consists of salary, allowances, bonus and other customary benefits as appropriate. Any salary review, takes into account market rates and the performance of the individual and of the Bank. A significant portion of the Chief Executive Officer's compensation package has been made variable in nature depending on the Bank's performance during the year, which is determined based on the individual Key Performance Indicators aligned with the corporate objectives, and approved by the Board.

In line with good corporate governance, the Board has set out its intention to periodically review the Directors' remuneration, the existing remuneration framework was in line with AFFIN Holdings Group's overall practice on compensation and benefits. Chief Executive Officer does not participate in any way in determining his individual remuneration. The Board as a whole determines the remuneration of Non-Executive Directors.

Directors' emoluments are disclosed in the relevant note to the financial statements as an aggregate sum, in conformance to the relevant legislation.

SHAREHOLDER

The Bank is a wholly-owned subsidiary of AFFIN Bank Berhad.

ANNUAL GENERAL MEETING (AGM)

The Annual Report and financial statements for the year ended 31 December 2015 were tabled at the 10th AGM on 22 March 2016. Likewise the Annual Report and financial statements for the year ended 31 December 2016 will be tabled at the 11th AGM on Thursday, 30 March 2017.

Network of Branches

WILAYAH PERSEKUTUAN

1. **Fraser**
   20-G & 20-1,
   Jalan Metro Pudu,
   Fraser Business Park,
   55100 Kuala Lumpur.
   Tel : 03-9222 8877
   Fax : 03-9222 9877

SELANGOR

1. **Bangi**
   No.175 & 177 Ground Floor,
   Jalan 8/1, Seksyen 8,
   43650 Bandar Baru Bangi,
   Selangor.
   Tel : 03-8925 7333
   Fax : 03-8927 4815

2. **MSU Shah Alam**
   Management & Science University,
   2nd Floor, University Drive,
   Persiaran Olahraga, Section 13,
   40100 Shah Alam,
   Selangor.
   Tel : 03-5510 0425
   Fax : 03-5510 0563

3. **SS2**
   161-163,
   Jalan SS 2/24,
   47300 Petaling Jaya,
   Selangor.
   Tel : 03-7874 3513
   Fax : 03-7874 3480

NEGERI SEMBILAN

1. **Senawang**
   No. 312-G & 312-1,
   Jalan Bandar Senawang 17,
   Pusat Bandar Senawang,
   70450 Seremban,
   Negeri Sembilan.
   Tel : 06-675 7066
   Fax : 06-675 7188

JOHOR

1. **Taman Molek**
   No. 23, 23-01, 23-02,
   Jalan Molek 1/29,
   Taman Molek,
   81100 Johor Bahru, Johor.
   Tel : 07-351 9522
   Fax : 07-357 9522

PULAU PINANG

1. **Juru**
   No. 1813A,
   Jalan Perusahaan, Auto-City,
   North-South Highway,
   Juru Interchange,
   13600 Prai, Pulau Pinang.
   Tel : 04-507 7422
   Fax : 04-507 6522 / 0522

KEDAH

1. **Jitra**
   No. 17, Jalan Tengku Maheran 2,
   Taman Tengku Maheran, Fasa 4,
   06000 Jitra, Kedah.
   Tel : 04-919 0888
   Fax : 04-919 0380

TERENGGANU

1. **Kuala Terengganu**
   63 & 63-A,
   Jalan Sultan Ismail,
   20200 Kuala Terengganu,
   Terengganu.
   Tel : 09-622 3725
   Fax : 09-623 6496

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT THE **11TH ANNUAL GENERAL MEETING OF AFFIN ISLAMIC BANK BERHAD** WILL BE HELD AT THE BOARD ROOM, 19TH FLOOR, MENARA AFFIN, 80, JALAN RAJA CHULAN, 50200 KUALA LUMPUR ON **THURSDAY, 30 MARCH 2017** AT **9.30 A.M.** FOR THE TRANSACTION OF THE FOLLOWING BUSINESSES:-

AGENDA

1. To receive the Statutory Statements of Accounts for the year ended 31 December 2016 together with the Directors' and Auditors' Reports thereon
2. To re-elect the following Directors who retire pursuant to Article 68 of the Articles of Association and who, being eligible, offer themselves for re-election:-
   (a) En. Mohd Suffian Bin Haji Haron
   (b) YBhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)
3. To re-elect Dr. Rosnah Binti Omar who retires in accordance with Article 73 of the Company's Article of Association and who being eligible, offers herself for re-election.
4. To approve the payment of Directors' fees and Committees' fees for financial year ended 31 December 2016.
5. To re-appoint Messrs PricewaterhouseCoopers as Auditors for the financial year ending 31 December 2017 and to authorise the Directors to fix their remuneration.
6. To transact any other ordinary business of the Company.

BY ORDER OF THE BOARD

NIMMA SAFIRA BINTI KHALID

Secretary

NOTE:

1. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him and the proxy need not be a member of the Company.

   The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under the seal or in some other manner approved by Directors.

   The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority shall be deposited at the Company's registered office at the 17th Floor, Menara Affin, 80, Jalan Raja Chulan, 50200 Kuala Lumpur, at least forty-eight (48) hours before the time appointed for holding the Meeting or adjourned Meeting as the case may be otherwise the person so named shall not be entitled to vote in respect thereof.

Financial Statements

Directors' Report

for the financial year ended 31 December 2016

The Directors hereby submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are Islamic banking business and the provision of related financial services. There were no significant changes in these activities during the financial year.

FINANCIAL RESULTS

	Economic Entity and The Bank RM'000
Profit before zakat and taxation	**146,289**
Zakat	**(2,887)**
Profit before taxation	**143,402**
Taxation	**(30,804)**
Net profit for the financial year	**112,598**

DIVIDENDS

No dividends have been paid by the Bank in respect of the financial year ended 31 December 2015 and 2016.

The Directors do not recommend the payment of any dividend in respect of the current financial year.

RESERVES AND PROVISIONS

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

BAD AND DOUBTFUL FINANCING

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

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

CURRENT ASSETS

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that any current assets, other than financing, which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Bank have been written down to an amount which they might expected so 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 METHODS

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 in the Bank's financial statements 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 in respect of the Bank that has arisen since the end of the financial year other than those in the ordinary course of banking business or activities of the Bank.

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Bank during 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 current financial year in which this report is made.

SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

There is no significant event during the financial year.

SUBSEQUENT EVENTS

There were no material events subsequent to the reporting date that require disclosure or adjustments to the financial statements.

Directors' Report
for the financial year ended 31 December 2016

DIRECTORS

The Directors of the Bank who have held office since the date of the last report and at the date of this report are:

Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara)
Chairman / Non-Independent Non-Executive Director

Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin
Non-Independent Non-Executive Director
(Completion of directorship on 4 October 2016)

Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)
Non-Independent Non-Executive Director

Tan Sri Dato' Seri Mohamed Jawhar
Non-Independent Non-Executive Director
(Redesignated as Non-Independent Non-Executive Director on 1 June 2016)

En. Mohd Suffian Bin Haji Haron
Non-Independent Non-Executive Director
(Redesignated as Non-Independent Non-Executive Director on 1 June 2016)

Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman
Non-Independent Non-Executive Director
(Redesignated as Non-Independent Non-Executive Director on 1 June 2016)

Associate Professor Dr. Said Bouheraoua
Independent Non-Executive Director

Pn. Rosnah Binti Omar
Independent Non-Executive Director (appointed on 19 December 2016)

RESPONSIBILITY STATEMENT BY BOARD OF DIRECTORS

In the course of preparing the annual financial statements of the Bank, the Directors are collectively responsible in ensuring that these financial statements are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

It is the responsibility of the Directors to ensure that the financial reporting of the Bank present a true and fair view of the state of affairs of the Bank as at 31 December 2016 and of the financial results and cash flows of the Bank for the financial year then ended.

The financial statements are prepared on the going concern basis and the Directors have ensured that proper accounting records are kept, applied the appropriate accounting policies on a consistent basis and made accounting estimates that are reasonable and fair so as to enable the preparation of the financial statements of the Bank with reasonable accuracy.

The Directors have also taken the necessary steps to ensure that appropriate systems are in place for the assets of the Bank to be properly safeguarded for the prevention and detection of fraud and other irregularities. The systems, by their nature, can only provide reasonable and not absolute assurance against material misstatements, whether due to fraud or error.

The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out on page 141 of the financial statements.

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings, the interest of Directors in office at end of the financial year in shares, warrants and options of related companies is as follows:

	Ordinary shares of RM10 each; RM5 uncalled			
	As at 1.1.2016	**Bought**	**Sold**	**As at 31.12.2016**
ABB Trustee Berhad**				
Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara)	20,000	-	-	20,000
Laksaman Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)	20,000	-	-	20,000

** Shares held in trust in AFFIN Bank Berhad

Other than the above, the Directors in office at the end of the financial year did not have any other interest in shares, warrants and options over shares in the Bank or its related corporations during the financial year.

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any arrangement to which the Bank is a party with the object or objects of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debenture of, the Bank or any other body corporate.

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive a benefit (other than the fees and other emoluments shown in Note 33 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 he is a member or with a company in which he has a substantial financial interest.

BUSINESS PLAN AND STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 AND FUTURE OUTLOOK

Amidst the global Islamic banking slowdown and commodity prices plunge, Malaysia has strengthened its standing in the Islamic banking and finance domain through progressive set of regulations and innovations. From the launching of Bursa Malaysia-i (world's first end-to-end integrated Islamic securities exchange platform) to the extension of exemption period for stamp duty and income tax, the initiatives have accelerated the nation's Islamic banking industry into one of the most developed Islamic banking markets in the world.

In 2016, Affin Islamic Bank Berhad ('the Bank') has been actively extending its customer reach while focusing on business capabilities enhancement and products refinement. The strategic focus resulted in outstanding results. The Bank recorded its profit before tax and zakat at RM146.3 million and its net impaired financing ratio at 0.64%. Furthermore, the Bank's ROA and ROE respectively stood at 1.02% and 13.75%, a significant improvement from the previous year.

BUSINESS OUTLOOK FOR 2017

Although the growth in the Asia-Pacific economies is expected to decelerate slightly in 2017, Malaysia remains as a dynamic region in the Islamic banking field. The national real GDP is expected to strengthen at 4.0% - 5.0%, while the export sector to experience positive movement from a higher external demand on Electrical and Electronic sector. The previously moderated Sukuk market poised for growth with high impact infrastructure projects and other driving forces from government agencies to continue next year. Likewise, private investment is also projected to continue drive economic growth (albeit moderately) at 5.8%.

Bank Negara Malaysia (BNM) maintains its accommodative stance in supporting economic growth with the Overnight Policy Rate (OPR) stable at 3.00% and reduction of Statutory Reserve Rate (SRR) to 3.5%. However, cost-push inflation is estimated to be between the 2.0% - 3.0% range.

Directors' Report

for the financial year ended 31 December 2016

BUSINESS OUTLOOK FOR 2017

The Bank remains optimistic for the year 2017. It has established a solid foundation and is well-positioned to gain further business growth and competitive edge. Living up with our aspiration to become the preferred bank for SME and millennial customer segment, we are developing new customer-centric products while strengthening our digital banking line to ameliorate customer experience. We are further strengthening our portfolio foothold through the implementation of 'Priority Islamic Policy' by encouraging new and repeat customers to switch for Islamic products. The Bank's strategic move aligns with BNM's 10-year Financial Sector Blueprint on the direction of financial institutions to enhance its Islamic financing portfolio to 40% by the year 2020. Moving forward with 'AFFINITY', the Group's Strategic Transformation Program; the Bank foresees tangible benefits in the form of lower cost-to-income ratio, robust fee income generation and efficient business operations in the near future.

AFFIN Islamic Bank Berhad will continue to support AFFIN Group's strategic vision in providing excellent banking services to our customers in the future.

RATING BY EXTERNAL AGENCIES

The Bank was not rated by any external rating agencies during the financial year.

ZAKAT OBLIGATIONS

The Bank did not pay zakat on behalf of its depositors.

HOLDING COMPANY, PENULTIMATE AND ULTIMATE HOLDING CORPORATE BODY

The holding company of the Bank is AFFIN Bank Berhad. The penultimate holding company is AFFIN Holdings Berhad and ultimate holding corporate body is Lembaga Tabung Angkatan Tentera, a statutory body incorporated under the Tabung Angkatan Tentera Act, 1973.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 21 March 2017.

Mohd Suffian Bin Haji Haron
Director

Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman
Director

Statements of Financial Position

as at 31 December 2016

		Economic Entity		The Bank	
		2016	2015	2016	2015
	Note	RM'000	RM'000	RM'000	RM'000
ASSETS					
Cash and short-term funds	2	**1,057,844**	1,918,570	**1,057,844**	1,918,570
Deposits and placements with banks and other financial institutions	3	**-**	35,034	**-**	35,034
Derivative financial assets	4	**8,987**	132	**8,987**	132
Financial investments available-for-sale	5	**1,833,408**	1,475,373	**1,833,408**	1,475,373
Financial investments held-to-maturity	6	**72,122**	76,283	**72,122**	76,283
Financing, advances and other financing	7	**11,914,943**	9,201,909	**11,914,943**	9,201,909
Other assets	9	**7,901**	3,759	**7,901**	3,759
Amount due from holding company	10	**-**	367,172	**-**	367,172
Amount due from joint ventures	11	**46,725**	39,936	**46,725**	39,936
Amount due from associate	12	**500**	-	**500**	-
Deferred tax assets	13	**8,056**	3,598	**8,056**	3,598
Statutory deposits with Bank Negara Malaysia	14	**332,000**	259,600	**332,000**	259,600
Investment in joint ventures	15	**-**	-	**650**	650
Investment in associate	16	**750**	-	**750**	-
Property and equipment	17	**2,347**	2,613	**2,347**	2,613
Intangible assets	18	**-**	426	**-**	426
TOTAL ASSETS		**15,285,583**	13,384,405	**15,286,233**	13,385,055
LIABILITIES AND EQUITY					
Deposits from customers	19	**10,528,698**	10,001,695	**10,528,698**	10,001,695
Deposits and placements of banks and other financial institutions	20	**1,248,993**	1,041,392	**1,248,993**	1,041,392
Investment accounts due to designated financial institutions	21	**2,110,049**	1,331,318	**2,110,049**	1,331,318
Derivative financial liabilities	22	**1,412**	1,035	**1,412**	1,035
Other liabilities	23	**36,331**	44,119	**36,331**	44,119
Amount due to holding company	24	**196,828**	-	**196,828**	-
Provision for taxation		**6,015**	10,031	**6,015**	10,031
TOTAL LIABILITIES		**14,128,326**	12,429,590	**14,128,326**	12,429,590
Share capital	25	**560,000**	460,000	**560,000**	460,000
Reserves	26	**597,257**	494,815	**597,907**	495,465
TOTAL EQUITY		**1,157,257**	954,815	**1,157,907**	955,465
TOTAL LIABILITIES AND EQUITY		**15,285,583**	13,384,405	**15,286,233**	13,385,055
COMMITMENTS AND CONTINGENCIES	37	**3,317,468**	2,499,754	**3,317,468**	2,499,754

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

Income Statements

for the financial year ended 31 December 2016

	Note	Economic Entity 2016 RM'000	Economic Entity 2015 RM'000	The Bank 2016 RM'000	The Bank 2015 RM'000
Income derived from investment of depositors' funds and others	27	**563,363**	489,929	**563,363**	489,929
Income derived from investment of investment accounts	28	**99,644**	66,608	**99,644**	66,608
Income derived from investment of shareholders' funds	29	**51,286**	39,773	**51,286**	39,773
Allowances for impairment losses on financing, advances and other financing	30	**3,761**	(8,512)	**3,761**	(8,512)
Total distributable income		**718,054**	587,798	**718,054**	587,798
Income attributable to the depositors	31	**(438,943)**	(356,017)	**(438,943)**	(356,017)
Total net income		**279,111**	231,781	**279,111**	231,781
Other operating expenses	32	**(132,822)**	(114,406)	**(132,822)**	(114,406)
Profit before zakat and taxation		**146,289**	117,375	**146,289**	117,375
Zakat		**(2,887)**	(3,779)	**(2,887)**	(3,779)
Profit before taxation		**143,402**	113,596	**143,402**	113,596
Taxation	34	**(30,804)**	(28,811)	**(30,804)**	(28,811)
Net profit after zakat and taxation		**112,598**	84,785	**112,598**	84,785
Attributable to:					
Equity holder of the Bank		**112,598**	84,785	**112,598**	84,785
Earnings per share (sen):					
- Basic	35	**24.4**	23.5	**24.4**	23.5

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

Statements of Comprehensive Income

for the financial year ended 31 December 2016

	Note	Economic Entity 2016 RM'000	Economic Entity 2015 RM'000	The Bank 2016 RM'000	The Bank 2015 RM'000
Profit after zakat and taxation		**112,598**	84,785	**112,598**	84,785
Other comprehensive income:					
Items that may be reclassified subsequently to profit and loss:					
Net fair value change in financial investments available-for-sale		**(13,363)**	(2,674)	**(13,363)**	(2,674)
Deferred tax on financial investments available-for-sale	13	**3,207**	642	**3,207**	642
Other comprehensive expense for the financial year, net of tax		**(10,156)**	(2,032)	**(10,156)**	(2,032)
Total comprehensive income for the financial year		**102,442**	82,753	**102,442**	82,753
Attributable to equity holder of the Bank:					
- Total comprehensive income		**102,442**	82,753	**102,442**	82,753

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

Statements of Changes in Equity

for the financial year ended 31 December 2016

	Attributable to Equity Holder of the Bank					
Economic Entity	**Share capital RM'000**	**Statutory reserves RM'000**	**AFS revaluation reserves RM'000**	**Regulatory reserves RM'000**	**Retained profits RM'000**	**Total RM'000**
At 1 January 2016	**460,000**	**248,717**	**(7,908)**	**58,400**	**195,606**	**954,815**
Net profit for the financial year	**-**	**-**	**-**	**-**	**112,598**	**112,598**
Other comprehensive income (net of tax)						
- Financial investments available-for-sale	**-**	**-**	**(10,156)**	**-**	**-**	**(10,156)**
Total comprehensive income	**-**	**-**	**(10,156)**	**-**	**112,598**	**102,442**
Issued during the financial year	**100,000**	**-**	**-**	**-**	**-**	**100,000**
Transfer to statutory reserves / regulatory reserves	**-**	**56,299**	**-**	**14,778**	**(71,077)**	**-**
At 31 December 2016	**560,000**	**305,016**	**(18,064)**	**73,178**	**237,127**	**1,157,257**

Economic Entity						
At 1 January 2015	360,000	206,324	(5,876)	49,020	162,594	772,062
Net profit for the financial year	-	-	-	-	84,785	84,785
Other comprehensive income (net of tax)						
- Financial investments available-for-sale	-	-	(2,032)	-	-	(2,032)
Total comprehensive income	-	-	(2,032)	-	84,785	82,753
Issued during the financial year	100,000	-	-	-	-	100,000
Transfer to statutory reserves / regulatory reserves	-	42,393	-	9,380	(51,773)	-
At 31 December 2015	460,000	248,717	(7,908)	58,400	195,606	954,815

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

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

		Non-Distributable			Distributable	
The Bank	**Share capital RM'000**	**Statutory reserves RM'000**	**AFS revaluation reserves RM'000**	**Regulatory reserves RM'000**	**Retained profits RM'000**	**Total RM'000**
At 1 January 2016	**460,000**	**248,717**	**(7,908)**	**58,400**	**196,256**	**955,465**
Net profit for the financial year	**-**	**-**	**-**	**-**	**112,598**	**112,598**
Other comprehensive income (net of tax)						
- Financial investments available-for-sale	**-**	**-**	**(10,156)**	**-**	**-**	**(10,156)**
Total comprehensive income	**-**	**-**	**(10,156)**	**-**	**112,598**	**102,442**
Issued during the financial year	**100,000**	**-**	**-**	**-**	**-**	**100,000**
Transfer to statutory reserves / regulatory reserves	**-**	**56,299**	**-**	**14,778**	**(71,077)**	**-**
At 31 December 2016	**560,000**	**305,016**	**(18,064)**	**73,178**	**237,777**	**1,157,907**

The Bank						
At 1 January 2015	360,000	206,324	(5,876)	49,020	163,244	772,712
Net profit for the financial year	-	-	-	-	84,785	84,785
Other comprehensive income (net of tax)						
- Financial investments available-for-sale	-	-	(2,032)	-	-	(2,032)
Total comprehensive income	-	-	(2,032)	-	84,785	82,753
Issued during the financial year	100,000	-	-	-	-	100,000
Transfer to statutory reserves / regulatory reserves	-	42,393	-	9,380	(51,773)	-
At 31 December 2015	460,000	248,717	(7,908)	58,400	196,256	955,465

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

Statements of Cash Flows

for the financial year ended 31 December 2016

	Economic Entity		The Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	**143,402**	113,596	**143,402**	113,596
Adjustments for items not involving the movement of cash and cash equivalents:				
Finance income and hibah from:				
- financial investments available-for-sale	**(56,923)**	(49,589)	**(56,923)**	(49,589)
- financial investments held-to-maturity	**(5,172)**	(5,597)	**(5,172)**	(5,597)
Accretion of discount less amortisation of premium				
- financial investments available-for-sale	**(5,083)**	(7,680)	**(5,083)**	(7,680)
Gain on sale/redemption:				
- financial investments available-for-sale	**(9,372)**	(2,232)	**(9,372)**	(2,232)
Gain on unrealised foreign exchange	**(8,480)**	882	**(8,480)**	882
Depreciation of property and equipment	**983**	1,033	**983**	1,033
Property and equipment written-off	**3**	8	**3**	8
Amortisation of intangible assets	**426**	465	**426**	465
Net individual impairment	**(16,523)**	3,512	**(16,523)**	3,512
Net collective impairment	**13,897**	5,959	**13,897**	5,959
Bad debt on financing written-off	**21**	7	**21**	7
Zakat	**2,887**	3,779	**2,887**	3,779
Operating profit before changes in working capital	**60,066**	64,143	**60,066**	64,143
Decrease/(increase) in operating assets:				
Deposits and placements with banks and other financial institutions	**35,034**	(35,034)	**35,034**	(35,034)
Financing, advances and other financing	**(2,710,429)**	(2,047,766)	**(2,710,429)**	(2,047,766)
Other assets	**6,844**	42,231	**6,844**	42,231
Statutory deposits with Bank Negara Malaysia	**(72,400)**	38,400	**(72,400)**	38,400
Amount due from holding company	**367,172**	(125,114)	**367,172**	(125,114)
Amount due from joint ventures	**(6,789)**	(25,081)	**(6,789)**	(25,081)
Derivative financial instruments	**(8,477)**	882	**(8,477)**	882

Statements of Cash Flows

for the financial year ended 31 December 2016

	Economic Entity		The Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Increase/(decrease) in operating liabilities:				
Deposits from customers	**527,003**	131,301	**527,003**	131,301
Deposits and placements of banks and other financial institutions	**207,601**	(359,100)	**207,601**	(359,100)
Investment accounts due to designated financial institutions	**778,731**	686,090	**778,731**	686,090
Amount due to holding company	**196,828**	-	**196,828**	-
Other liabilities	**(7,811)**	15,495	**(7,811)**	15,495
Cash used in operations	**(626,627)**	(1,613,553)	**(626,627)**	(1,613,553)
Zakat paid	**(2,862)**	(5,511)	**(2,862)**	(5,511)
Tax paid	**(36,071)**	(22,909)	**(36,071)**	(22,909)
Net cash used in operating activities	**(665,560)**	(1,641,973)	**(665,560)**	(1,641,973)
CASH FLOWS FROM INVESTING ACTIVITIES				
Finance income and hibah received from:				
- financial investments available-for-sale	**62,006**	49,589	**62,006**	49,589
- financial investments held-to-maturity	**5,172**	5,597	**5,172**	5,597
Redemption of financial investments held-to-maturity	**4,161**	6,472	**4,161**	6,472
Net (purchase)/sale of financial investments available-for-sale	**(363,276)**	64,365	**(363,276)**	64,365
Purchase of property and equipment	**(554)**	(408)	**(554)**	(408)
Net cash (used in)/generated from investing activities	**(292,491)**	125,615	**(292,491)**	125,615
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in share capital	**100,000**	100,000	**100,000**	100,000
Net cash generated from financing activities	**100,000**	100,000	**100,000**	100,000
Net decrease in cash and cash equivalents	**(858,051)**	(1,416,358)	**(858,051)**	(1,416,358)
Net (decrease)/ increase in foreign exchange	**(2,675)**	1,456	**(2,675)**	1,456
Cash and cash equivalents at beginning of the financial year	**1,918,570**	3,333,472	**1,918,570**	3,333,472
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR (Note 2)	**1,057,844**	1,918,570	**1,057,844**	1,918,570

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

Summary of Significant Accounting Policies

for the financial year ended 31 December 2016

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

(A) BASIS OF PREPARATION

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

The financial statements of the Bank have been prepared under the historical cost convention, unless otherwise indicated in this summary of significant accounting policies.

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 period. It also requires Directors to exercise their judgment in the process of applying the Bank's accounting policies. Although these estimates and judgment 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 Note 43.

Standards, amendments to published standards and interpretations that are effective

The Bank has applied the following amendments for the first time for the financial year beginning on 1 January 2016:

- Amendments to MFRS 11 'Joint arrangements' - Accounting for acquisition of interests in joint operations
- Amendments to MFRS 101 'Presentation of financial statements' - Disclosure initiative
- Amendments to MFRS 127 "Equity method in separate financial statements"
- Annual Improvements to MFRSs 2012 - 2014 Cycle

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

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

A number of new standards and amendments to standards and interpretations are effective for financial year beginning on or after 1 January 2016. None of these is expected to have a significant effect on the financial statements of the Bank, except the following:

- Amendments to MFRS 107 'Statement of Cash Flows - Disclosure Initiative' (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities.

- Amendments to MFRS 112 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses' (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

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

  The amendments shall be applied retrospectively.

(A) BASIS OF PREPARATION

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

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

  MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ('OCI'). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and profit.

  For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

  MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

- 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 element.
  - 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.

Summary of Significant Accounting Policies

for the financial year ended 31 December 2016

(A) BASIS OF PREPARATION

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

- 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.

  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 financing expense recognised in the income statement.

  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.

The Bank will apply these standards when effective. The adoption of the above standards, amendments to published standards and interpretations to existing standards are not expected to have any significant impact on the financial statements of the Bank except for MFRS 9. The financial effect of adoption of MFRS 9 is still being assessed by the Bank.

(B) JOINT ARRANGEMENTS

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture.

Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated statement of financial position. Under the equity method, the investment in a joint venture is initially recognised at cost, and adjusted thereafter to recognise the Economic Entity's share of the post-acquisition profits or losses of the joint venture in profit or loss, and the Economic Entity's share of movements in other comprehensive income of the joint venture in other comprehensive income. Dividends received or receivable from a joint venture are recognised as a reduction in the carrying amount of the investment. When the Economic Entity's share of losses in a joint venture equals or exceeds its interests in the joint venture, including any long-term interests that, in substance, form part of the Economic Entity's net investment in the joint venture, the Economic Entity does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

The Economic Entity determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. An impairment loss is recognised for the amount by which the carrying amount of the joint venture exceeds its recoverable amount.

Unrealised gains on transactions between the Economic Entity and its joint ventures are eliminated to the extent of the Economic Entity's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Economic Entity.

When the Economic Entity ceases to equity account its joint venture because of a loss of joint control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amount previously recognised in other comprehensive income in respect of the entity is accounted for as if the Economic Entity had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

(C) INTANGIBLE ASSETS

Computer Software

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

(i) it is technically feasible to complete the software product so that it will be available for use;

(ii) management intends to complete the software product and use or sell it;

(iii) there is an ability to use or sell the software product;

(iv) it can be demonstrated how the software product will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and

(vi) the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised from the point at which the asset is ready for use over their estimated useful lives of five years.

(D) IMPAIRMENT ON NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. 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 asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or group of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus reserve.

(E) RECOGNITION OF FINANCING INCOME AND EXPENSE

Financing income and expense for all profit-bearing financial instruments are recognised within 'income derived from investment from depositors' funds', 'income derived from investment from shareholders' funds' and 'income attributable to depositors' respectively, in the income statement using the effective profit method.

The effective profit method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the financing income or expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective profit rate, the Bank takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate, but not future credit losses.

Summary of Significant Accounting Policies

for the financial year ended 31 December 2016

(E) RECOGNITION OF FINANCING INCOME AND EXPENSE

Profit or income on impaired financial assets is recognised using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

When a financing receivable is impaired, the Bank reduces the carrying amount to its recoverable amount, being the estimated future cash flow 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 are recognised using the original effective profit rate.

Al-Bai' Bithaman Ajil

A contract of sale of an asset where 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 Muntahiah bil Tamleek/Al-Ijarah Thumma Al-Bai'

A contract of lease ending with transfer of ownership from the lessor to the lessee either in the form of gift or sale transaction based on agreed terms and conditions. Two contracts are involved in this arrangement with the first contract is Ijarah where the lessee enjoys the usufruct of the assets at an agreed rental during an agreed period while the ownership remains with the lessor. The second contract is to transfer the ownership of the assets which may takes place at the end of the Ijarah tenure or at any point of time during the tenure subject to the terms and conditions that are agreed between the contracting parties. Income is recognised on effective Ijarah profit rate basis over the lease term.

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 Mutanaqisah

A contract of partnership with a declining ownership (diminishing partnership) which one of the partners promises (wa'd) to buy the equity share of the other partner gradually until the ownership of the asset is completely transferred to him. It is a hybrid of three contracts known as shirkah (partnership), ijarah (lease) and bay' (sale).

Tawarruq

An arrangement that involves a purchase of an asset based on musawamah or murabahah contract on deferred term and a subsequent sale of the same asset to a third party in order to obtain cash. Income is recognised on effective profit rate basis over the expected life of the contract based on the outstanding financing amount.

Istisna'

An arrangement where contract of construction or manufacturing or request to build or renovation (refurbishment), and bridging or project financing.

Financing income is recognised using effective profit rate through the expected life of the financing based on the principal amount outstanding.

(F) RECOGNITION OF FEES AND OTHER INCOME

Fees and commissions are recognised as income when all conditions precedent are fulfilled.

Guarantee fees which are material are recognised as income based on a time apportionment method.

Dividends are recognised when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

Net profit from financial assets held at fair value through profit or loss and financial instruments available-for-sale are recognised upon disposal of the assets, as the difference between net disposal proceeds and the carrying amount of the assets.

(G) FINANCIAL ASSETS

Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, financing and receivables, available-for-sale and held-to-maturity. 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-evaluate 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 it in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges (Note L).

The Bank has not elected to designate any financial assets at fair value through profit or loss.

(ii) Financing and receivables

Financing 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 murabahah, ijarah and musharakah contracts. These contracts are initially recognised at fair value, including direct and incerementai transactions costs, and subsequently measured at amortised cost using the effective yield method.

(iii) Financial investments available-for-sale

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

(iv) Financial investments held-to-maturity

Financial investments held-to-maturity 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 was to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale.

Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the settlement date, the date that an asset is delivered to or by the Bank.

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset 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 profit or loss.

Summary of Significant Accounting Policies

for the financial year ended 31 December 2016

(G) FINANCIAL ASSETS

Subsequent measurement – gains and losses

Financial investments available-for-sale and financial assets at fair value through profit or loss are subsequently carried at fair value. Financing and receivables and held-to-maturity financial assets 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 income statement in the period in which the changes arise.

Changes in the fair value financial investments available-for-sale are recognised in other comprehensive income, except for impairment losses (Note H) and foreign exchange gains and losses on monetary assets (Note M).

Profit and dividend income on financial investments available-for-sale are recognised separately in income statements. Profit on financial investments available-for-sale calculated using the effective profit method is recognised in income statements. Dividend income on available-for-sale equity instruments are recognised in income statements when the Bank's right to receive payments is established.

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 and receivables that are factored out to banks and other financial institutions with recourse to the Bank are not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as fundings.

When financial investments available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

Reclassification of financial assets

The Bank may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than financings and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of financings and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective profit rates for financial assets reclassified to financing and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust the effective profit rates prospectively.

(H) IMPAIRMENT OF FINANCIAL ASSETS

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 that there is objective evidence of an impairment loss include among others:

- past due contractual payments;
- significant financial difficulties of the customer;
- probability of bankruptcy or other financial re-organisation;
- default of related customer;
- measurable decrease in estimated future cashflow than was originally envisaged; and
- significant deterioration in issuer's credit rating.

The amount of the 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 of the asset is reduced and the amount of the loss is recognised in income statement. If 'financing and receivables' or a 'held-to-maturity investment' has 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, advances and other financing, the Bank first assesses whether objective evidence of impairment exists individually for financing, advances and other financing that are individually significant, and individually or collectively for financing, advances and other financing that are not individually significant. If the Bank determines that no objective evidence of impairment exists for individually assessed financing, advances and other financing, whether significant or not, it includes the asset in a group of financing, advances and other financing with similar credit risk characteristics and collectively assesses them for impairment.

(i) Individual impairment allowance

Financing, advances and other financing that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. Financing that are individually assessed for impairment and for which no impairment loss is required (over-collateralised financing) are collectively assessed as a separate segment.

The amount of the loss is measured as the difference between the financing's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financing's original effective profit rate. The carrying amount of the financing is reduced through the use of an allowance account and the amount of the loss is recognised in the income statements. If a financing has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financing reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Summary of Significant Accounting Policies

for the financial year ended 31 December 2016

(H) IMPAIRMENT OF FINANCIAL ASSETS

Assets carried at amortised cost (continued)

(ii) Collective impairment allowance

For the purposes of a collective evaluation of impairment, financing, advances and other financing are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such financing, advances and other financing by being indicative of the customers' ability to pay all amounts due according to the contractual terms of the financing being evaluated.

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

Estimates of changes in future cash flows for groups of financings should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Based on the Guideline on Classification and Impairment Provisions for Financing, banking institutions are required to maintain, in aggregate, collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding financing (excluding financing, advances and other financing with an explicit guarantee from the Federal Government of Malaysia), net of individual impairment provisions. Banking institutions are required to comply with the requirement by 31 December 2015.

As at reporting date, the Bank has maintained the collective impairment provisions and regulatory reserves of no less than 1.2% in the books.

Assets classified as available-for-sale

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 assesses at each date of the statement of financial position whether there is any objective evidence that a financial investment or group of financial investments is impaired. The criteria the Bank uses to determine whether there is objective evidence of impairment include non-payment of coupon or principal redemption, significant financial difficulty of issuer or obligor and significant drop in rating.

In the case of equity securities classified as available-for-sale, in addition to the criteria 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 available-for-sale 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 reclassified to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statements. Impairment losses recognised in income statements on equity instruments classified as available-for-sale are not reversed through income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale 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 subsequent periods.

(I) FINANCIAL LIABILITIES

All financial liabilities which include derivative financial instruments have to be recognised in the statement of financial position and measured in accordance with their assigned category.

The Bank's holding in financial liabilities are in financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that designated at fair value) and financial liabilities at amortised cost. 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

This category comprises two sub-categories: financial liabilities classified as held-for-trading, and financial liabilities designated by the Bank as at fair value through profit or loss upon initial recognition. The Bank does not have any non-derivative financial liabilities designated at fair value through profit or loss.

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 and effective as hedging instruments.

Financial liabilities classified as held-for-trading are initially recognised at fair value, and transaction costs are expensed in profit or loss. Gains and losses arising from changes in fair value of financial liabilities classified held-for-trading are included in the income statement.

Other liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost.

De-recognition

Financial liabilities are de-recognised when they have been redeemed or otherwise extinguished.

(J) 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 assets 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.

(K) PROPERTY AND EQUIPMENT

Property and equipment are initially stated at cost, net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the government. When the amount of GST incurred is not recoverable from the government, the GST is recognised as part of the cost of acquisition of the property and equipment.

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an item of property and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost also include funding costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate assets, 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 placed part is de-recognised. All the repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

Summary of Significant Accounting Policies

for the financial year ended 31 December 2016

(K) PROPERTY AND EQUIPMENT

Property and equipment are depreciated on the straight-line basis to allocate the cost, to their residual values over their estimated useful lives summarised as follows:

Renovation	5 years or the period of the lease whichever is greater
Office equipment and furniture	10 years
Computer equipment and software	5 years
Motor vehicles	5 years

Depreciation on capital work in progress commences when the assets are ready for their intended use.

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

At the end of the reporting period, the Bank assesses whether there is any indication of impairment or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. A write-down is made if the carrying amount exceeds the recoverable amount (Note D).

Gains and losses on disposal are determined by comparing proceeds with carrying amount and are recognised within other operating income in the income statement.

(L) OPERATING LEASES

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

Initial direct costs incurred by the Group in negotiating and arranging operating leases are recognised in income statement when incurred.

(M) FOREIGN CURRENCY TRANSLATIONS

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions or valuation where items are remeasured. 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. However, exchange differences are deferred in other comprehensive income when they arose from qualifying cash flow or net investment hedge or are attributable to items that form part of the net investment in a foreign operation.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale 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 the amortised cost are recognised in income statement, and other changes in the carrying amount are recognised in other comprehensive income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit and loss, are reported 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.

(N) DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are initially recognised at fair values on the date on which derivative contracts are entered into and are subsequently remeasured at their fair values at the end of each reporting period. 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 fair value of a derivative at initial recognition is the transaction price (i.e the fair value of the consideration given or received) unless fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

As at reporting date, the Bank has not designated any derivative as hedging instruments.

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

(O) CURRENT AND DEFERRED INCOME TAXES

Current tax

Tax expense for the period comprises current and deferred income tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. 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 also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Bank and jointly controlled entity operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is also 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 taxable profit will be available against which the deductible temporary differences, unused tax losses or unused tax credits can be utilised.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax assets is realised or the deferred tax liability is settled.

Summary of Significant Accounting Policies

for the financial year ended 31 December 2016

(O) CURRENT AND DEFERRED INCOME TAXES

Deferred tax (continued)

Deferred tax liability is recognised for all temporary differences associated with investment in joint venture where the timing of the reversal of the temporary difference can be controlled by the Economic Entity and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the joint venturer is unable to control the reversal of the temporary difference for joint ventures. Only where there is an agreement in place that gives the joint venturer the ability to control the reversal of the temporary difference, a deferred tax liability is not rcognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investment in joint arrangements only to the extent that it is probable the temporary difference will reverse in future and there is sufficient taxable profit available against which the deductible temporary difference can be utilised.

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 net basis.

(P) ZAKAT

The Bank pays zakat based on 2.5775% of the prior year's net asset method, to comply with the principles of Shariah and as approved by the Shariah Committee. The Bank does not pay zakat on behalf of the depositors.

(Q) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand, bank balances and deposits and placements maturing within one month which are held for the purpose of meeting short term commitments and are readily convertible to known amount of cash without significant risk of changes in value.

(R) FORECLOSED PROPERTIES

Foreclosed properties are stated at the lower of their carrying amount and fair value less cost to sell.

(S) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Bank does not recognise contingent assets and liabilities other than those arising from business combination, but disclose its existence in the financial statements. A contingent liability is 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 a contingent asset but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

(T) BILLS AND ACCEPTANCES PAYABLE

Bills and acceptances payable, which are financial liabilities, represent the Bank's own bills and acceptances rediscounted and outstanding in the market (Note I).

(U) PROVISIONS

Provisions are recognised by the Bank when all of the following conditions have been met:

- the Bank has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources to settle the obligation will be required; 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/takaful 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 management's best estimate of the expenditures 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.

(V) EMPLOYEE BENEFITS

Short-term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

Defined contribution plan

The defined contribution plan is a pension plan under which the Bank pays fixed contributions to the National Pension Scheme, the Employees' Provident Fund ('EPF') and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The Bank's contribution to defined contribution plans are charged to the income statement in the period to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Termination benefits

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

Summary of Significant Accounting Policies

for the financial year ended 31 December 2016

(W) 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 banking facilities.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with MFRS 137 'Provisions, contingent liabilities and contingent assets' and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees 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.

Where financial guarantees in relation to payables of subsidiaries are provided by the Bank for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of investment in subsidiaries.

(X) RESTRICTED INVESTMENT ACCOUNTS ('RIA')

These deposits are used to fund specific financing. The RIA is a contract based on Shariah concept of Mudharabah between two parties, i.e. investor and entrepreneur to finance a business venture where the investor provides capital and the business venture is managed solely by the entrepreneur. The profit of the business venture will be shared based on pre-agreed ratios with the Bank as Mudarib (manager or manager of funds), and losses shall be borne solely by capital provider.

(Y) SHARE CAPITAL

Classification

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

Share issue costs

Incremental costs directly attributable to the issue of new shares or options are deducted against share premium account.

Dividend distribution

Liability is recognised for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Bank, on or before the end of the reporting period but not distributed at the end of the reporting period.

Distributions to holders of an equity instrument are recognised directly in equity.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Bank, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures in the determination of basic earnings per share to take into account:

- the after income tax effect of financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Notes to the Financial Statements
for the financial year ended 31 December 2016

1 GENERAL INFORMATION

The Bank, a wholly-owned subsidiary of AFFIN Bank Berhad, was incorporated on 13 September 2005 and commenced operations on 1 April 2006. The net assets of AFFIN Bank's Islamic Division was transferred to AFFIN Islamic Bank on 1 April 2006.

The Bank is principally engaged in all aspects of Islamic banking and finance business and in the provision of related financial services in accordance with the Shariah principles.

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

The holding company of the Bank is AFFIN Bank Berhad. The penultimate holding company is AFFIN Holdings Berhad and ultimate holding corporate body is Lembaga Tabung Angkatan Tentera, a statutory body incorporated under the Tabung Angkatan Tentera Act, 1973.

The Bank is a limited liability company, incorporated and domiciled in Malaysia.

2 CASH AND SHORT-TERM FUNDS

	Economic Entity and The Bank	
	2016 RM'000	2015 RM'000
Cash and bank balances with banks and other financial institutions	**6,807**	7,605
Money at call and interbank placements with remaining maturity not exceeding one month	**1,051,037**	1,910,965
	1,057,844	1,918,570

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Economic Entity and The Bank	
	2016 RM'000	2015 RM'000
Other financial institutions	**-**	35,034
	-	35,034

4 DERIVATIVE FINANCIAL ASSETS

	Economic Entity and The Bank			
	2016		2015	
	Contract/ notional amount RM'000	Assets RM'000	Contract/ notional amount RM'000	Assets RM'000
At fair value				
Foreign exchange derivatives				
- Currency forwards	**939,223**	**8,987**	61,967	132
	939,223	**8,987**	61,967	132

Notes to the Financial Statements
for the financial year ended 31 December 2016

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	Economic Entity and The Bank	
	2016 RM'000	2015 RM'000
At fair value		
Malaysian Government investment issues	**628,785**	613,857
Sukuk Perumahan Kerajaan	**129,431**	187,219
Khazanah Sukuk	**173,287**	165,280
	931,503	966,356
Unquoted securities:		
Shares in Malaysia	**-**	1,075
Corporate bonds/Sukuk in Malaysia	**901,905**	508,492
	1,833,408	1,475,923
Allowance for impairment losses	**-**	(550)
	1,833,408	1,475,373

	2016 RM'000	2015 RM'000
Movement in allowance for impairment losses		
At beginning of the financial year	**550**	550
Writeback of allowance for impairment loss	**(550)**	-
At end of the financial year	**-**	550

6 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	Economic Entity and The Bank	
	2016 RM'000	2015 RM'000
At amortised cost		
Unquoted securities:		
Corporate bonds/Sukuk in Malaysia	**72,122**	76,283
	72,122	76,283

7 FINANCING, ADVANCES AND OTHER FINANCING

(i) By type

	Economic Entity and The Bank	
	2016	**2015**
	RM'000	**RM'000**
Cash line	**278,880**	314,426
Term financing		
- House financing	**2,857,530**	2,096,258
- Hire purchase receivables	**3,181,358**	2,710,393
- Syndicated financing	**582,739**	490,723
- Business term financing	**3,541,779**	2,860,153
Bills receivables	**21,376**	36,637
Trust receipts	**6,938**	12,600
Claims on customers under acceptance credits	**174,623**	123,897
Staff financing (of which RM Nil to Directors)	**13,109**	9,536
Revolving credit	**1,319,609**	622,473
Gross financing, advances and other financing	**11,977,941**	9,277,096
Less:		
Allowance for impairment losses		
- Individual	**(18,003)**	(38,516)
- Collective	**(44,995)**	(36,671)
Total net financing, advances and other financing	**11,914,943**	9,201,909

Included in business term financing as at reporting date is RM53.7 million (2015: RM53.7 million) and RM78.0 million (2015: RM63.9 million) of term financing disbursed by the Bank to joint ventures with AFFIN-i Nadayu Sdn Bhd and KL South Development Sdn Bhd respectively.

(ii) By maturity structure

	Economic Entity and The Bank	
	2016	**2015**
	RM'000	**RM'000**
Maturing within one year	**2,038,888**	1,426,334
One year to three years	**1,009,718**	542,303
Three years to five years	**1,375,861**	927,366
Over five years	**7,553,474**	6,381,093
	11,977,941	9,277,096

Notes to the Financial Statements
for the financial year ended 31 December 2016

7 FINANCING, ADVANCES AND OTHER FINANCING

(iii) By contract

Economic Entity and The Bank

2016 RM'000	Al-Bai Bithaman Ajil	Ijarah	Al-Ijarah Thumma Al-Bai	Murabahah	Musyarakah	Istisna'	Others	Total
Cash line	-	-	-	192,690	-	-	86,189	278,879
Term financing								
House financing	921,406	-	-	1,612	1,934,289	-	-	2,857,307
Hire purchase receivables	-	-	3,181,357	-	-	-	-	3,181,357
Syndicated financing	-	144,898	-	341,769	-	-	96,072	582,739
Business term financing	419,323	789,192	-	1,382,270	258,827	686,279	6,113	3,542,004
Bills receivables	-	-	-	-	-	-	21,376	21,376
Trust receipts	-	-	-	6,938	-	-	-	6,938
Claims on customers under acceptance credits	-	-	-	174,623	-	-	-	174,623
Staff financing	7,546	-	-	5,289	274	-	-	13,109
Revolving credit	-	-	-	1,319,609	-	-	-	1,319,609
Total Financing	1,348,275	934,090	3,181,357	3,424,800	2,193,390	686,279	209,750	11,977,941
2015								
Cash line	-	-	-	237,431	-	-	76,995	314,426
Term financing								
House financing	1,011,560	-	-	-	1,084,698	-	-	2,096,258
Hire purchase receivables	-	-	2,710,393	-	-	-	-	2,710,393
Syndicated financing	-	191,591	-	192,317	-	-	106,815	490,723
Business term financing	470,659	596,813	-	912,308	150,671	724,333	5,369	2,860,153
Bills receivables	-	-	-	-	-	-	36,637	36,637
Trust receipts	-	-	-	12,600	-	-	-	12,600
Claims on customers under acceptance credits	-	-	-	123,897	-	-	-	123,897
Staff financing	8,499	-	-	1,037	-	-	-	9,536
Revolving credit	-	-	-	622,473	-	-	-	622,473
Total Financing	1,490,718	788,404	2,710,393	2,102,063	1,235,369	724,333	225,816	9,277,096

7 FINANCING, ADVANCES AND OTHER FINANCING

(iv) By type of customer

	Economic Entity and The Bank	
	2016	2015
	RM'000	RM'000
Domestic non-banking institutions		
- Others	**209,499**	128,201
Domestic business enterprises		
- Small medium enterprises	**1,774,697**	1,009,214
- Others	**2,517,012**	2,630,241
Government and statutory bodies	**1,381,918**	603,070
Individuals	**5,966,553**	4,731,527
Other domestic entities	**9,690**	25,785
Foreign entities	**118,572**	149,058
	11,977,941	9,277,096

(v) By profit rate sensitivity

	Economic Entity and The Bank	
	2016	2015
	RM'000	RM'000
Fixed rate		
- House financing	**45,937**	52,555
- Hire purchase receivables	**3,181,357**	2,710,393
- Other fixed rate financing	**1,354,586**	1,315,546
Variable rate		
- BFR plus	**5,389,570**	3,786,002
- Cost plus	**2,006,491**	1,412,600
	11,977,941	9,277,096

Notes to the Financial Statements

for the financial year ended 31 December 2016

7 FINANCING, ADVANCES AND OTHER FINANCING

(vi) By economic sectors

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Primary agriculture	**402,119**	278,908
Mining and quarrying	**11,348**	13,037
Manufacturing	**334,745**	225,820
Electricity, gas and water supply	**64,369**	57,371
Construction	**523,091**	554,160
Real estate	**1,455,409**	1,170,597
Wholesale & retail trade and restaurants & hotels	**407,649**	218,502
Transport, storage and communication	**284,216**	206,002
Finance, takaful/insurance and business services	**460,983**	566,877
Education, health & others	**2,031,720**	1,201,117
Household	**6,002,241**	4,761,002
Others	**51**	23,703
	11,977,941	9,277,096

(vii) By economic purpose

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Purchase of securities	**275,516**	2,433
Purchase of transport vehicles	**3,250,531**	2,735,838
Purchase of landed property of which:		
- Residential	**2,943,870**	2,175,552
- Non-residential	**1,112,190**	979,335
Fixed assets other than land and building	**72,421**	76,336
Personal use	**53,593**	36,495
Construction	**895,685**	801,745
Working capital	**3,137,471**	2,336,306
Others	**236,664**	133,056
	11,977,941	9,277,096

7 FINANCING, ADVANCES AND OTHER FINANCING

(viii) By geographical distribution

	Economic Entity and The Bank	
	2016 RM'000	2015 RM'000
Perlis	**147,438**	121,729
Kedah	**661,893**	559,401
Pulau Pinang	**362,260**	231,126
Perak	**442,731**	387,683
Selangor	**3,460,892**	3,078,014
Wilayah Persekutuan	**4,234,116**	2,882,646
Negeri Sembilan	**448,601**	330,752
Melaka	**199,155**	148,843
Johor	**834,371**	445,391
Pahang	**302,330**	293,827
Terengganu	**395,910**	418,636
Kelantan	**153,175**	161,609
Sarawak	**132,131**	69,266
Sabah	**55,896**	28,552
Labuan	**63,974**	56
Outside Malaysia	**83,068**	119,565
	11,977,941	9,277,096

8 IMPAIRED FINANCING

(i) Movements of impaired financing

	Economic Entity and The Bank	
	2016 RM'000	2015 RM'000
At beginning of the financial year	**141,708**	129,157
Classified as impaired	**164,338**	108,375
Reclassified as non-impaired	**(111,590)**	(67,897)
Amount recovered	**(87,213)**	(18,862)
Amount written-off	**(9,745)**	(9,065)
At end of the financial year	**97,498**	141,708
Ratio of gross impaired financing, advances and other financing to gross financing, advances and other financing	**0.81%**	1.53%

8 IMPAIRED FINANCING

(i) Movements of impaired financing (continued)

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Gross financing, advances and other financing	**11,977,941**	9,277,096
Restricted investment accounts financing	**(2,112,243)**	(1,316,026)
	9,865,698	7,961,070
Less:		
- Individual impairment allowance	**(18,003)**	(38,516)
- Collective impairment allowance on impaired financing	**(16,454)**	(12,921)
Total net financing, advances and other financing	**9,831,241**	7,909,633
Net impaired financing, advances and other financing as a percentage of net financing, advances and other financing	**0.64%**	1.14%

(ii) Movements in allowance for impairment on financing

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Individual impairment		
At beginning of the financial year	**38,516**	31,519
Allowance made during the financial year	**19,340**	3,559
Amount recovered	**(35,863)**	(47)
Amount written-off	**(4,149)**	(2,383)
Unwinding of income	**(198)**	(628)
Exchange differences	**357**	6,496
At end of the financial year	**18,003**	38,516
Collective impairment		
At beginning of the financial year	**36,671**	37,393
Net allowance made during the financial year	**13,897**	5,959
Amount written-off	**(5,573)**	(6,681)
At end of the financial year	**44,995**	36,671
As a percentage of gross financing, advances and other financing (excluding RIA financing) less individual assesment allowance	**0.46%**	0.46%

8 IMPAIRED FINANCING

(iii) Impaired financing by economic sectors

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Primary agriculture	**43**	-
Mining and quarrying	**57**	-
Manufacturing	**1,028**	348
Electricity, gas and water supply	**111**	-
Construction	**5,081**	388
Real estate	**33,635**	85,867
Wholesale & retail trade and restaurants & hotels	**589**	1,900
Transport, storage and communication	**307**	301
Finance, takaful/insurance and business services	**492**	111
Education, health & others	**162**	142
Household	**55,993**	52,651
	97,498	141,708

(iv) Impaired financing by economic purpose

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Purchase of transport vehicles	**16,330**	12,626
Purchase of landed property of which:		
- Residential	**41,395**	39,463
- Non-residential	**6,153**	1,376
Fixed assets other than land and building	**227**	-
Personal use	**825**	495
Construction	**-**	85,867
Working capital	**32,568**	1,881
	97,498	141,708

8 IMPAIRED FINANCING

(v) Impaired financing by geographical distribution

	Economic Entity and The Bank	
	2016 RM'000	2015 RM'000
Perlis	**4,801**	41
Kedah	**3,016**	1,008
Pulau Pinang	**2,105**	1,525
Perak	**4,326**	3,922
Selangor	**30,969**	28,622
Wilayah Persekutuan	**2,670**	5,930
Negeri Sembilan	**4,849**	2,719
Melaka	**938**	482
Johor	**1,517**	2,078
Pahang	**1,694**	1,345
Terengganu	**5,016**	3,918
Kelantan	**3,643**	3,633
Sarawak	**198**	252
Sabah	**172**	366
Outside Malaysia	**31,584**	85,867
	97,498	141,708

9 OTHER ASSETS

	Economic Entity and The Bank	
	2016 RM'000	2015 RM'000
Other debtors, deposits and prepayments	**2,494**	3,062
Cheque clearing accounts	**2,962**	302
Foreclosed properties (a)	**2,445**	395
	7,901	3,759

	Economic Entity and The Bank	
	2016 RM'000	2015 RM'000
(a) Foreclosed properties		
At beginning of the financial year	**395**	395
Amount arising during the financial year	**2,050**	-
At end of the financial year	**2,445**	395

10 AMOUNT DUE FROM HOLDING COMPANY

	Economic Entity and The Bank	
	2016	2015
	RM'000	RM'000
Advances to holding company	-	367,172

The advances to holding company are unsecured, bear no profit rate (2015:0%) and payable on demand.

11 AMOUNT DUE FROM JOINT VENTURES

	Economic Entity and The Bank	
	2016	2015
	RM'000	RM'000
Advances to joint ventures	**46,725**	39,936

The advances to joint ventures are unsecured, bear profit rate of 7.60% (2015: 7.85%) and payable on demand.

12 AMOUNT DUE FROM ASSOCIATE

	Economic Entity and The Bank	
	2016	2015
	RM'000	RM'000
Advances to associate	**500**	-

The advances to associate are unsecured, bear profit rate of 0% and payable on demand.

13 DEFERRED TAX ASSETS

Deferred 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 tax authority. The following amounts determined after appropriate offsetting, are shown in the statement of financial position:

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Deferred tax assets	**8,056**	3,598
Deferred tax assets:		
- settled more than 12 months	**(20)**	-
- settled within 12 months	**8,076**	3,967
Deferred tax liabilities:		
- settled more than 12 months	**-**	(206)
- settled within 12 months	**-**	(163)
Deferred tax assets	**8,056**	3,598
At beginning of the financial year	**3,598**	2,900
Credited to income statements (Note 34)	**1,251**	56
Credited to equity	**3,207**	642
At end of the financial year	**8,056**	3,598

The movement in deferred tax assets and liabilities during the financial year are as follow:

Economic Entity and The Bank 2016	**Property and equipment**	**Intangible assets**	**Provision for other liabilities**	**Financial instrument AFS**	**Total**
At beginning of the financial year	**(267)**	**(102)**	**1,470**	**2,497**	**3,598**
Credited to income statements	**15**	**102**	**1,134**	**-**	**1,251**
Credited to equity	**-**	**-**	**-**	**3,207**	**3,207**
At end of the financial year	**(252)**	**-**	**2,604**	**5,704**	**8,056**

Economic Entity and The Bank 2015	Property and equipment	Intangible assets	Provision for other liabilities	Financial instrument AFS	Total
At beginning of the financial year	(311)	(214)	1,570	1,855	2,900
Credited/(charged) to income statements	44	112	(100)	-	56
Charged to equity	-	-	-	642	642
At end of the financial year	(267)	(102)	1,470	2,497	3,598

14 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act 2009, the amounts of which are determined at set percentages of total eligible liabilities.

15 INVESTMENT IN JOINT VENTURES

	Economic Entity		The Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Unquoted shares at cost	**650**	650	**650**	650
Economic Entity's share of post acquisition retained losses	**(650)**	(650)	**-**	-
	-	-	**650**	650

	2016 RM'000	2015 RM'000
The summarised financial information of joint ventures are as follows:		
Revenue	**60,158**	14,268
Loss after tax	**(3,777)**	(268)
Total assets	**286,991**	269,037
Total liabilities	**297,038**	275,307

	AFFIN-i		KLSD	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Net assets				
At beginning of the financial year	**(4,155)**	(2,714)	**(3,559)**	(4,732)
(Loss)/profit for the financial year	**(328)**	(1,441)	**(3,449)**	1,173
At end of the financial year	**(4,483)**	(4,155)	**(7,008)**	(3,559)
Issued and paid up share capital	**1,000**	1000	**500**	500
Investment in joint venture (%)	**50**	50	**30**	30
Loss in joint venture (RM'000)	**(2,242)**	(2,078)	**(2,102)**	(1,068)

Both the joint ventures' principal activities are property development.

As the Bank's share of cumulative losses of RM3.7 million (2015: RM2.5 million) as at 31 December 2016 has exceeded its investment in the joint ventures, the Bank does not recognise further losses in its Economic Entity financial statements.

AFFIN-i Nadayu Sdn Bhd ('AFFIN-i')

On 1 April 2008, the Bank and Jurus Positif Sdn Bhd, a subsidiary of Nadayu Properties Berhad, entered into a Musharakah Joint Venture Agreement under the Shariah principles ('Musharakah Agreement') to joint develop a land into a housing scheme at Bukit Gambir, Pulau Pinang.

The Musharakah Agreement also includes an arrangement whereby Jurus Positif Sdn Bhd may acquire the Bank's shares upon the completion of the project at a mutually agreed price, unless both shareholders decide to continue the joint venture for subsequent projects.

Notes to the Financial Statements
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15 INVESTMENT IN JOINT VENTURES

AFFIN-i Nadayu Sdn Bhd ('AFFIN-i') (continued)

Major strategic operation and financial decisions relating to the activities of AFFIN-i Nadayu Sdn Bhd requires unanimous consent by both joint venture parties. The Economic Entity's interest in AFFIN-i Nadayu Sdn Bhd has been treated as investment in joint venture, which has been accounted for in the Economic Entity's financial statements using the equity method of accounting.

KL South Development Sdn Bhd ('KLSD')

On 2 January 2013, the Bank entered into a Musharakah Joint Venture Agreement ('Musharakah Agreement') with Albatha Bukit Kiara Holdings Sdn Bhd ('Albatha'), a subsidiary of Bukit Kiara Capital Sdn Bhd, to joint develop a property project namely "VERVE Suites KL South" at Jalan Klang Lama, Kuala Lumpur.

Pursuant to the Musharakah Agreement, the Bank acquired 30% stake in the joint venture company namely KL South Development Sdn Bhd ('KL South') by way of subscription of 150,000 shares of RM1.00 each in KL South at par. The remaining stake of 70% in KL South is held by Albatha.

Under the Musharakah structure, the Bank would be the sole banker to KL South, providing financing using the Islamic concept such as Ijarah for the purchase of building and Istisna' for the bridging financing.

Major strategic operation and financial decisions relating to the activities of KL South requires consent by both joint venture parties. The Bank's interest in KL South has been treated as investment in joint venture, which has been accounted for in the consolidated financial statements using the equity method of accounting.

Block B was launched on 1st July 2013 and its construction was completed with Certificate of Completion and Compliance (CCC) duly issued on 30th August 2016. Construction of Block A shall complete by April 2017.

16 INVESTMENT IN ASSOCIATE

Raeed Holdings Sdn Bhd

Raeed Holdings Sdn Bhd ('Raeed') is a consortium formed by six Islamic banking institutions in Malaysia namely Affin Islamic Bank Berhad, Bank Islam Malaysia Berhad, Bank Muamalat Malaysia Berhad, Maybank Islamic Berhad, Bank Kerjasama Rakyat Malaysia and Bank Simpanan Nasional. Raeed has set up a wholly-owned subsidiary, IAP Integrated Sdn Bhd to develop and operate a multi-bank platform known as the Investment Account Platform ('IAP').

IAP Integrated started its business in 2015 as an internet based multibank investment portal. The portal will facilitate efficient intermediation by the Sponsoring Banks to match financing requirement of ventures with investment from retail and institutional investors via Investment Account (IA). IAP Integrated aims to be the leading multibank platform for Shariah compliant capital mobilisation, supported by a conducive ecosystem.

	Economic Entity and The Bank	
	2016	**2015**
	RM'000	**RM'000**
Unquoted share at cost	**750**	-
The summarised financial information of associate is as follows:		
Revenue	**-**	-
Loss after tax	**(1,754)**	-
Total assets	**8,632**	-
Total liabilities	**6,431**	-

As the Bank's share of cumulative losses of RM0.4 million as at 31 December 2016 its interest in the associate, the Bank does not recognise losses in its current financial statements.

17 PROPERTY AND EQUIPMENT

Economic Entity and The Bank 2016	Renovation RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
Cost					
At beginning of the financial year	**3,511**	**2,343**	**2,482**	**496**	**8,832**
Additions	**32**	**41**	**481**	**-**	**554**
Write-off	**(5)**	**(6)**	**-**	**-**	**(11)**
Reclassification from/(to) holding company	**2**	**4**	**(163)**	**-**	**(157)**
At end of the financial year	**3,540**	**2,382**	**2,800**	**496**	**9,218**
Accumulated depreciation					
At beginning of the financial year	**2,793**	**1,262**	**1,916**	**248**	**6,219**
Charge for the financial year	**328**	**234**	**322**	**99**	**983**
Write-off	**(5)**	**(4)**	**-**	**-**	**(9)**
Reclassification from/(to) holding company	**-**	**7**	**(329)**	**-**	**(322)**
At end of the financial year	**3,116**	**1,499**	**1,909**	**347**	**6,871**
Net book value at end of the financial year	**424**	**883**	**891**	**149**	**2,347**
2015					
Cost					
At beginning of the financial year	3,429	2,334	2,362	496	8,621
Additions	87	22	299	-	408
Write-off	(5)	(14)	-	-	(19)
Reclassification	-	1	(179)	-	(178)
At end of the financial year	3,511	2,343	2,482	496	8,832
Accumulated depreciation					
At beginning of the financial year	2,380	1,037	1,794	149	5,360
Charge for the financial year	418	231	285	99	1,033
Write-off	(5)	(6)	-	-	(11)
Reclassification	-	-	(163)	-	(163)
At end of the financial year	2,793	1,262	1,916	248	6,219
Net book value at end of the financial year	718	1,081	566	248	2,613

Notes to the Financial Statements

for the financial year ended 31 December 2016

18 INTANGIBLE ASSETS

Computer software	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Cost		
At beginning/end of the financial year	**6,402**	6,402
Less: Accumulated amortisation		
At beginning of the financial year	**5,976**	5,511
Charge for the financial year	**426**	465
At end of the financial year	**6,402**	5,976
Net book value at end of the financial year	**-**	426

19 DEPOSITS FROM CUSTOMERS

(i) By type of deposit

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Non-Mudharabah		
Demand deposits	**2,572,559**	2,435,998
Savings deposits	**477,284**	412,394
Murabahah term deposits	**6,606,396**	6,413,389
Commodity Murabahah	**768,412**	630,118
Mudharabah		
General investment deposits	**104,047**	109,796
	10,528,698	10,001,695

19 DEPOSITS FROM CUSTOMERS

(ii) Maturity structure of Murabahah term deposits, general investment deposits and NIDC

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Due within six months	**4,729,087**	4,781,599
Six months to one year	**1,793,301**	1,630,224
One year to three years	**31,431**	111,216
Three years to five years	**156,624**	146
	6,710,443	6,523,185

(iii) By type of customer

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Government and statutory bodies	**3,204,538**	2,945,481
Business enterprises	**4,318,973**	4,004,165
Individuals	**1,320,223**	1,278,221
Domestic banking institutions	**117**	814
Domestic non-banking financial institutions	**1,280,170**	1,313,150
Foreign entities	**73,693**	64,584
Others entities	**330,984**	395,280
	10,528,698	10,001,695

20 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Wadiah		
Licensed banks	**84,392**	84,001
	84,392	84,001
Tawarruq		
Licensed banks	**801,436**	552,216
Other financial institution	**363,165**	405,175
	1,164,601	957,391
	1,248,993	1,041,392
Maturity structure of deposits		
Due within six months	**1,201,454**	1,041,392
Six months to one year	**47,539**	-
	1,248,993	1,041,392

21 INVESTMENT ACCOUNTS DUE TO DESIGNATED FINANCIAL INSTITUTIONS

	Economic Entity and The Bank	
	2016 RM'000	2015 RM'000
Mudharabah		
Licensed banks	**2,110,049**	1,331,318

	Economic Entity and The Bank	
	2016 RM'000	2015 RM'000
Movement in investment accounts		
At beginning of the financial year	**1,331,318**	-
Amount transferred from RPSIA	**-**	695,588
New placement during the year	**800,000**	1,630,000
Redemption during the year	**(10,606)**	(1,012,803)
Finance expense on RIA	**89,272**	33,414
Profit distributed	**(99,935)**	(14,881)
At end of the financial year	**2,110,049**	1,331,318

Profit Sharing Ratio and Rate of Return

	Economic Entity and The Bank			
	2016		2015	
	Average profit sharing ratio (PSR) %	Average rate of return (ROR) %	Average profit sharing ratio (PSR) %	Average rate of return (ROR) %
Investment accounts:				
Due within:				
Six months to one year	**96**	**4.76**	98	4.87
One year to three years	**95**	**5.07**	96	4.68
Three years to five years	**-**	**-**	93	6.37
Five years and above	**95**	**5.02**	96	4.81

The above table provides analysis of PSR & ROR as at reporting date into relevant maturity tenures based on remaining contractual maturities.

Inclusive of RIA placed by the holding company amounting to RM2,110.0 million. These investments are used to fund certain specific financing. The RIA is a contract based on the Mudharabah principle between two parties to finance a financing where the investor (i.e.'AFFIN BANK') solely provides capital and the business venture is managed solely by the enterpreneur (i.e. 'AFFIN Islamic'). The profit of the business venture is shared between both parties based on pre-agreed ratio. Losses shall be borned by the investor.

22 DERIVATIVE FINANCIAL LIABILITIES

	Economic Entity and The Bank			
	2016		2015	
	Contract/ notional amount RM'000	Liabilities RM'000	Contract/ notional amount RM'000	Liabilities RM'000
At fair value				
Foreign exchange derivatives				
- Currency forwards	**110,639**	**1,412**	160,810	1,035
	110,639	**1,412**	160,810	1,035

23 OTHER LIABILITIES

	Economic Entity and The Bank	
	2016 RM'000	2015 RM'000
Margin and collateral deposits	**8,413**	13,000
Other creditors and accruals	**3,449**	3,872
Cheque clearing accounts	**-**	13,621
Sundry creditors	**18,729**	8,292
Provision for zakat	**2,332**	2,307
Defined contribution plan (a)	**1,057**	1,143
Accrued employee benefits	**2,261**	1,521
Charity funds (b)	**90**	363
	36,331	44,119

(a) Defined contribution plan

The Bank contributes to the Employee Provident Fund ('EPF'), the national defined contribution plan. Once the contributions have been paid, the Bank has no further payment obligations.

23 OTHER LIABILITIES

(b) Charity funds

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Sources and uses of charity funds		
At beginning of the financial year	**363**	3
Sources of charity funds		
- Non-Islamic/prohibited income	**-**	360
Uses of charity funds		
- Contribution to medical aid	**(55)**	-
- Contribution to non profit organisation	**(40)**	-
- Contribution to program/event	**(50)**	-
- Contribution to public usage	**(128)**	-
	(273)	-
At end of the financial year	**(90)**	363

The source of charity fund comes from purification of fees income earned from use of debit card at certain merchants as well as Shariah non-compliant events that involve mixed of Shariah compliant and non-Shariah compliant products and services. The charity fund was channeled to a number of charitable or public purposes for example centre of disabled children, association for less fortunate ex-government servants and module development for Islamic financial learning program.

The Bank does not charge gharamah for its financing facilities.

24 AMOUNT DUE TO HOLDING COMPANY

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Advances from holding company	**196,828**	-
	196,828	-

The advances from holding company are unsecured, bear no profit (2015: 0%) and repayable on demand.

25 SHARE CAPITAL

Authorised	Number of ordinary shares of RM 1 each 2016 '000	2015 '000	Economic Entity and The Bank 2016 RM '000	2015 RM '000
At beginning/end of the financial year	**1,000,000**	1,000,000	**1,000,000**	1,000,000
Issued and fully paid				
At beginning/end of the financial year	**460,000**	360,000	**460,000**	360,000
Issued during the financial year	**100,000**	100,000	**100,000**	100,000
At end of the financial year	**560,000**	460,000	**560,000**	460,000

26 RESERVES

	Economic Entity 2016 RM'000	2015 RM'000	The Bank 2016 RM'000	2015 RM'000
Retained profits	**237,127**	195,606	**237,777**	196,256
AFS revaluation reserves	**(18,064)**	(7,908)	**(18,064)**	(7,908)
Statutory reserves	**305,016**	248,717	**305,016**	248,717
Regulatory reserves	**73,178**	58,400	**73,178**	58,400
	597,257	494,815	**597,907**	495,465

(a) As at 31 December 2016, the Bank has tax exempt account balance of RM34,165,467 (2015: RM15,253,964) under Section 12 of the Income Tax (Amendment) Act 1999, subject to agreement by the Inland Revenue Board.

(b) The statutory reserves of the Bank are maintained in compliance with Section 57(2)(f) of the Islamic Financial Services Act 2013 and is not distributable as cash dividends.

(c) AFS revaluation reserves represent the unrealised gains or losses arising from the change in fair value of investments classified as financial investment available-for-sale. The gains or losses are transferred to the income statement upon disposal or when the securities become impaired. The depositors' portion of net unrealised gains or losses on 'Available-for-sale' at the end of financial year is net unrealised losses of RM28,835,477.82 (2015: net unrealised losses of RM9,711,083).

(d) The Bank is required to maintain in aggregate collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding financing, advances and other financing, net of individual impairment allowances.

27 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Income derived from investment of:		
- General investment deposits (a)	**290,695**	279,553
- Other deposits (b)	**272,668**	210,376
	563,363	489,929

27 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

(a) Income derived from investment of general investment deposits

	Economic Entity and The Bank 2016 RM'000	Economic Entity and The Bank 2015 RM'000
Finance income and hibah		
Financing, advances and other financing	**221,444**	195,397
Financial investments available-for-sale	**23,166**	23,247
Financial investments held-to-maturity	**2,105**	2,624
Money at call and deposits with financial institutions	**23,064**	38,441
	269,779	259,709
Accretion of discount less amortisation of premium	**2,069**	3,601
Total finance income and hibah	**271,848**	263,310
Other operating income		
Fee income:		
Commission	**810**	896
Service charges and fees	**3,392**	2,554
Guarantee fees	**1,235**	1,008
	5,437	4,458
Income from financial instruments:		
Gain on sale of financial investments available-for-sale	**3,814**	1,046
	3,814	1,046
Other income:		
Foreign exchange profit		
- realised	**3,690**	9,585
- unrealised	**3,451**	(413)
Other non-operating income	**2,455**	1,567
	9,596	10,739
Total income derived from investment of general investment deposits	**290,695**	279,553

27 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

(b) Income derived from investment of other deposits

	Economic Entity and The Bank	
	2016	2015
	RM'000	RM'000
Finance income and hibah		
Financing, advances and other financing	**207,711**	147,044
Financial investments available-for-sale	**21,729**	17,494
Financial investments held-to-maturity	**1,975**	1,975
Money at call and deposits with financial institution	**21,634**	28,929
	253,049	195,442
Accretion of discount less amortisation of premium	**1,940**	2,710
Total finance income and hibah	**254,989**	198,152
Other operating income		
Fee income:		
Commission	**759**	675
Service charges and fees	**3,182**	1,922
Guarantee fees	**1,159**	759
	5,100	3,356
Income from financial instruments:		
Gain on sale of financial investments available-for-sale	**3,578**	787
	3,578	787
Other income:		
Foreign exchange profit		
- realised	**3,461**	7,213
- unrealised	**3,237**	(311)
Other non-operating income	**2,303**	1,179
	9,001	8,081
Total income derived from investment of other deposits	**272,668**	210,376

Notes to the Financial Statements
for the financial year ended 31 December 2016

28 INCOME DERIVED FROM INVESTMENT OF INVESTMENT ACCOUNTS

	Economic Entity and The Bank	
	2016 RM'000	2015 RM'000
Finance income and hibah		
Financing, advances and other financing	75,906	46,556
Financial investments available-for-sale	7,941	5,539
Financial investments held-to-maturity	721	625
Money at call and deposits with other financial institutions	7,906	9,159
	92,474	61,879
Accretion of discount less amortisation of premium	709	858
Total finance income and hibah	93,183	62,737
Other operating income		
Fee income:		
Commission	278	214
Service charges and fees	1,163	609
Guarantee fees	423	240
	1,864	1,063
Income from financial instruments:		
Gain on sale of financial investments available-for-sale	1,307	249
	1,307	249
Other income:		
Foreign exchange profit		
- realised	1,265	2,284
- unrealised	1,183	(98)
Other non-operating income	842	373
	3,290	2,559
Total income derived from investment of investment accounts	99,644	66,608

29 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	Economic Entity and The Bank	
	2016	2015
	RM'000	RM'000
Finance income and hibah		
Financing, advances and other financing	**39,069**	27,800
Financial investments available-for-sale	**4,087**	3,308
Financial investments held-to-maturity	**371**	373
Money at call and deposits with financial institutions	**4,069**	5,469
	47,596	36,950
Accretion of discount less amortisation of premium	**365**	512
Total finance income and hibah	**47,961**	37,462
Other operating income		
Fee income:		
Commission	**143**	128
Service charges and fees	**598**	363
Guarantee fees	**218**	143
	959	634
Income from financial instruments:		
Gain on sale of financial investments available-for-sale	**673**	149
	673	149
Other income:		
Foreign exchange profit		
- realised	**651**	1,364
- unrealised	**609**	(59)
Other non-operating income	**433**	223
	1,693	1,528
Total income derived from investment of shareholders' funds	**51,286**	39,773

Notes to the Financial Statements
for the financial year ended 31 December 2016

30 ALLOWANCES FOR IMPAIRMENT LOSSES ON FINANCING, ADVANCES AND OTHER FINANCING

	Economic Entity and The Bank	
	2016	2015
	RM'000	RM'000
Individual impairment		
- made during the financial year	**19,340**	3,559
- written-back	**(35,863)**	(47)
Collective impairment		
- net allowance made during the financial year	**13,897**	5,959
Bad debts on financing:		
- recovered	**(1,156)**	(966)
- written-off	**21**	7
	(3,761)	8,512

31 INCOME ATTRIBUTABLE TO THE DEPOSITORS

	Economic Entity and The Bank	
	2016	2015
	RM'000	RM'000
Deposits from customers		
- mudharabah	**3,032**	4,252
- non-mudharabah	**283,536**	262,684
Deposits and placement of banks and other financial institutions		
- mudharabah	**63,103**	42,374
Profit distributed to Restricted Profit Sharing Investment Account ('RIA') account holders	**89,272**	13,293
Profit distributed to investment account holders	**-**	33,414
	438,943	356,017

32 OTHER OPERATING EXPENSES

	Economic Entity and The Bank	
	2016	2015
	RM'000	RM'000
Personnel costs (a)	**81,301**	71,067
Establishment costs (b)	**35,639**	31,073
Marketing expenses (c)	**2,433**	2,287
Administrative and general expenses (d)	**13,449**	9,979
	132,822	114,406

32 OTHER OPERATING EXPENSES

(a) Personnel costs

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Wages, salaries and bonuses	**61,860**	54,457
Defined contribution plan ('EPF')	**10,391**	9,117
Other personnel costs	**9,050**	7,493
	81,301	71,067

(b) Establishment costs

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Rental of premises	**5,214**	4,604
Equipment rental	**71**	87
Repair and maintenance	**7,020**	5,503
Depreciation of property and equipment	**983**	1,033
Amortisation of intangible assets	**426**	465
IT consultancy fees	**10,171**	8,953
Dataline rental	**1,141**	949
Security services	**3,797**	3,151
Electricity, water and sewerage	**1,774**	1,578
Licence fees	**350**	366
Insurance/takaful and indemnities	**783**	1,459
Other establishment costst	**3,909**	2,925
	35,639	31,073

(c) Marketing expenses

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Business promotion and advertisement	**788**	769
Entertainment	**319**	285
Traveling and accommodation	**827**	773
Other marketing expenses	**499**	460
	2,433	2,287

32 OTHER OPERATING EXPENSES

(d) Administration and general expenses

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Telecommunication expenses	**958**	846
Auditors' remuneration	**415**	251
Professional fees	**1,179**	1,052
Property and equipment written-off	**3**	8
Mail and courier charges	**699**	502
Stationery and consumables	**2,534**	2,294
Commissions expenses	**1,047**	537
Brokerage expenses	**1,150**	1,205
Directors' fees and allowances	**1,694**	1,263
Donations	**562**	113
Settlement, clearing and bank charges	**1,007**	813
Operational and litigation write-off expenses	**261**	20
GST Input tax-non recoverable	**1,827**	1,030
Other administration and general expenses	**113**	45
	13,449	9,979

The expenditure includes the following statutory disclosures:

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Directors' remuneration (Note 33)	**2,654**	2,676
Auditors' remuneration		
- statutory audit fees	**235**	158
- over provision prior year	**(13)**	(12)
- regulatory related fees	**153**	146
- tax fees (inclusive of under/(over)provision in prior years)	**40**	(41)

33 CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION

The CEO and Directors of the Bank who have held office during the period since the date of the last report are:

CEO

Nazlee Bin Khalifah

Non-Executive Directors

Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara) (Chairman)
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin
(Completion of directorship on 4 October 2016)
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)
Tan Sri Dato' Seri Mohamed Jawhar Bin Hassan
En. Mohd Suffian Bin Haji Haron
Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman
Associate Professor Dr. Said Bouheraoua
Pn. Rosnah Binti Omar
(Appointed on 19 December 2016)

The aggregate amount of remuneration for the CEOs, Directors and Shariah Committee members of the Bank for the financial year are as follows:

	Economic Entity and The Bank	
	2016 RM'000	**2015 RM'000**
CEO		
Salaries	**438**	421
Bonuses	**250**	709
Defined contribution plan ('EPF')	**125**	191
Other employee benefits	**117**	79
Benefits-in-kind	**30**	13
Non-executive Directors		
Fees	**1,614**	1,176
Benefits-in-kind	**-**	4
Shariah Committee fees		
Shariah fees	**80**	83
Directors' remuneration (Note 32)	**2,654**	2,676

33 CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION

A summary of the total remuneration of the CEO and Directors, distinguishing between Executive and Non-Executive Directors.

Economic Entity and The Bank 2016	**Salaries RM'000**	**Bonuses RM'000**	**Directors' Fees RM'000**	*** Other emoluments RM'000**	**Benefits-in-kind RM'000**	**Shariah fees RM'000**	**Total RM'000**
CEO							
Nazlee Bin Khalifah	**438**	**250**	**-**	**242**	**30**	**-**	**960**
Total	**438**	**250**	**-**	**242**	**30**	**-**	**960**
Non-executive Directors							
Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara)	**-**	**-**	**220**	**-**	**-**	**-**	**220**
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin	**-**	**-**	**170**	**-**	**-**	**-**	**170**
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)	**-**	**-**	**262**	**-**	**-**	**-**	**262**
Tan Sri Dato' Seri Mohamed Jawhar	**-**	**-**	**212**	**-**	**-**	**-**	**212**
En. Mohd Suffian Bin Haji Haron	**-**	**-**	**199**	**-**	**-**	**-**	**199**
Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman	**-**	**-**	**309**	**-**	**-**		**309**
Associate Professor Dr. Said Bouheraoua	**-**	**-**	**231**	**-**	**-**	**80**	**311**
Puan Rosnah bt Umar	**-**	**-**	**11**	**-**	**-**	**-**	**11**
Total	**-**	**-**	**1,614**	**-**	**-**	**80**	**1,694**
Grand total	**438**	**250**	**1,614**	**242**	**30**	**80**	**2,654**

Economic Entity and The Bank 2015	Salaries RM'000	Bonuses RM'000	Directors' Fees RM'000	* Other emoluments RM'000	Benefits-in-kind RM'000	Shariah fees RM'000	Total RM'000
CEO							
Kamarul Ariffin Bin Mohd Jamil	165	673	-	146	10	-	994
Nazlee Bin Khalifah	256	36	-	124	3	-	419
Total	421	709	-	270	13	-	1,413
Non-executive Directors							
Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara)	-	-	152	-	-	-	152
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin	-	-	157	-	-	-	157
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)	-	-	187	-	2	-	189
Tan Sri Dato' Seri Mohamed Jawhar	-	-	160	-	-	-	160
En. Mohd Suffian Bin Haji Haron	-	-	143	-	-	-	143
Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman	-	-	215	-	2		217
Associate Professor Dr. Said Bouheraoua	-	-	162	-	-	83	245
Total	-	-	1,176	-	4	83	1,263
Grand total	421	709	1,176	270	17	83	2,676

* Executive Director's other emoluments include allowance and EPF

34 TAXATION

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Malaysian income tax		
Current tax	**31,848**	28,364
Under provision in prior year	**207**	503
Deferred tax (Note 13)	**(1,251)**	(56)
	30,804	28,811

Numerical reconciliation between the average effective tax rate and the Malaysian tax rate:

	%	%
Malaysian tax rate	**24.00**	25.00
Tax effect of:		
Non-allowable expenses	**0.18**	0.11
Non taxable income	**(0.16)**	(0.35)
Tax savings arising from income exempt from tax for International Currency Business Unit (ICBU)	**(3.10)**	(0.41)
Other temporary differences not recognised in prior years	**-**	(0.23)
Under provision in prior years	**0.14**	0.43
Average effective tax rate	**21.06**	24.55

35 EARNINGS PER SHARE

The basic earnings per ordinary share for the Economic Entity and the Bank have been calculated based on the net profit attributable to ordinary equity holders of the Economic Entity and the Bank of RM112,597,999 (2015: RM84,785,000). The weighted average number of shares in issue during the financial year of 460,546,448 (2015: 360,548,000) is used for the computation.

36 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

Related parties	Relationships
Lembaga Tabung Angkatan Tentera ('LTAT')	Ultimate holding corporate body, which is Government-Link Investment Company ('GLIC') of the Government of Malaysia
AFFIN Holdings Berhad ('AHB')	Penultimate holding company
AFFIN Bank Berhad ('ABB')	Holding company
Subsidiaries and associates of LTAT	Subsidiary and associate companies of the ultimate holding corporate body
Subsidiaries and associates of AHB as disclosed in its financial statements	Subsidiary and associate companies of the penultimate holding company
Subsidiaries of ABB as disclosed in its financial statements	Subsidiary companies of the holding company
Joint ventures as disclosed in Note 11	Joint ventures with AFFIN Islamic Bank Berhad
Associate as disclosed in Note 12	Associate of AFFIN Islamic Bank Berhad
Voting shares in body corporate not less than 15% of votes	Other related companies
Key management personnel	The key management personnel of the Bank consist of: - Directors - Chief Executive Officer - Member of Senior Management team
Related parties of key management personnel (deemed as related to the Bank)	- Close family members and dependents of key management personnel - Entities that are controlled, jointly controlled or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly.

The Bank do not have any individually or collectively significant transactions outside the ordinary course of business with the Government of Malaysia and government related entities. In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances.

36 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related parties transactions and balances

Economic Entity and The Bank	Ultimate holding corporate body 2016 RM'000	Ultimate holding corporate body 2015 RM'000	Penultimate holding company 2016 RM'000	Penultimate holding company 2015 RM'000	Holding company 2016 RM'000	Holding company 2015 RM'000
Expenditure						
Profit paid on Commodity Murabahah	**231**	-	**-**	-	**-**	-
Profit paid on deposits and placements of banks and other financial institutions	**-**	-	**-**	-	**1,484**	1,256
Profit paid on Restricted Investment Account (RIA)	**-**	-	**-**	-	**89,272**	47,846
Other expenditure	**-**	-	**-**	-	**87,365**	73,305
	231	-	**-**	-	**178,121**	122,407

Economic Entity and The Bank	Other related companies 2016 RM'000	Other related companies 2015 RM'000	Companies in which certain Directors have substantial interest 2016 RM'000	Companies in which certain Directors have substantial interest 2015 RM'000	Key management personnel 2016 RM'000	Key management personnel 2015 RM'000
Income						
Income on financing, advances and other financing	**9,104**	6,589	**5,564**	-	**24**	16
	9,104	6,589	**5,564**	-	**24**	16
Expenditure						
Profit paid on Murabahah term deposits	**4,496**	5,377	**53**	-	**157**	115
Profit paid on general investment deposits	**8**	8	**-**	-	**-**	-
Profit paid on Commodity Murabahah	**1,727**	3,485	**-**	-	**-**	-
Other expenditure	**57**	104	**-**	-	**-**	-
	6,288	8,974	**53**	-	**157**	115

36 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related parties transactions and balances (continued)

Economic Entity and The Bank	Ultimate holding corporate body 2016 RM'000	Ultimate holding corporate body 2015 RM'000	Penultimate holding company 2016 RM'000	Penultimate holding company 2015 RM'000	Holding company 2016 RM'000	Holding company 2015 RM'000
Amount due from						
Intercompany balances	**-**	-	**-**	-	**-**	367,172
	-	-	**-**	-	**-**	367,172
Amount due to						
Demand and saving deposits	**4,496**	1,172	**-**	-	**-**	-
Commodity Murabahah	**7,507**	-	**-**	-	**-**	-
Deposits and placements of banks and other financial institutions	**-**	-	**-**	-	**285,026**	84,001
Restricted Investment Account (RIA)	**-**	-	**-**	-	**2,110,079**	1,331,318
Intercompany balances	**-**	-	**-**	-	**196,828**	-
	12,003	1,172	**-**	-	**2,591,933**	1,415,319
Commitment and contigencies	**-**	-	**-**	-	**-**	-

36 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related parties transactions and balances (continued)

Economic Entity and The Bank	Other related companies 2016 RM'000	Other related companies 2015 RM'000	Companies in which certain Directors have substantial interest 2016 RM'000	Companies in which certain Directors have substantial interest 2015 RM'000	Key management personnel 2016 RM'000	Key management personnel 2015 RM'000
Amount due from						
Financing, advances and other financing	**599,601**	448,742	**99,624**	-	**630**	374
Intercompany balances	**47,225**	39,936	**-**	-	**-**	-
	646,826	488,678	**99,624**	-	**630**	374
Amount due to						
Demand and saving deposits	**379,875**	24,045	**3,011**	596	**3,171**	2,627
Murabahah term deposits	**147,813**	204,905	**-**	-	**2,385**	5,325
General investment deposits	**270**	261	**-**	-	**-**	-
Commodity Murabahah	**251,018**	99,544	**-**	-	**-**	-
	778,976	328,755	**3,011**	596	**5,556**	7,952
Commitments and contingencies	**164,067**	47,212	**-**	-	**-**	-

No impairment allowances were required at the Bank in 2016 and 2015 for financing, advances and other financing made to key management personnel.

36 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(b) Key management personnel compensation

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Directors' fees and allowances		
Fees	**1,614**	1,176
Benefits-in-kind	**-**	4
Shariah committee fees	**80**	83
	1,694	1,263
Short-term employment benefits		
Salaries	**798**	631
Bonuses	**410**	739
Defined contribution plan ('EPF')	**220**	237
Other employee benefits	**207**	133
Benefits-in-kind	**57**	13
	1,692	1,753

Included in the above table is CEO and directors' remuneration as disclosed in Note 33.

37 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions. These commitments and contingencies are not secured over the assets of the Bank.

The commitments and contingencies consist of:

	Economic Entity and The Bank Principal amount 2016 RM'000	Principal amount 2015 RM'000
Direct credit substitutes (*)	**33,386**	9,383
Transaction-related contingent items (*)	**282,867**	147,960
Short-term self-liquidating trade related contingencies	**312,550**	368,567
Irrevocable commitments to extend credit:		
- maturity less than one year	**1,129,279**	1,387,337
- maturity more than one year	**469,986**	348,409
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	**39,538**	15,321
Foreign exchange related contracts (#):		
- less than one year	**1,049,862**	222,777
	3,317,468	2,499,754

* Included in direct credit substitutes as above are financial guarantee contracts of RM33.4 million at the Bank (2015: RM9.4 million), of which fair value at the time of issuance is zero.

\# The fair value of these derivatives have been recognised as "derivative financial assets" and "derivative financial liabilities" in the statement of financial position and disclosed in Note 4 and 22 to the financial statements.

38 FINANCIAL RISK MANAGEMENT

(i) Credit risk

Credit risk is the potential financial loss resulting from the failure of the customer to settle financial and contractual obligations through financing, hedging, trading and investing activities. It includes both pre-settlement and settlement risks of trading counterparties. Credit risk emanates mainly from financing, advances and other financing, financing commitments arising from such financing activities, as well as through financial transaction with counterparties including interbank money market activities as well as derivative instruments used for hedging and debt securities.

The management of credit risk in the Bank is governed by the Credit Risk Management Framework which is supported by a set of approved credit policies, guidelines and procedures. Approval authorities are delegated to Senior Management and GMLC to implement the credit policies and ensure sound credit granting standards. BLRRC has review/veto power.

An independent Group Credit Management function is headed by Group Chief Credit Officer ('GCCO') with direct reporting line to Managing Director ('MD')/Chief Executive Officer ('CEO') to ensure sound credit appraisal and approval process. Group Risk Management ('GRM') with direct reporting line to Board Risk Management Committee ('BRMC') has functional responsibilities for the management of credit risk, to ensure adherence to risk standards and discipline.

Credit guidelines and procedures are incorporated within the Credit Policy. The Credit Authority Framework facilitates the approval of all new, restructured and continuing credit facilities. New and existing businesses are governed by Credit Plan which is developed as part of the annual business planning and budgeting process. The Credit Plan is reviewed at least annually to ensure the guidelines and criteria reflect portfolio strategy and market environment.

Credit risk measurement

Financing, advances and other financing

Credit evaluation is the process of analysing the creditworthiness of the prospective customer against the Bank's underwriting criteria and the ability of the Bank to make a return commensurate with the level of risk undertaken. Assessment and quantification of credit risk are supported by the use of internal rating models, scorecards and decision support tools.

The Bank adopts a credit risk grading methodology encompassing probability of default ('PD') driven scorecards for business financing, advances and other financing. Separate scorecards have been developed for two categories of business customers, Large Corporate ('LC') and Small Medium Enterprise ('SME').

For consumer mass market products, statistically developed application scorecards are used to assess the risks associated with the credit application as a decision support tool at financing, advances and other financing origination.

Stress Testing supplements the overall assessment of credit risk across the Bank.

Over-the-Counter ('OTC') Derivatives

The OTC Derivatives credit exposure is computed using the Current Exposure Method. Under the Current Exposure Method, computation of credit equivalent exposure for rate of return and exchange rate related contracts is derived from the summation of the two elements; the replacement costs (obtained by marking-to-market) of all contracts and the potential future exposure of outstanding contracts (Add On charges depending on the specific remaining tenor to maturity).

38 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Risk limit control and mitigation policies

The Bank employs various policies and practices to control and mitigate credit risk.

Financing limits

The Bank establishes internal limits and related financing guidelines to manage large exposures and avoid undue concentration of credit risk in its credit portfolio. The limits include single customer groupings, connected parties, geographical and industry segments. These risks are monitored regularly and the limits reviewed annually or sooner depending on changing market and economic conditions.

The credit risk exposure for derivative and financing, advances and other financing books is managed as part of the overall financing limits with customers together with potential exposure from market movements.

Collateral

Credits are established against customer's capacity to pay rather than rely solely on security. However, collateral may be taken to mitigate credit risk. The main collateral types accepted and given value by the Bank are:-

- mortgage over residential properties;
- charges over commercial real estate or vehicles financed;
- charges over business assets such as business premises, inventory and accounts receivable; and
- charges over financial instruments such as marketable securities.

Documentary and commercial letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct financing.

Credit Related Commitments

Commitment to extend credit represents unutilised portion of approved credit in the form of financing, guarantees or letters of credit. In terms of credit risk, the Bank is potentially exposed to loss in an amount equal to the total unutilised commitments. However, the potential amount of loss is less than the total unutilised commitments, as most commitments to extend credit are contingent upon customers maintaining specific minimum credit standards.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than short-term commitments.

Credit risk monitoring

Corporate credits and large individual accounts are reviewed by the Business Units at least once a year using updated financial and other relevant information. This is to ensure that the credit grades remain appropriate and any signs of weaknesses or deterioration in the credit quality are detected. Remedial action is taken where evidence of deterioration emanates.

Retail credits are actively monitored and managed on a portfolio basis by product type. A collection management system is in place to promptly identify, monitor and manage delinquent accounts at early stages of delinquency.

An Early Alert Process is adopted to pro-actively identify, report, and manage warning signs of potential credit deterioration. Watchlist accounts are closely reviewed and monitored with corrective measures initiated to prevent them from turning impaired. As a rule, watchlist accounts are either worked up or worked out within a period of twelve months.

Active portfolio monitoring as well as exceptions reporting is in place to manage the overall risk profile, identify, analyse and mitigate adverse trends or specific areas of risk concerns.

38 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Maximum exposure to credit risk

For financial assets recognised on the statement of financial position, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the guarantee was to be called upon. For financing commitments and other credit related commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

All financial assets of the Bank are subject to credit risk except for cash in hand, equity securities held as financial assets held-for-trading or financial investments available-for-sale, as well as non-financial assets.

The exposure to credit risk of the Bank equals their carrying amount in the statement of financial position as at reporting date, except for the followings:

		Economic Entity and The Bank	
		2016 Maximum Credit Exposure RM'000	2015 Maximum Credit Exposure RM'000
Credit risk exposures of on-balance sheet assets:			
Financial investments available-for-sale	#	**1,833,408**	1,474,848
Other assets		**5,302**	3,045
Credit risk exposure of off-balance sheet items:			
Financial guarantees		**33,386**	9,383
Financing commitments and other credit related commitments		**2,234,220**	2,267,594
Total maximum credit risk exposure		**4,106,316**	3,754,870

The following have been excluded for the purpose of maximum credit risk exposure calculation:

investment in quoted and unquoted shares

Whilst the Bank's maximum exposure to credit risk is the carrying value of the assets, or in the case of off-balance sheet items, the amount guaranteed, committed or accepted, in most cases the likely exposure is far less due to collateral, credit enhancements and other actions taken to mitigate the credit exposure.

The financial effect of collateral held for financing, advances and other financing of the Bank is 78.0% (2015: 74.0%). The financial effects of collateral for the other financial assets are insignificant.

38 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Credit risk concentration

Credit risk is the risk of financial loss from the failure of customers to meet their obligations. Exposure to credit risk is managed through portfolio management. The credit portfolio's risk profiles and exposures are reviewed and monitored regularly to ensure that an acceptable level of risk diversification is maintained. Exposure to credit risk is also managed in part by obtaining collateral security and corporate and personal guarantees.

The credit risk concentrations of the Bank, by industry concentration, are set out in the following tables:

Economic Entity and The Bank 2016	Short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Derivative financial assets RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity securities RM'000	Financing, advances and other financing RM'000	Other assets RM'000	On balance sheet total RM'000t	Commitments and contingencies RM'000
Agriculture	-	-	-	-	-	401,637	-	401,637	59,978
Mining and quarrying	-	-	-	-	-	11,295	-	11,295	12,288
Manufacturing	-	-	-	40,223	-	334,158	-	374,381	243,376
Electricity, gas and water supply	-	-	-	50,072	-	64,058	-	114,130	2,958
Construction	-	-	-	-	-	520,349	-	520,349	506,432
Real estate	-	-	-	-	-	1,435,603	-	1,435,603	133,749
Transport, storage and communication	-	-	-	30,102	-	283,062	-	313,164	90,879
Finance, takaful/insurance and business services	4,826	-	8,987	293,107	72,122	459,810	-	838,852	413,737
Government and government agencies	1,053,018	-	-	1,419,904	-	1,381,918	-	3,854,840	464,839
Wholesale & retail trade and restaurants & hotels	-	-	-	-	-	406,120	-	406,120	45,770
Others	-	-	-	-	-	6,616,933	5,302	6,622,235	293,600
Total assets	1,057,844	-	8,987	1,833,408	72,122	11,914,943	5,302	14,892,606	2,267,606

38 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Credit risk concentration (continued)

Economic Entity and The Bank 2015	Short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Derivative financial assets RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity securities RM'000	Financing, advances and other financing RM'000	Other assets RM'000	On balance sheet total RM'000t	Commitments and contingencies RM'000
Agriculture	-	-	-	-	-	278,606	-	278,606	29,427
Mining and quarrying	-	-	-	-	-	12,998	-	12,998	10,610
Manufacturing	-	-	-	80,575	-	224,726	-	305,301	320,780
Electricity, gas and water supply	-	-	-	-	-	57,205	-	57,205	1,250
Construction	-	-	-	-	-	551,695	-	551,695	424,837
Real estate	-	-	-	-	-	1,133,968	-	1,133,968	103,902
Transport, storage and communication	-	-	-	45,669	-	205,152	-	250,821	245,712
Finance, takaful/insurance and business services	7,500	35,034	132	257,118	76,283	565,751	-	941,818	115,965
Government and government agencies	1,911,070	-	-	1,091,486	-	603,070	-	3,605,626	668,130
Wholesale & retail trade and restaurants & hotels	-	-	-	-	-	216,538	-	216,538	190,598
Others	-	-	-	-	-	5,352,200	3,045	5,355,245	165,766
Total assets	1,918,570	35,034	132	1,474,848	76,283	9,201,909	3,045	12,709,821	2,276,977

38 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Collaterals

The main collateral types accepted and given value by the Bank are:

- Mortgages over residential properties;
- Charges over commercial real estate or vehicles financed;
- Charges over business assets such as business premises, inventory and account receivables; and
- Charges over financial instruments such as marketable securities

Total financing, advances and other financing - credit quality

All financing, advances and other financing are categorised into 'neither past due nor impaired', 'past due but not impaired' and 'impaired'.

Past due financing refers to financing, advances and other financing that are overdue by one day or more.

Financing, advances and other financing are classified impaired when they fulfill any of the following criteria:

i) the principal or interest/profit or both is past due more than 90 days or 3 months from the first day of default

ii) where the account is in arrears for less than 90 days or 3 months, there is evidence of impairment to indicate that the borrower/customer is 'unlikely to pay' its credit obligations

iii) the financing is classified as rescheduled and restructured in Central Credit Reference Information System (CCRIS).

Distribution of financing, advances and other financing by credit quality

	Economic Entity and The Bank	
	2016	**2015**
	RM'000	**RM'000**
Neither past due nor impaired (a)	**11,234,317**	8,607,759
Past due but not impaired (b)	**646,126**	527,629
Impaired (c)	**97,498**	141,708
Gross financing, advances and other financing	**11,977,941**	9,277,096
less: Allowance for impairment		
- Individual	**(18,003)**	(38,516)
- Collective	**(44,995)**	(36,671)
Net financing, advances and other financing	**11,914,943**	9,201,909

38 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Total financing, advances and other financing - credit quality (continued)

(a) Financing neither past due nor impaired

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

	Economic Entity and The Bank	
	2016	**2015**
	RM'000	**RM'000**
Quality classification		
Satisfactory	**10,956,340**	8,571,615
Special mention	**277,977**	36,144
	11,234,317	8,607,759

Quality classification definitions

Satisfactory: Exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or levels of expected loss.

Special mention: Exposures require varying degrees of special attention and default risk is of greater concern which are under the monitoring of Group Early Alert Committee ('GEAC').

(b) Financing past due but not impaired

Certain financing, advances and other financing are past due but not impaired as the collateral values of these financing are in excess of the principal and profit outstanding. Allowances for these financing may have been set aside on a portfolio basis. The Bank's financing, advances and other financing which are past due but not impaired are as follows:

	Economic Entity and The Bank	
	2016	**2015**
	RM'000	**RM'000**
Past due up to 30 days	**192,501**	241,430
Past due 31-60 days	**365,009**	212,980
Past due 61-90 days	**88,616**	73,219
	646,126	527,629

38 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Total financing, advances and other financing - credit quality (continued)

(c) Financing impaired

	Economic Entity and The Bank 2016 RM'000	Economic Entity and The Bank 2015 RM'000
Analysis of impaired assets:		
Gross impaired financing	**97,498**	141,708
Individually impaired financing	**44,964**	102,199

Collateral and other credit enhancements obtained

The Bank obtained assets by taking possession of collateral held as security or calling upon other credit enhancements.

	Economic Entity and The Bank 2016 RM'000	Economic Entity and The Bank 2015 RM'000
Nature of assets		
Industrial and residential properties	**2,445**	395

Foreclosed properties are sold as soon as possible, with the proceeds used to reduce the outstanding in debtness. The carrying amount of the foreclosed properties held by the Bank at end of the financial year has been classified as other assets as disclosed in Note 9.

Deposits and short-term funds, corporate bonds/sukuk, treasury bills and derivatives - credit quality

Corporate bonds/sukuk, treasury bills and other eligible bills included in financial assets held-for-trading and financial investments available-for-sale are measured on a fair value basis. The fair value will reflect the credit risk of the issuer.

Most listed and some unlisted securities are rated by external rating agencies. The Bank mainly uses external credit ratings provided by RAM, MARC, Standard & Poor's or Moody's.

38 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

The table below presents the deposits and short-term funds, corporate bonds/sukuk, treasury bills and other eligible bills that neither past due nor impaired and impaired, analysed by rating:

Economic Entity and The Bank 2016	**Sovereign RM'000**	**AAA RM'000**	**AA- to AA+ RM'000**	**A- to A+ RM'000**	**Unrated RM'000**	**Total RM'000**
Short-term funds	**1,053,018**	**-**	**920**	**3,906**	**-**	**1,057,844**
Derivative financial assets	**-**	**-**	**8,987**	**-**	**-**	**8,987**
Financial investments available-for-sale						
Malaysian Government investment issues	**628,785**	**-**	**-**	**-**	**-**	**628,785**
Sukuk Perumahan Kerajaan	**129,431**	**-**	**-**	**-**	**-**	**129,431**
Khazanah Sukuk	**173,287**	**-**	**-**	**-**	**-**	**173,287**
Corporate bonds/sukuk	**488,402**	**322,112**	**91,391**	**-**	**-**	**901,905**
Financial investments held-to-maturity						
Corporate bonds/sukuk	**-**	**-**	**-**	**-**	**72,122**	**72,122**
	2,472,923	**322,112**	**101,298**	**3,906**	**72,122**	**2,972,361**

Economic Entity and The Bank 2015						
Short-term funds	1,911,070	-	261	7,239	-	1,918,570
Deposits and placements with banks and other financial institutions	-	-	35,034	-	-	35,034
Derivative financial assets	-	-	132	-	-	132
Financial investments available-for-sale						
Malaysian Government investment issues	613,857	-	-	-	-	613,857
Sukuk Perumahan Kerajaan	187,219	-	-	-	-	187,219
Khazanah Sukuk	165,280	-	-	-	-	165,280
Corporate bonds/sukuk	125,131	312,001	71,360	-	-	508,492
Financial investments held-to-maturity						
Corporate bonds/sukuk	-	-	-	-	76,283	76,283
	3,002,557	312,001	106,787	7,239	76,283	3,504,867

Collateral is not generally obtained directly from the issuers of debt securities. Certain debt securities may be collateralised by specifically identified assets that would be obtainable in the event of default.

Deposits and short-term funds, Corporate bonds/sukuk, treasury bills and derivarives which are past due but not impaired is not significant.

38 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Other financial assets - credit quality

Other financial assets of the Bank is neither past due nor impaired are summarised as below:

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Other assets	**5,302**	3,045
Amount due from holding company	**-**	367,172
Amount due from joint ventures	**46,725**	39,936
Amount due from associate	**500**	-

Other financial assets that are past due but not impaired or impaired are not significant.

(ii) Market risk

Market risk is the risk of losses in on and off-balance-sheet positions arising from movements in market prices. The Bank's exposure to market risk results largely from profit rate and foreign exchange rate risks.

The Market Risk Management Framework governs the market risk activities of the Bank which is supported by a set of approved market risk management policies, guidelines and procedures.

Risk control parameters are established based on risk appetite, market liquidity and business strategies as well as macroeconomic conditions. These parameters are reviewed at least annually.

Market risk arising from the Trading Book is primarily controlled through the imposition of Stop-loss and Value-at-Risk ('VaR') risk control parameters.

Profit rate risk is quantified by analysing the mismatches in timing repricing of the rate sensitive assets and rate sensitive liabilities. Earnings-at-Risk ('EaR') or Net Profit Income simulation is conducted to assess the variation in short term earnings under various rates scenarios. The potential long term effect of the overall exposure is tracked by assessing the impact on Economic Value of Equity ('EVE'), also known as Economic Value-at-Risk ('EVaR'). Thresholds are set for EaR and EVaR as management triggers.

Periodic stress tests are conducted to quantify market risk arising from probability of abnormal market movements.

Value-at-Risk ('VaR')

Value-at-Risk ('VaR') is used to compute the maximum potential loss amount over a specified holding period of the Trading portfolio.

It measures the risk of losses arising from potential adverse movements in profit rates and foreign exchange rates that could affect values of financial instruments.

The Bank adopts Historical Pricing Simulation Method ('HPS') to compute potential loss or Value-at-Risk ('VaR') amount. The HPS Method uses the relative change of historical prices to estimate future potential changes in the market value of outstanding positions. The Bank currently adopts 250 simulated business days for its HPS VaR computation. After applying these price changes to the outstanding portfolios, 250 simulated market values for the portfolio are generated and the change in the day-to-day market value is taken as simulated Profit & Loss ('P&L') for the portfolio. As VaR calculates the worst expected loss over a given day horizon and confidence level under normal market condition, the 250 values are sorted from the lowest to the highest simulated P&L. The VaR focuses on the tail of the distribution (i.e. the loss figures) at the 99th percentile.

Backtesting of the VaR computation system is conducted regularly to gauge the accuracy of the risk measurement system.

38 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Other risk measures

(i) Mark-to-market valuation tracks the current market value of the outstanding financial instruments.

(ii) Stress tests are conducted to attempt to quantify market risk arising from abnormal market movements. Stress tests measure the changes in values arising from extreme movements in profit rates and foreign exchange rates based on past experiences and simulated stress scenarios.

Profit rate sensitivity

The table below shows the sensitivity for the financial assets and financial liabilities held as at reporting date.

Impact on profit after tax is measured using Repricing Gap Simulation methodology based on 100 basis point parallel shifts in profit rate.

Impact on equity represents the changes in fair value of fixed income instruments held in available-for-sale portfolio arising from the shift in the profit rate.

Economic Entity and The Bank 2016	**+100 basis point RM million**	**-100 basis point RM million**
Impact on profit after tax	**(13.4)**	**13.4**
Impact on equity	**(66.6)**	**71.4**

Economic Entity and The Bank 2015	+100 basis point RM million	-100 basis point RM million
Impact on profit after tax	(13.9)	13.9
Impact on equity	(45.2)	48.1

38 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Foreign exchange risk sensitivity analysis

An analysis of the exposure to assess the impact of a one per cent change in exchange rate to the profit after tax are as follows:

	Economic Entity and The Bank 2016 RM'000	2015 RM'000
+1%		
Euro	**1,651**	370
United States Dollar	**5,527**	2,034
Great Britain Pound	**18**	131
Australian Dollar	**2**	6
Japanese Yen	**1**	6
Others	**15**	1,023
	7,214	3,570
-1%		
Euro	**(1,651)**	(370)
United States Dollar	**(5,527)**	(2,034)
Great Britain Pound	**(18)**	(131)
Australian Dollar	**(2)**	(6)
Japanese Yen	**(1)**	(6)
Others	**(15)**	(1,023)
	(7,214)	(3,570)

Foreign exchange risk

The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The risk of fluctuations in foreign currency exchange rates is managed via setting of thresholds on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

The following table summarises the Bank's exposure to foreign currency exchange rate risk at reporting date. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

38 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Foreign exchange risk

Economic Entity and The Bank 2016	Euro RM'000	United States Dollar RM'000	Great Britain Pound RM'000	Australian Dollar RM'000	Japanese Yen RM'000	Others RM'000	Total RM'000
Assets							
Cash and short-term funds	395	2,944	398	317	165	607	4,826
Derivative financial assets	3,404	5,571	12	-	-	1	8,988
Financing, advances and other financing	-	65,542	-	-	-	-	65,542
Total financial assets	3,799	74,057	410	317	165	608	79,356
Liabilities							
Deposits from customers	358,458	22,552	249	19	5	-	381,283
Deposits and placements of banks and other financial institutions	-	84,392	-	-	-	-	84,392
Derivative financial liabilities	-	421	-	-	-	9	430
Total financial liabilities	358,458	107,365	249	19	5	9	466,105
Net on-balance sheet financial position	(354,659)	(33,308)	161	298	160	599	(386,749)
Off balance sheet commitments	571,894	760,499	2,200	-	-	1,342	1,335,935

38 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Foreign exchange risk (continued)

Economic Entity and The Bank 2015	Euro RM'000	United States Dollar RM'000	Great Britain Pound RM'000	Australian Dollar RM'000	Japanese Yen RM'000	Others RM'000	Total RM'000
Assets							
Cash and short-term funds	1,234	2,828	1,883	261	(177)	1,472	7,501
Derivative financial assets	-	120	-	-	-	1	121
Financing, advances and other financing	-	84,444	-	-	-	-	84,444
Total financial assets	1,234	87,392	1,883	261	(177)	1,473	92,066
Liabilities							
Deposits from customers	9,359	12,784	7	4	5	2,592	24,751
Deposits and placements of banks and other financial institutions	-	84,001	-	-	-	-	84,001
Derivative financial liabilities	27	576	44	-	-	-	647
Total financial liabilities	9,386	97,361	51	4	5	2,592	109,399
Net on-balance sheet financial position	(8,152)	(9,969)	1,832	257	(182)	(1,119)	(17,333)
Off balance sheet commitments	57,432	281,188	15,654	596	933	137,583	493,386

38 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk

Profit rate risk is the risk to earnings and capital arising from exposure to adverse movements in profit rates mainly due to mismatches in timing repricing of assets and liabilities. These mismatches are actively managed from an earnings and economic value perspective. Profit rate risk thresholds are established in line with the Group's strategy and risk appetite. These thresholds are reviewed regularly to ensure relevance in the context of prevailing market conditions.

	Non-trading book							
Economic Entity 2016	**Up to 1month RM'000**	**>1-3 months RM'000**	**>3-12 months RM'000**	**>1-5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
Assets								
Cash and short-term funds	1,049,000	-	-	-	-	8,844	-	1,057,844
Derivative financial assets	-	-	-	-	-	-	8,987	8,987
Financial investments available-for-sale	5,000	4,998	82,364	563,516	1,158,452	19,078	-	1,833,408
Financial investments held-to-maturity	-	-	72,065	-	-	57	-	72,122
Financing, advances and other financing								
- non-impaired	5,724,520	1,285,393	704,981	2,806,480	1,314,074	-	-	11,835,448
- impaired	-	-	-	-	-	79,495 #	-	79,495
Others (1)	-	-	26,931	-	-	24,602	-	51,533
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	332,000	-	332,000
Total Assets	**6,778,520**	**1,290,391**	**886,341**	**3,369,996**	**2,472,526**	**464,076**	**8,987**	**15,270,837**

\# Net of individual impairment allowance.

(1) Others include other assets and amount due from joint ventures.

38 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

	Non-trading book							
Economic Entity 2016	**Up to 1month RM'000**	**>1-3 months RM'000**	**>3-12 months RM'000**	**>1-5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
Liabilities								
Deposits from customers	4,478,001	1,725,983	4,047,582	187,599	-	89,533	-	10,528,698
Deposits and placements of banks and other financial institutions	496,681	703,163	47,125	-	-	2,024	-	1,248,993
Investment accounts due to designated financial institutions	-	697,210	130,000	439,946	835,023	7,870	-	2,110,049
Derivative financial liabilities	-	-	-	-	-	-	1,412	1,412
Amount due to holding company	-	-	-	-	-	196,828	-	196,828
Other liabilities	-	-	-	-	-	36,331	-	36,331
Total liabilities	4,974,682	3,126,356	4,224,707	627,545	835,023	332,586	1,412	14,122,311
Net profit sensitivity gap	1,803,838	(1,835,965)	(3,338,366)	2,742,451	1,637,503			

38 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

	Non-trading book							
Economic Entity 2015	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
Assets								
Cash and short-term funds	1,910,490	-	-	-	-	8,080	-	1,918,570
Deposits and placements with banks and other financial institutions	-	35,000	-	-	-	34	-	35,034
Derivative financial assets	-	-	-	-	-	-	132	132
Financial investments available-for-sale	-	5,005	110,738	602,369	741,792	15,469	-	1,475,373
Financial investments held-to-maturity	-	-	76,223	-	-	60	-	76,283
Financing, advances and other financing								
- non-impaired	4,627,128	324,348	773,052	2,001,938	1,372,251	-	-	9,098,717
- impaired	-	-	-	-	-	103,192 #	-	103,192
Others (1)	-	-	22,237	-	-	20,414	-	42,651
Amount due from holding company	-	-	-	-	-	367,172	-	367,172
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	259,600	-	259,600
Total assets	6,537,618	364,353	982,250	2,604,307	2,114,043	774,021	132	13,376,724

\# Net of individual impairment allowance.

(1) Others include other assets and amount due from joint ventures.

38 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

Economic Entity 2015	Non-trading book Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
Liabilities								
Deposits from customers	5,082,450	1,758,085	2,986,641	109,941	-	64,578	-	10,001,695
Deposits and placements with banks and other financial institutions	269,485	768,496	-	-	-	3,411	-	1,041,392
Investment accounts due to designated financial institutions	-	-	197,210	270,321	845,628	18,519	-	1,331,318
Derivative financial liabilities	-	-	-	-	-	-	1,035	1,035
Other liabilities	-	-	-	-	-	44,119	-	44,119
Total liabilities	5,351,935	2,526,581	3,183,851	380,262	845,628	130,267	1,035	12,419,559
Net profit sensitivity gap	1,185,683	(2,162,228)	(2,201,601)	2,224,045	1,268,415			

38 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

	Non-trading book							
The Bank 2016	**Up to 1 month RM'000**	**>1-3 months RM'000**	**>3-12 months RM'000**	**>1-5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total Total RM'000**
Assets								
Cash and short-term funds	1,049,000	-	-	-	-	8,844	-	1,057,844
Derivative financial assets	-	-	-	-	-	-	8,987	8,987
Financial investments available-for-sale	5,000	4,998	82,364	563,516	1,158,452	19,078	-	1,833,408
Financial investments held-to-maturity	-	-	72,065	-	-	57	-	72,122
Financing, advances and other financing								
- non-impaired	5,724,520	1,285,393	704,981	2,806,480	1,314,074	-	-	11,835,448
- impaired	-	-	-	-	-	79,495 #	-	79,495
Others (1)	-	-	26,931	-	-	25,252	-	52,183
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	332,000	-	332,000
Total assets	6,778,520	1,290,391	886,341	3,369,996	2,472,526	464,726	8,987	15,271,487

\# Net of individual impairment allowance.

(1) Others include other assets and amount due from joint ventures.

38 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

The Bank 2016	Non-trading book Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total Total RM'000
Liabilities								
Deposits from customers	4,478,001	1,725,983	4,047,582	187,599	-	89,533	-	10,528,698
Deposits and placements of banks and other financial institutions	496,681	703,163	47,125	-	-	2,024	-	1,248,993
Investment accounts due to designated financial institutions	-	697,210	130,000	439,946	835,023	7,870	-	2,110,049
Derivative financial liabilities	-	-	-	-	-	-	1,412	1,412
Amount due to holding company	-	-	-	-	-	196,828	-	196,828
Other liabilities	-	-	-	-	-	36,331	-	36,331
Total liabilities	4,974,682	3,126,356	4,224,707	627,545	835,023	332,586	1,412	14,122,311
Net profit sensitivity gap	1,803,838	(1,835,965)	(3,338,366)	2,742,451	1,637,503			

38 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

The Bank 2015	Non-trading book Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
Assets								
Cash and short-term funds	1,910,490	-	-	-	-	8,080	-	1,918,570
Deposits and placements with banks and other financial institutions	-	35,000	-	-	-	34	-	35,034
Derivative financial assets	-	-	-	-	-	-	132	132
Financial investments available-for-sale	-	5,005	110,738	602,369	741,792	15,469	-	1,475,373
Financial investments held-to-maturity	-	-	76,223	-	-	60	-	76,283
Financing, advances and other financing								
- non-impaired	4,627,128	324,348	773,052	2,001,938	1,372,251	-	-	9,098,717
- impaired	-	-	-	-	-	103,192 #	-	103,192
Others (1)	-	-	22,237	-	-	21,064	-	43,301
Amount due from holding company	-	-	-	-	-	367,172	-	367,172
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	259,600	-	259,600
Total assets	6,537,618	364,353	982,250	2,604,307	2,114,043	774,671	132	13,377,374

\# Net of individual impairment allowance.

(1) Others include other assets and amount due from joint ventures.

38 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

The Bank 2015	Non-trading book Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
Liabilities								
Deposits from customers	5,082,450	1,758,085	2,986,641	109,941	-	64,578	-	10,001,695
Deposits and placements of banks and other financial institutions	269,485	768,496	-	-	-	3,411	-	1,041,392
Investment accounts due to designated financial institutions	-	-	197,210	270,321	845,628	18,159	-	1,331,318
Derivative financial liabilities	-	-	-	-	-	-	1,035	1,035
Other liabilities	-	-	-	-	-	44,119	-	44,119
Total liabilities	5,351,935	2,526,581	3,183,851	380,262	845,628	130,267	1,035	12,419,559
Net profit sensitivity gap	1,185,683	(2,162,228)	(2,201,601)	2,224,045	1,268,415			

38 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk

Liquidity risk is the risk of inability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. Liquidity risk includes the inability to manage sudden decreases or changes in funding sources. Liquidity risk also arises from the failure to recognise changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

The Liquidity Risk Management Framework governs the liquidity risk management activities of the Bank. The objective of liquidity risk management is to ensure that there are sufficient funds to meet contractual and regulatory obligations without incurring unacceptable losses as well as to undertake new transactions. The Bank's liquidity management process involves establishing liquidity risk management policies and prudential thresholds, liquidity risk threshold monitoring, stress testing and establishing contingency funding plans. These building blocks of liquidity risk management are subject to regular reviews to ensure relevance in the context of prevailing market conditions.

The Bank's short term liquidity risk management is premised on BNM's Liquidity Coverage Ratio ('LCR') final standards. The LCR is a quantitative requirement which seeks to ensure that the Bank holds sufficient high-quality liquid assets ('HQLA') to withstand a significant liquidity stress scenario over a 30-day horizon.

Long term liquidity risk profile is assessed via the Net Stable Funding Ratio ('NSFR') which promotes resilience over a longer time horizon for the Bank to fund its activities with more stable sources of funding on an ongoing basis.

The LCR and NSFR are tracked to assess the short term and long term liquidity risk profile of the Bank, in line with BNM's Liquidity Coverage Ratio ('LCR') final standards re-issued on 25th August 2016 as well as BNM's revised Basel III Observation Period reporting for Net Stable Funding Ratio ('NSFR') and Leverage Ratio ('LR') issued on 7th August 2015.

The Bank also employs a set of liquidity risk indicators as an early alert of any structural change for liquidity risk management. The liquidity risk indicators include internal and external qualitative as well as quantitative indicators.

Liquidity stress tests are conducted periodically and on ad-hoc basis to gauge the Group's resilience in the event of a liquidity disruption.

The Contingency Funding Plan provides a systematic approach in handling liquidity disruption. The document encompasses strategies, decision-making authorities, and courses of action to be taken in the event of liquidity crisis and emergencies, enabling the Group to respond to an unexpected liquidity disruption in an effective and efficient manner.

The Board Risk Management Committee ('BRMC') is responsible for the Bank's liquidity policy and the strategic management of liquidity has been delegated to the Group Asset Liability Management Committee ('GALCO'). The Liquidity Management Committee ('LMC'), which is a sub-committee of GALCO, augments the functions of GALCO by directing its focus specifically to liquidity issues. The BRMC is informed regularly on the liquidity position of the Bank.

38 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

Liquidity risk disclosure table which is based on contractual undiscounted cash flow

The table below provides analysis of cash flow payables for financial liabilities based on remaining contractual maturities on undiscounted basis. The balances in the table below do not agree directly 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.

Economic Entity and The Bank 2016	**Up to 1 month RM'000**	**>1-3 months RM'000**	**>3-12 months RM'000**	**>1-5 years RM'000**	**Over 5 years RM'000**	**Total RM'000**
Deposits from customers	**4,485,343**	**1,764,270**	**4,187,650**	**224,538**	**-**	**10,661,801**
Deposits and placements of banks and other financial institutions	**497,814**	**707,761**	**48,822**	**-**	**-**	**1,254,397**
Investment accounts due to designated financial institutions	**7,894**	**710,596**	**177,741**	**620,081**	**933,805**	**2,450,117**
Other liabilities	**36,331**	**-**	**-**	**-**	**-**	**36,331**
	5,027,382	**3,182,627**	**4,414,213**	**844,619**	**933,805**	**14,402,646**

Economic Entity and The Bank 2015	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Deposits from customers	5,097,116	1,794,130	3,092,531	117,444	-	10,101,221
Deposits and placements of banks and other financial institutions	272,394	775,954	11,283	-	213,148	1,272,779
Investment accounts due to designated financial institutions	5,352	10,356	245,945	452,664	999,900	1,714,217
Other liabilities	44,119	-	-	-	-	44,119
	5,418,981	2,580,440	3,349,759	570,108	1,213,048	13,132,336

\# Net of individual impairment allowance.

(1) Others include other assets and amount due from joint ventures.

38 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

Derivative financial liabilities

Derivative financial liabilities based on contractual undiscounted cash flow:

Economic Entity and The Bank 2016	**Up to 1 month RM'000**	**>1-3 months RM'000**	**>3-12 months RM'000**	**>1-5 years RM'000**	**Over 5 years RM'000**	**Total RM'000**
Derivatives settled on gross basis						
Foreign exchange derivatives:						
Outflow	**(110,626)**	**-**	**-**	**-**	**-**	**(110,626)**
Inflow	**110,639**	**-**	**-**	**-**	**-**	**110,639**
	13	**-**	**-**	**-**	**-**	**13**

Economic Entity and The Bank 2015	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Derivatives settled on gross basis						
Foreign exchange derivatives:						
Outflow	(137,476)	(1,067)	(22,327)	-	-	(160,870)
Inflow	137,416	1,067	22,327	-	-	160,810
	(60)	-	-	-	-	(60)

38 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

Liquidity risk for assets and liabilities based on remaining contractual maturities

The maturities of on-balance sheet assets and liabilities as well as other off-balance sheet assets and liabilities, commitments and counter-guarantees are important factors in assessing the liquidity of the Bank. The table below provides analysis of assets and liabilities into relevant maturity tenures based on remaining contractual maturities.

Economic Entity 2016	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	1,057,844	-	-	-	-	-	1,057,844
Derivative financial assets	8,987	-	-	-	-	-	8,987
Financial investments available-for-sale	13,559	11,790	86,091	563,516	1,158,452	-	1,833,408
Financial investments held-to-maturity	-	-	6,062	40,190	25,870	-	72,122
Financing, advances and other financing	623,096	1,003,458	127,584	2,321,247	7,839,558	-	11,914,943
Other assets	4,390	596	150	278	42	2,445	7,901
Amount due from joint ventures	46,725	-	-	-	-	-	46,725
Amount due from associate	500	-	-	-	-	-	500
Statutory deposits with Bank Negara Malaysia	332,000	-	-	-	-	-	332,000
Other non-financial assets (1)	-	-	-	-	-	11,153	11,153
	2,087,101	1,015,844	219,887	2,925,231	9,023,922	13,598	15,285,583
Liabilities							
Deposits from customers	4,483,987	1,752,202	4,104,454	188,055	-	-	10,528,698
Deposits and placements of banks and other financial institutions	497,258	704,196	47,539	-	-	-	1,248,993
Investment accounts due to designated financial institutions	7,870	697,210	130,000	439,946	835,023	-	2,110,049
Derivative financial liabilities	1,412	-	-	-	-	-	1,412
Other liabilities	36,331	-	-	-	-	-	36,331
Amount due to holding company	196,828	-	-	-	-	-	196,828
Provision for taxation	-	-	-	-	-	6,015	6,015
	5,223,686	3,153,608	4,281,993	628,001	835,023	6,015	14,128,326
Net liquidity gap	(3,136,585)	(2,137,764)	(4,062,106)	2,297,230	8,188,899	7,583	

(1) Other non-financial assets include deferred tax assets, property and equipment and intangible assets.

38 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

Liquidity risk for assets and liabilities based on remaining contractual maturities (continued)

Economic Entity 2015	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	1,918,570	-	-	-	-	-	1,918,570
Deposits and placements with banks and other financial institutions	-	35,034	-	-	-	-	35,034
Derivative financial assets	21	-	111	-	-	-	132
Financial investments available-for-sale	7,470	9,737	113,479	602,369	741,792	526	1,475,373
Financial investments held-to-maturity	-	-	4,218	32,336	39,729	-	76,283
Financing, advances and other financing	457,867	199,371	360,801	1,449,970	6,733,900	-	9,201,909
Other assets	2,244	499	315	278	28	395	3,759
Amount due from holding company	367,172	-	-	-	-	-	367,172
Amount due from joint ventures	39,936	-	-	-	-	-	39,936
Statutory deposits with Bank Negara Malaysia	259,600	-	-	-	-	-	259,600
Other non-financial assets (1)	-	-	-	-	-	6,637	6,637
	3,052,880	244,641	478,924	2,084,953	7,515,449	7,558	13,384,405
Liabilities							
Deposits from customers	5,094,545	1,772,560	3,023,229	111,361	-	-	10,001,695
Deposits and placements of banks and other financial institutions	270,503	770,889	-	-	-	-	1,041,392
Investment accounts due to designated financial institutions	1,130	722	202,665	269,947	856,854	-	1,331,318
Derivative financial liabilities	726	9	300	-	-	-	1,035
Other liabilities	44,119	-	-	-	-	-	44,119
Provision for taxation	-	-	-	-	-	10,031	10,031
	5,411,023	2,544,180	3,226,194	381,308	856,854	10,031	12,429,590
Net liquidity gap	(2,358,143)	(2,299,539)	(2,747,270)	1,703,645	6,658,595	(2,473)	

(1) Other non-financial assets include deferred tax assets, property and equipment and intangible assets.

38 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

Liquidity risk for assets and liabilities based on remaining contractual maturities (continued)

The Bank 2016	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	1,057,844	-	-	-	-	-	1,057,844
Derivative financial assets	8,987	-	-	-	-	-	8,987
Financial investments available-for-sale	13,559	11,790	86,091	563,516	1,158,452	-	1,833,408
Financial investments held-to-maturity	-	-	6,062	40,190	25,870	-	72,122
Financing, advances and other financing	623,096	1,003,458	127,584	2,321,247	7,839,558	-	11,914,943
Other assets	4,390	596	150	278	42	2,445	7,901
Amount due from joint ventures	46,725	-	-	-	-	-	46,725
Amount due from associate	500	-	-	-	-	-	500
Statutory deposits with Bank Negara Malaysia	332,000	-	-	-	-	-	332,000
Other non-financial assets (1)	-	-	-	-	-	11,803	11,803
	2,087,101	1,015,844	219,887	2,925,231	9,023,922	14,248	15,286,233
Liabilities							
Deposits from customers	4,483,987	1,752,202	4,104,454	188,055	-	-	10,528,698
Deposits and placements of banks and other financial institutions	497,258	704,196	47,539	-	-	-	1,248,993
Investment accounts due to designated financial institutions	7,870	697,210	130,000	439,946	835,023	-	2,110,049
Derivative financial liabilities	1,412	-	-	-	-	-	1,412
Other liabilities	36,331	-	-	-	-	-	36,331
Amount due to holding company	196,828	-	-	-	-	-	196,828
Provision for taxation	-	-	-	-	-	6,015	6,015
	5,223,686	3,153,608	4,281,993	628,001	835,023	6,015	14,128,326
Net liquidity gap	(3,136,585)	(2,137,764)	(4,062,106)	2,297,230	8,188,899	8,233	

(1) Other non-financial assets include deferred tax assets, investment in joint ventures, property and equipment and intangible assets.

38 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

Liquidity risk for assets and liabilities based on remaining contractual maturities (continued)

The Bank 2015	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	1,918,570	-	-	-	-	-	1,918,570
Deposits and placements with banks and other financial institutions	-	35,034	-	-	-	-	35,034
Derivative financial assets	21	-	111	-	-	-	132
Financial investments available-for-sale	7,470	9,737	114,005	602,369	741,792	-	1,475,373
Financial investments held-to-maturity	-	-	4,218	32,336	39,729	-	76,283
Financing, advances and other financing	457,867	199,371	360,801	1,449,970	6,733,900	-	9,201,909
Other assets	2,244	499	315	278	28	395	3,759
Amount due from holding company	367,172	-	-	-	-	-	367,172
Amount due from joint ventures	39,936	-	-	-	-	-	39,936
Statutory deposits with Bank Negara Malaysia	259,600	-	-	-	-	-	259,600
Other non-financial assets (1)	-	-	-	-	-	7,287	7,287
	3,052,880	244,641	479,450	2,084,953	7,515,449	7,682	13,385,055
Liabilities							
Deposits from customers	5,094,545	1,772,560	3,023,229	111,361	-	-	10,001,695
Deposits and placements of banks and other financial institutions	640,829	877,670	242,611	111,600	500,000	-	2,372,710
Investment accounts due to designated financial institutions	1,130	722	202,665	269,947	856,854	-	1,331,318
Derivative financial liabilities	726	9	300	-	-	-	1,035
Other liabilities	44,119	-	-	-	-	-	44,119
Provision for taxation	-	-	-	-	-	10,031	10,031
	5,781,349	2,650,961	3,468,805	492,908	1,356,854	10,031	13,760,908
Net liquidity gap	(2,728,469)	(2,406,320)	(2,989,355)	1,592,045	6,158,595	(2,349)	

(1) Other non-financial assets include deferred tax assets, investment in joint ventures, property and equipment and intangible assets.

38 FINANCIAL RISK MANAGEMENT

(iv) Operational risk management

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or external events. The definition includes legal risk, and exposure to litigation from all aspects of the Bank's activities, but excludes strategic business, reputational and systemic risks.

The Group Operational Risk Management Framework governs the management of operational risk across the Group.

BRMC approves all policies/policy changes relating to operational risk. Group Operational Risk Management Committee ('GORMC') supports BRMC in the review and monitoring of operational risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

The operational risk management ('ORM') function within GRM operates in independent capacity to manage the risks in activities associated with the operational function of the Bank.

The Bank adopts the Basic Indicator Approach for the purpose of calculating the capital requirement for operational risk. The capital requirement is calculated by taking 15% of the Bank's average annual gross income over the previous three years.

Operational risks are managed daily through established systems and processes to ensure compliance with policies, guidelines and control procedures.

To identify and assess operational risk issues and exposure, the following tools are employed:

- Risk Control Self Assessment ('RCSA')
- Key Control Standards ('KCS')
- Key Risk Indicator ('KRI')
- Loss Event Database ('LED')

Information Technology ('IT') and cyber risks are managed as part of the operational risk activities. The IT systems and processes are assessed and tested regularly for resilience and continuity, and that they are secure from internal and external threats.

Introduction of new products or services are evaluated to assess suitability, potential risks and operational readiness.

Operational Risk Coordinators (ORC) are appointed at business and support units as champions of ORM activities within respective units. The ORC is responsible for the reporting of ORM activities and to liaise with Group Operational Risk Management on all operational defects and results. As an internal requirement, all Operational Risk Coordinators must satisfy an Internal Operational Risk (including business continuity management) Certification Program. These coordinators will first go through an on-line self learning exercise before attempting on-line assessments to measure their skills and knowledge level. This will enable Group Risk Management to prescribe appropriate training and development activities for the coordinators.

38 FINANCIAL RISK MANAGEMENT

(v) Shariah Non-Compliance Risk

Shariah non-compliance is the risk of failure to comply with the Shariah rules and principles as determined by Shariah Committee ('SC') and/or any other relevant bodies, such as BNM Shariah Advisory Council.

The Shariah Governance Framework for Islamic Financial Institutions issued by BNM is the main reference for the Shariah governance process and oversight within AiBB.

Shariah Committee ('SC') is established to deliberate on Shariah issues and provide resolution as well as guidance. GORMC together with BRMC and GBRMC assist in the overall oversight of Shariah risk management of the Group.

Shariah Risk Management is part of an integrated risk management control function to identify all possible risks of Shariah non-compliance and where appropriate, to provide mitigating measures that need to be taken to reduce the risk. The scope covers overall business activities and operations, commencing from Islamic product origination until maturity.

Each business and support unit is responsible to identify and assess potential Shariah Non-Compliance Risk using the RCSA process. Half yearly RCSA checklist is performed to gauge the level of Shariah compliance.

All Islamic products, services and strategies related matters must be approved by the SC.

Shariah Resolutions/Circulars are issued and training on Shariah Compliance is conducted on a regular basis.

Shariah non-compliance reports are regularly submitted for further deliberation, decision and remedial action.

(vi) Business Continuity Risk

Business continuity risk is the risk of losses in assets, revenue, reputation and stakeholder/customer confidence due to the discontinuation of services in both business and technology operations.

The Business Continuity Management Framework governs the management of business continuity issues, in line with BNM Guidelines on Business Continuity Management ('BCM').

BRMC approves all policies and its changes relating to business continuity management. It also reviews, monitors and discusses business continuity management reports tabled at its meetings. GORMC supports BRMC in the review and monitoring of Business Continuity Risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

The BCM function is an independent body overseeing the management of the overall business continuity risk.

Annual Risk Assessment and Business Impact Analysis are made compulsory for each business and support unit in the Bank to undertake. The outcome of this assessment will translate into a risks listing that require business and support units to derive action plans to address the risks.

Risk control is established through adherence with established BCM guidelines and standards throughout the implementation of BCM programs. Rigorous testing on business continuity and disaster recovery plans are diligently performed to ensure effective and smooth execution of the plan for resumption and recovery of disrupted business.

38 FINANCIAL RISK MANAGEMENT

(vii) Fair value financial assets and liabilities

Fair value is defined as the price that would be received to sell as an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Bank measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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.

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. These would include actively traded listed equities and actively exchange-traded derivatives.

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 as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or other analytical techniques.

This category includes unquoted shares held for socio economic reasons. Fair values for shares held for socio economic reasons are based on the net tangible assets of the affected companies. The Bank's exposures to financial instruments classified as Level 3 comprised a small number of financial instruments which constitute an insignificant component of the Bank's portfolio of financial instruments. Hence, changing one or more of the inputs to reasonable alternative assumptions would not change the value significantly for the financial assets in Level 3 of the fair value hierarchy.

The Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. Transfers between fair value hierarchy primarily due to change in the level of trading activity, change in observable market activity related to an input, reassessment of available pricing information and change in the significance of the unobservable input. There were no transfers between Level 1, 2 and 3 of the fair value hierarchy during the financial year (2015: Nil).

38 FINANCIAL RISK MANAGEMENT

(vii) Fair value financial assets and liabilities (continued)

The following table presents assets and liabilities measured at fair value and classified by level of the following fair value measurement hierarchy:

Economic Entity and The Bank 2016	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Assets				
Derivative financial assets	**-**	**8,987**	**-**	**8,987**
Financial investments available for sale *				
- Money market instruments	**-**	**931,503**	**-**	**931,503**
- Corporate bonds/sukuk	**-**	**901,905**	**-**	**901,905**
	-	**1,842,395**	**-**	**1,842,395**
Liabilities				
Derivative financial liabilities	**-**	**1,412**	**-**	**1,412**
	-	**1,412**	**-**	**1,412**

Economic Entity and The Bank 2015	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Assets				
Derivative financial assets	-	132	-	132
Financial investments available for sale *				
- Money market instruments	-	966,356	-	966,356
- Equity securities	-	-	525	525
- Corporate bonds/sukuk	-	508,492	-	508,492
	-	1,474,980	525	1,475,505
Liabilities				
Derivative financial liabilities	-	1,035	-	1,035
	-	1,035	-	1,035

* Net of allowance for impairment.

The following table present the changes in Level 3 instruments for the financial year ended:

	Economic Entity and The Bank 2016 RM'000	**2015 RM'000**
At beginning of the financial year	**525**	25
Purchases	**-**	500
Sales	**(25)**	-
Reclassify to investment in associate	**(500)**	-
At end of the financial year	**-**	525

38 FINANCIAL RISK MANAGEMENT

(vii) Fair value financial assets and liabilities (continued)

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

As at reporting date, financial instruments measured with valuation techniques using significant unobservable inputs (Level 3) mainly include unquoted shares held for socio economic purposes.

Qualitative information about the fair value measurements using significant unobservable inputs (Level 3):

Economic Entity and The Bank Description	Fair value assets 2016 RM'000	2015 RM'000	Valuation techniques	Unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial investments available-for-sale					
Unquoted shares	-	525	Net tangible assets	Net tangible assets	Higher net tangible assets results in higher fair value

In estimating its significance, the Bank used an approach that is currently based on methodologies used for fair value adjustments. These adjustments reflects the values that the Bank estimate is appropriate to adjust from the valuations produced to reflect for uncertainties in the inputs used. The methodologies used can be a statistical or other relevant approved techniques.

Economic Entity and The Bank 2016	Carrying value RM'000	Fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets					
Financial investments held-to-maturity	72,122	-	72,122	-	72,122
Financing, advances and other financing	11,914,943	-	11,612,207	-	11,612,207
	11,987,065	-	11,684,329	-	11,684,329
Financial liabilities					
Deposits from customers	10,528,698	-	10,535,227	-	10,535,227
Deposits and placements of banks and other financial institutions	1,248,993	-	1,248,993	-	1,248,993
Investment accounts due to designated financial institutions	2,110,049	-	2,110,049	-	2,110,049
	13,887,740	-	13,894,269	-	13,894,269

38 FINANCIAL RISK MANAGEMENT

(vii) Fair value financial assets and liabilities (continued)

Effect of changes in significant unobservable assumptions to reasonably possible alternatives (continued)

Economic Entity and The Bank 2015	Carrying value RM'000	Fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets					
Financial investments held-to-maturity	76,283	-	76,283	-	76,283
Financing, advances and other financing	9,201,909	-	9,162,987	-	9,162,987
	9,278,192	-	9,239,270	-	9,239,270
Financial liabilities					
Deposits from customers	10,001,695	-	10,006,995	-	10,006,995
Deposits and placements of banks and other financial institutions	1,041,392	-	1,066,674	-	1,066,674
Investment accounts due to designated financial institutions	1,331,318	-	1,331,318	-	1,331,318
	12,374,405	-	12,404,987	-	12,404,987

Other than as disclosed above, the total fair value of each financial assets and liabilities presented on the statements of financial position as at reporting date of the Bank approximates the total carrying amount.

The fair value estimates were determined by application of the methodologies and assumptions described below.

Short-term funds and placements with banks and other financial institutions

For short-term funds and placements with banks and other financial institutions with maturity of less than six months, the carrying amount is a reasonable estimate of fair value.

For amounts with maturities of six months or more, fair values have been estimated by reference to current rates at which similar deposits and placements would be made with similar credit ratings and maturities.

Financial investments held-to-maturity

The fair values of financial investments held-to-maturity are reasonable estimates based on quoted market prices. In the absence of such quoted prices, the fair values are based on the expected cash flows of the instruments discounted by indicative market yields for the similar instruments as at reporting date or the audited net tangible asset of the invested company.

Financing, advances and other financing

Financing, advances and other financing of the Bank comprise of floating rate financing and fixed rate financing. For performing floating rate financing, the carrying amount is a reasonable estimate of their fair values.

The fair values of performing fixed rate financing are arrived at using the discounted cash flows based on the prevailing market rates of financing, advances and other financing with similar credit ratings and maturities.

The fair values of impaired financing, advances and other financing whether fixed or floating are represented by their carrying values, net of individual and collective allowances, being the reasonable estimate of recoverable amount.

38 FINANCIAL RISK MANAGEMENT

(vii) Fair value financial assets and liabilities (continued)

Other assets and liabilities

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

Deposits from customers, banks and other financial institutions and bills and acceptances payable

The carrying values of deposits and liabilities with maturities of six months or less are assumed to be reasonable estimates of their fair values. Where the remaining maturities of deposits and liabilities are above six months, their estimated fair values are arrived at using the discounted cash flows based on prevailing market rates currently offered for similar remaining maturities.

The estimated fair value of deposits with no stated maturity, which include non-profit bearing deposits, approximates carrying amount which represents the amount payable on demand.

39 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In accordance with MFRS 132 'Financial Instruments: Presentation', the Bank reports financial assets and financial liabilities on a net basis on the statements of financial position only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The following table shows the impact of netting arrangement on:

- All financial assets and liabilities that are reported net on statements of financial position; and
- All derivative financial instruments and other similar secured financing and funding agreements that are subject to enforceable master netting arrangements or similar agreements, but do not qualify for statements of financial position netting.

The table identifies the amounts that have been offset in the statements of financial position and also those amounts that are covered by enforeable netting arrangements (offsetting arrangements and financial collateral) but do not qualify for netting under the requirements of MFRS 132 described above.

The "Net amounts" presented below are not intended to represent the Bank's actual exposure to credit risk, as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements.

Related amount not offset

Derivative financial assets and liabilities

The 'Financial instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as the ISDA Master Agreement or derivative exchange or clearing counterparty agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transaction covered by the agreements if an event of default or other predetermined events occur.

Financial collateral refers to cash and non-cash collateral obtained, typically daily or weekly, to cover the net exposure between counterparties by enabling the collateral to be realised in an event of default or if other predetermined events occur.

39 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	Effects of offsetting on the statements of financial position			Related amounts not offset		
Economic Entity and The Bank 2016	**Gross amount RM'000**	**Amount offset RM'000**	**Net amount reported on statement of financial position RM'000**	**Financial instruments RM'000**	**Financial collateral RM'000**	**Net amount RM'000**
Financial assets						
Derivative financial assets	**8,987**	**-**	**8,987**	**(687)**	**-**	**8,300**
Total assets	**8,987**	**-**	**8,987**	**(687)**	**-**	**8,300**
Financial liabilities						
Derivative financial liabilities	**1,412**	**-**	**1,412**	**(687)**	**-**	**725**
Total liabilities	**1,412**	**-**	**1,412**	**(687)**	**-**	**725**
Economic Entity and The Bank 2015						
Financial assets						
Derivative financial assets	132	-	132	(126)	-	6
Total assets	132	-	132	(126)	-	6
Financial liabilities						
Derivative financial liabilities	1,035	-	1,035	(126)	-	909
Total liabilities	1,035	-	1,035	(126)	-	909

40 LEASE COMMITMENTS

The Bank has lease commitments in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the future minimum lease payments under non-cancelable operating leases commitments are as follows:

	Economic Entity and The Bank	
	2016 RM'000	**2015 RM'000**
Within one year	**691**	689
One year to five year	**682**	249

41 CAPITAL MANAGEMENT

With effect from 1 January 2013, the total capital and capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (Capital Components) dated 28 November 2012.

The Bank is currently adopting Standardised Approach for Credit Risk and Market Risk, the Basic Indicator Approach for Operational Risk. In line with the transitional arrangements under the Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (Capital Components), the minimum capital adequacy requirement for Common Equity Tier 1 Capital Ratio ('CET 1') and Tier 1 Capital Ratio are 5.125% (2015: 4.5%) and 6.625% (2015:6.0%) respectively for year 2016. The minimum regulatory capital adequacy requirement has increased to 8.625% (2015 : 8.0%) for total capital ratio.

The Bank has adopted and to comply with the Guidelines and are subject to the transition arrangements as set out by BNM.

The Bank's objectives when managing capital are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level agreed with the management which takes into account the risk profile of the Bank.

The table in Note 42 below summarises the composition of regulatory capital and the ratios of the Bank for the financial year ended 31 December 2016.

42 CAPITAL ADEQUACY

The capital adequacy ratios are as follows:

	Economic Entity		The Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Paid-up share capital	**560,000**	460,000	**560,000**	460,000
Statutory reserves	**305,016**	248,717	**305,016**	248,717
Retained profits	**237,127**	195,606	**237,777**	196,256
Unrealised gains and losses on AFS	**(23,768)**	(10,405)	**(23,768)**	(10,405)
	1,078,375	893,918	**1,079,025**	894,568
Less:				
Goodwill and other intangibles	**-**	(426)	**-**	(426)
Deferred tax assets	**(8,056)**	(3,598)	**(8,056)**	(3,598)
Investment in associate/joint ventures	**(450)**	-	**(840)**	(260)
CET1 capital	**1,069,869**	889,894	**1,070,129**	890,284
Tier I capital	**1,069,869**	889,894	**1,070,129**	890,284
Collective impairment @	**28,541**	23,750	**28,541**	23,750
Regulatory adjustments	**73,178**	58,400	**73,178**	58,400
Less:				
Investment in associate/joint ventures	**(300)**	-	**(560)**	(390)
Tier II capital	**101,419**	82,150	**101,159**	81,760
Total capital	**1,171,288**	972,044	**1,171,288**	972,044
CET1 capital ratio	**12.421%**	13.197%	**12.424%**	13.203%
Tier 1 capital ratio	**12.421%**	13.197%	**12.424%**	13.203%
Total capital ratio	**13.598%**	14.415%	**13.598%**	14.415%
CET1 capital ratio (net of proposed dividends)	**12.421%**	13.197%	**12.424%**	13.203%
Tier 1 capital ratio (net of proposed dividends)	**12.421%**	13.197%	**12.424%**	13.203%
Total capital ratio (net of proposed dividends)	**13.598%**	14.415%	**13.598%**	14.415%
Risk-weighted assets for:				
Credit risk	**8,124,441**	6,336,026	**8,124,441**	6,336,026
Market risk	**37,254**	3,650	**37,254**	3,650
Operational risk	**451,894**	403,377	**451,894**	403,377
Total risk-weighted assets	**8,613,589**	6,743,053	**8,613,589**	6,743,053

@ Qualifying collective impairment is restricted to allowances on unimpaired portion of the financing, advances and other financing.

In accordance with BNM's Guidelines on Investment Account, the credit and market risk weighted on the assets funded by the RIA are excluded from calculation of capital adequacy. As at 31 December 2016, RIA assets excluded from Total Capital Ratio calculation amounted to RM2,112,242,742 (2015: RM1,316,026,354).

43 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. To enhance the information content of the estimates, certain variables that are anticipated to have material impact to the Bank's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Allowance for impairment losses on financing, advances and other financing

The accounting estimates and judgments related to the impairment of financing and provision for off-balance sheet positions is a critical accounting estimate because the underlying assumptions used for both the individually and collectively assessed impairment can change from period to period and may significantly affect the Bank's results of operations.

In assessing assets for impairment, management judgment is required. The determination of the impairment allowance required for financing which are deemed to be individually significant often requires the use of considerable management judgment concerning such matters as local economic conditions, the financial performance of the counterparty and the value of any collateral held, for which there may not be a readily accessible market. 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 reported allowances.

The impairment allowance for portfolios of smaller balance homogenous financing, such as those to individuals and small business customers of the private and retail business, and for those financing which are individually significant but for which no objective evidence of impairment exists, is determined on a collective basis. The collective impairment allowance is calculated on a portfolio basis using statistical models which incorporate numerous estimates and judgments, and therefore is subject to estimation uncertainty. The Bank performs a regular review of the models and underlying data and assumptions as far as possible to reflect the current economic circumstances. The probability of default, loss given defaults, and loss identification period, amongst other things, are all taken into account during this review.

44 CREDIT EXPOSURES ARISING FROM TRANSACTIONS WITH CONNECTED PARTIES

The following credit exposures are based on Bank Negara Malaysia's revised Guidelines on Credit Transaction and Exposures with Connected Parties, which are effective 1 January 2008.

		The Bank	
		2016	**2015**
(i)	The aggregate value of outstanding credit exposures with connected parties (RM'000)	**777,489**	415,939
(ii)	The percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	**4%**	3%
(iii)	The percentage of outstanding credit exposures with connected parties which is impaired or in default	**Nil**	Nil

45 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with resolution of the Board of Directors 21 March 2017.

Statement by Directors

Pursuant to Section 169 (15) of the Companies Act, 1965

We, MOHD SUFFIAN BIN HAJI HARON and TAN SRI DATO' SRI ABDUL AZIZ BIN ABDUL RAHMAN, two of the Directors of AFFIN ISLAMIC BANK BERHAD, state that, in the opinion of the Directors, the accompanying financial statements set out on pages 43 to 140 are drawn up so as to give a true and fair view of the state of affairs of the Economic Entity and the Bank as at 31 December 2016 and of the results and cash flows of the Economic Entity and the Bank for the financial year ended on the date in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965, in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 21 March 2017.

MOHD SUFFIAN BIN HAJI HARON
Director

TAN SRI DATO' SRI ABDUL AZIZ BIN ABDUL RAHMAN
Director

Statutory Declaration

Pursuant to Section 169 (16) of the Companies Act, 1965

I, RAMANATHAN RAJOO, the officer of AFFIN ISLAMIC BANK BERHAD primarily responsible for the financial management of the Economic Entity and the Bank, do solemnly and sincerely declare that in my opinion, the accompanying financial statements set out on pages 43 to 140 are correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

RAMANATHAN RAJOO

Subscribed and solemnly declared by the abovenamed RAMANATHAN RAJOO at Kuala Lumpur in Malaysia on 21 March 2017, before me.

Commissioner for Oaths

Shariah Committee's Report

In the name of Allah, the Most Beneficent, the Most Merciful

Praise be to Allah, the Lord of the Worlds, and peace and blessings upon our Prophet Muhammad and on his scion and companions

In compliance with the Shariah Governance Framework, Financial Reporting for Islamic Banking Institutions and other relevant guidelines issued by Bank Negara Malaysia, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications offered by AFFIN Islamic Bank Berhad ('the Bank') during the period ended 31 December 2016. We have also conducted our review to form an opinion as to whether the Bank has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.

The management of the Bank is responsible for ensuring that the financial institution conducts its business in accordance with Shariah principles. It is our responsibility to form an independent opinion, based on the review work carried out by Shariah review and Shariah audit 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 planned and 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 not violated the Shariah principles.

Interactive sessions and discussions has been conducted with senior management to enhance understanding on Islamic finance with periodic training for staff in order to provide adequate knowledge and competence in undertaking tasks for the business of the Bank.

In our opinion:

1. the contracts, transactions and dealings entered into by the Bank during the year ended 31 December 2016 that we have reviewed are in compliance with the Shariah principles;

2. the allocation of profit and incurrence of losses relating to investment accounts conform to the basis that we have approved in accordance with Shariah principles;

3. no earning and purification has recorded from sources or by means prohibited by the Shariah principles for the financial year end 31 December 2016.

4. the calculating of zakat is in compliance with Shariah principles. The zakat fund has been distributed through a various channels i.e. States Zakat Collection Centre, non-government organization and individuals under asnaf categories of poor, needy, amil, riqab, gharimin and fisablilillah.

Shariah Committee's Report

We, the members of the Shariah Committee of AFFIN Islamic Bank Berhad, do hereby confirm that the operations of the Bank for the year ended 31 December 2016 have been conducted in conformity with the Shariah principles.

Chairman of the Shariah Committee:

Associate Professor Dr. Said Bouheraoua

Shariah Committee:

Associate Professor Dr. Ahmad Azam Bin Othman

Shariah Committee:

Associate Professor Dr. Zulkifli Bin Hasan

Shariah Committee:

Ustaz Mohammad Mahbubi Ali

Shariah Committee:

Dr. Nor Fahimah Binti Mohd Razif

Kuala Lumpur, Malaysia
21 March 2017

Independent Auditors' Report

to the Member of AFFIN Islamic Bank Berhad (Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of AFFIN Islamic Bank Berhad ("the Bank") and the Economic Entity give a true and fair view of the financial position of the Economic Entity and of the Bank as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

What we have audited

We have audited the financial statements of the Economic Entity and of the Bank, which comprise the statements of financial position as at 31 December 2016 of the Economic Entity and of the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Economic Entity and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 43 to 140.

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

Information other than the financial statements and auditors' report thereon

The directors of the Bank are responsible for the other information. The other information comprises

- Management Discussion and Analysis,
- Financial Highlights,
- Statement on Corporate Governance,
- Statement on Risk Management and Internal Control,
- Board Audit Committee Report,
- Directors' Report
- Shariah Committee's Report
- Basel II Pillar 3 Disclosures

but does not include the financial statements of the Economic Entity and of the Bank and our auditors' report thereon.

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

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

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

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

In preparing the financial statements of the Economic Entity and of the Bank, the directors are responsible for assessing the Economic Entity's and 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 Economic Entity or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

(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 Economic Entity's and 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 Economic Entity's or 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 Economic Entity and of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Economic Entity or Bank to cease to continue as a going concern.

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

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

Independent Auditors'Report

to the Member of AFFIN Islamic Bank Berhad (Incorporated in Malaysia)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

NG YEE LING
03032/01/2019 J
Chartered Accountant

Kuala Lumpur
21 March 2017

Basel II Pillar 3 Disclosures

Basel II Pillar 3 Disclosures
as at 31 December 2016

1 INTRODUCTION

1.1 Background

The Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets) issued by Bank Negara Malaysia ('BNM'), which is the equivalent of the Basel II issued by the Basel Committee of Banking Supervision and the Islamic Financial Services Board is structured around three fundamental pillars:

- Pillar 1 defines the minimum capital requirement to ensure that financial institutions hold sufficient capital to cover their exposure to credit, market and operational risks.
- Pillar 2 requires financial institutions to have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels.
- Pillar 3 requires financial institutions to establish and implement an appropriate disclosure policy that promotes transparency regarding their risk management practices and capital adequacy positions.

Pillar 3 disclosure is required under the BNM Capital Adequacy Framework for Islamic Banks (CAFIB) - Disclosure Requirements (Pillar 3).

Affin Islamic Bank Berhad ('the Bank') adopts the following approaches under Pillar 1 requirements:

- Standardised Approach for Credit Risk
- Basic Indicator Approach for Operational Risk
- Standardised Approach for Market Risk

1.2 Scope of Application

This document contains the disclosure requirements under Pillar 3 for the Bank for the year ended 31 December 2016. The disclosures are made in line with the Pillar 3 disclosure requirements under the Basel II framework as laid out by BNM.

The disclosures should be read in conjunction with the Bank's 2016 Annual Report for the year ended 31 December 2016.

2 RISK GOVERNANCE STRUCTURE

2.1 Overview

The Board of Directors of the Bank is ultimately responsible for the overall performance of the Bank. The Board's responsibilities are congruent with the framework of BNM Guidelines. The Board also exercises great care to ensure that high ethical standards are upheld, and that the interests of stakeholders are not compromised. These include responsibility for determining the Bank's general policies and strategies for the short, medium and long term, approving business plans, including targets and budgets, and approving major strategic decisions.

The Board has overall responsibility for maintaining the proper management and protection of the Bank's interests by ensuring effective implementation of the risk management policy and process, as well as adherence to a sound system of internal control. The Board also recognises that risks cannot be eliminated completely. As such, the inherent system of internal control is designed to provide a reasonable though not absolute assurance against the risk of material errors, fraud or losses occurring. The system of internal controls encompasses controls relating to financial, operational, risk management and compliance with applicable laws, regulations, policies and guidelines.

The terms of reference of the Board Committees as disclosed in the Annual Report provide an outline of respective roles and functions. In carrying out its functions, the Board has delegated specific responsibilities to other Board Committees, which operate under approved terms of reference, to assist the Board in discharging their duties. The Chairmen of the various Committees report on the outcome of their Committee meetings to the Board and any further deliberation is made at Board level, if required. These reports and deliberations are incorporated into the Minutes of the Board meetings. The Board meets on a monthly basis.

2 RISK GOVERNANCE STRUCTURE

2.2 Board Committees

Board Remuneration Committee ('BRC')

The BRC is responsible for providing a formal and transparent procedure for developing the remuneration policy for Directors, Chief Executive Officer (CEO) and key senior management officers and ensuring that compensation is competitive and consistent with the Bank's culture, objectives and strategy.

The Committee obtains advice from experts in compensation and benefits, both internally and externally.

Board Nominating Committee ('BNC')

The BNC is responsible for providing a formal and transparent procedure for the appointment of Directors and CEO, assessing the effectiveness of individual Directors, the Board as a whole and the performance of the CEO as well as key senior management personnel.

Board Risk Management Committee ('BRMC')

BRMC is responsible for overseeing management activities in managing credit, market, liquidity, operational, legal, reputational and other material risks as well as ensuring that the risk management process is in place and functioning effectively.

It is responsible for setting the overall tone of the Bank's strategy and ensuring effective communication and integration of risk appetite within the business strategy, operations and culture.

The Committee also assists the Board in oversight responsibilities on internal controls, and risk management strategies, policies, processes, frameworks and other risk related matters. It has the responsibility of reviewing and/or approving risk management policies, guidelines and reports.

Board Loan Review and Recovery Committee ('BLRRC')

The BLRRC is responsible for providing critical review of financing and other credit facilities with high risk implications and vetoing financing applications that have been approved by the Group Management Loan Committee as appropriate.

Board Audit Committee ('BAC')

The BAC is responsible for providing oversight and reviewing the adequacy and integrity of the internal control systems as well as oversees the work of the internal and external auditors.

Reliance is placed on the results of independent audits performed primarily by internal auditors, the outcome of statutory audits on financial statements conducted by external auditors and on representations by Management based on their control self-assessment of all areas of their responsibility.

Minutes of Audit & Examination Committee meetings, which provide a summary of the proceedings, are circulated to Board members for notation and discussion. The Bank has an established Group Internal Audit Division ('GIA') which reports functionally to the Audit Committee and administratively to the MD/CEO of AFFIN Bank Berhad.

2 RISK GOVERNANCE STRUCTURE

2.2 Board Committees (continued)

Shariah Committee

The Shariah Committee is formed as legislated under the Islamic Financial Services Act 2013 and as per the Shariah Governance Framework for Islamic Financial Institutions.

The roles and responsibilities of the Shariah Committee include advising the Board on Shariah matters to ensure that the business operations of the Bank comply with Shariah principles at all times. SC is also responsible for endorsing and validating relevant documentations of the Bank's products to ensure that the products comply with Shariah principles, and advising the Bank on matters to be referred to the Shariah Advisory Council.

2.3 Management Committees

Management Committee ('MCM')

MCM comprises the senior management team chaired by Group Managing Director/Chief Executive Officer (Group MD/CEO). MCM is responsible for assisting the Board in managing the day-to-day operations, formulating tactical plans and business strategies while monitoring the banking entities' overall performance, and ensuring all business activities conducted are in accordance with the Bank's corporate objectives, strategies, policies as well as Annual Business Plan and Budget.

Group Management Loan Committee ('GMLC')

GMLC is established within senior management to approve complex and large financing and workout/recovery proposals beyond the delegated authority of the individual approvers.

Group Asset and Liability Management Committee ('GALCO')

GALCO comprising the senior management team chaired by the MD/CEO, manages the Bank's asset and liability position by identifying, managing and controlling balance sheet risks and capital management in the execution of the business strategy, while implementing asset liability strategy and policy for the balance sheet of the respective subsidiary.

Liquidity Management Committee ('LMC')

The LMC is a sub-committee of the GALCO. The role of LMC is to augment the functions of GALCO by directing its focus specifically to liquidity issues.

Group Operational Risk Management Committee ('GORMC')

GORMC is a senior management committee chaired by the Group Chief Risk Officer, established to oversee the management of operational risks issues and control lapses while supporting BRMC in its review and monitoring of operational risk. It is also responsible for reviewing and ensuring that the operational risk programme, process and framework are implemented in accordance with regulatory requirement and manage loss incidents to an acceptable level.

Group Early Alert Committee ('GEAC')

GEAC is a senior management committee, established to monitor credit quality through monthly reviews of the Early Alert, Watchlist and Exit Accounts as well as to review the actions taken to address the emerging risks and issues in these accounts.

2 RISK GOVERNANCE STRUCTURE

2.4 Group Risk Management Function

Group Risk Management ('GRM'), headed by the Group Chief Risk Officer ('GCRO') is segregated from the lines of business, with direct reporting line to BRMC to ensure independence of risk management function.

The independence of risk function is critical towards controlling and managing the Bank's risk taking activities to achieve an optimum return in line with the subsidiaries' risk appetite, with consideration to variations required due to differences in each subsidiary's business model.

Committees namely BLRRC, SC, MCM, GMLC, GALCO, LMC, GORMC and GEAC assist BRMC in managing credit, market, liquidity, operational and other material risks in the Bank. The responsibilities of these Committees include risk identification, risk assessment and measurement, risk control and mitigation and risk monitoring and reporting.

2.5 Internal Audit and Internal Control Activities

In accordance with BNM's Guidelines on Corporate Governance for Licensed Islamic Banks, GIA conducts continuous reviews on auditable areas within the Bank. The reviews by GIA are focused on areas of significant risks and effectiveness of internal control in accordance with the audit plan approved by the BAC.

Based on GIA's review, identification and assessment of risk, testing and evaluation of controls, GIA will provide an opinion on the effectiveness of internal controls maintained by each entity. The risks highlighted on the respective auditable areas as well as recommendation made by the GIA are addressed at BAC and Management meetings on bi-monthly basis. The BAC also conducts annual reviews on the adequacy of internal audit function, scope of work, resources and budget of GIA.

3 CAPITAL MANAGEMENT

3.1 Internal Capital Adequacy Assessment Process ('ICAAP')

In line with the BNM guideline on Risk-Weighted Capital Adequacy Framework - Internal Capital Adequacy Assessment Process (Pillar 2), the Bank has put in place the ICAAP Framework to assess the capital adequacy to ensure that the level of capital maintained by the Bank is adequate at all times, taking into consideration the Bank's risk profile and business strategies.

The Bank's capital management approach is focused on maintaining an appropriate level of capital to meet its business needs and regulatory requirements as capital adequacy and risk management are closely aligned. The Bank operates within an agreed risk appetite whilst optimising the use of shareholders' funds to deliver sustainable returns.

3.2 Capital Structure

The total capital and capital adequacy ratios of the Bank is computed in accordance with BNM's CAFIB (Capital Components).

The Bank is currently adopting the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk. In line with the transitional arrangements under the BNM CAFIB (Capital Components), the minimum capital adequacy requirement for Common Equity Tier 1 Capital Ratio ('CET 1') and Tier 1 Capital Ratio are 5.125% (2015: 4.5%) and 6.625% (2015: 6.0%) respectively for year 2016. The minimum regulatory capital adequacy requirement is 8.625% (2015: 8.0%) for total capital ratio.

The following table sets forth further details on the capital resources and capital adequacy ratios for the Bank as at 31 December 2016.

3 CAPITAL MANAGEMENT

3.2 Capital Structure (continued)

	Economic Entity 2016 RM'000	Economic Entity 2015 RM'000	The Bank 2016 RM'000	The Bank 2015 RM'000
Paid-up share capital	**560,000**	460,000	**560,000**	460,000
Statutory reserves	**305,016**	248,717	**305,016**	248,717
Retained profits	**237,127**	195,606	**237,777**	196,256
Unrealised gains and losses on AFS	**(23,768)**	(10,405)	**(23,768)**	(10,405)
	1,078,375	893,918	**1,079,025**	894,568
Goodwill and other intangibles	**-**	(426)	**-**	(426)
Deferred tax assets	**(8,056)**	(3,598)	**(8,056)**	(3,598)
Investment in associate/joint ventures	**(450)**	-	**(840)**	(260)
CET1 capital	**1,069,869**	889,894	**1,070,129**	890,284
Tier I capital	**1,069,869**	889,894	**1,070,129**	890,284
Collective impairment	**28,541**	23,750	**28,541**	23,750
Regulatory adjustments	**73,178**	58,400	**73,178**	58,400
Less:				
Investment in associate/joint ventures	**(300)**	-	**(560)**	(390)
Tier II capital	**101,419**	82,150	**101,159**	81,760
Total capital	**1,171,288**	972,044	**1,171,288**	972,044
CET1 capital ratio	**12.421%**	13.197%	**12.424%**	13.203%
Tier 1 capital ratio	**12.421%**	13.197%	**12.424%**	13.203%
Total capital ratio	**13.598%**	14.415%	**13.598%**	14.415%
CET1 capital ratio (net of proposed dividends)	**12.421%**	13.197%	**12.424%**	13.203%
Tier 1 capital ratio (net of proposed dividends)	**12.421%**	13.197%	**12.424%**	13.203%
Total capital ratio (net of proposed dividends)	**13.598%**	14.415%	**13.598%**	14.415%
Risk-weighted assets for:				
Credit risk	**8,124,441**	6,336,026	**8,124,441**	6,336,026
Market risk	**37,254**	3,650	**37,254**	3,650
Operational risk	**451,894**	403,377	**451,894**	403,377
Total risk-weighted assets	**8,613,589**	6,743,053	**8,613,589**	6,743,053

3 CAPITAL MANAGEMENT

3.3 Capital Adequacy

The Bank's has in place an internal limit for its CET1 capital ratio, Tier I capital ratio and Total capital ratio, which is guided by the need to maintain a prudent relationship between available capital and the risks of its underlying businesses. The capital management process is monitored by senior management through periodic reviews.

Refer to Appendix I.

4 RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is principally engaged in all aspects of Islamic banking and related financial services. There have been no significant changes in these principal activities during the financial year.

The Bank's business activities involve the analysis, measurement, acceptance, and management of risks and which operates within well defined risk acceptance criteria covering customer segments, industries and products. The Bank does not enter into risk it cannot administer, book, monitor or value, or deal with persons of questionable integrity.

The Bank's risk management policies are established to identify, assess, measure, control and mitigate all key risks as well as manage and monitor the risk positions.

The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best practice in risk management processes. The Bank's aim is to achieve an appropriate balance between risk and return as well as minimise any potential adverse effects.

5 CREDIT RISK

5.1 Credit Risk Management Objectives and Policies

Credit risk is the potential financial loss resulting from the failure of the customer to settle financial and contractual obligations through financing, hedging, trading and investing activities. It includes both pre-settlement and settlement risks of trading counterparties. Credit risk emanates mainly from financing, advances and other financing, financing commitments arising from such financing activities, as well as through financial transaction with counterparties including interbank money market activities as well as derivative instruments used for hedging and debt securities.

The management of credit risk in the Bank is governed by the Credit Risk Management Framework which is supported by a set of approved credit policies, guidelines and procedures. Approval authorities are delegated to Senior Management and GMLC to implement the credit policies and ensure sound credit granting standards. BLRRC has review/veto power.

An independent Group Credit Management function is headed by Group Chief Credit Officer ('GCCO') with direct reporting line to MD/CEO to ensure sound credit appraisal and approval process. GRM with direct reporting line to BRMC has functional responsibilities for the management of credit risk, to ensure adherence to risk standards and discipline.

Credit guidelines and procedures are incorporated within the Credit Policy. The Credit Authority Framework facilitates the approval of all new, restructured and continuing credit facilities. New and existing businesses are governed by Credit Plan which is developed as part of the annual business planning and budgeting process. The Credit Plan is reviewed at least annually to ensure the guidelines and criteria reflect portfolio strategy and market environment.

5 CREDIT RISK

5.2 Application of Standardised Approach for Credit Risk

The Bank uses the following External Credit Assessment Institutions ('ECAIs') to determine the risk weights for the rated credit exposures:-

- RAM Rating Services Berhad
- Malaysian Rating Corporation Berhad
- Standard & Poor's Rating Services
- Moody's Investors Service
- Fitch Ratings

The external ratings of the ECAIs are used to determine the risk weights of the following types of exposure: sovereigns, banks, public sector entities and corporates.

The mapping of the rating categories of different ECAIs to the risk weights is in accordance with BNM guidelines. In cases where there is no issuer or issue rating, the exposures are treated as unrated and accorded a risk weight appropriate for unrated exposure in the respective category.

Refer to Appendix II and Appendices III (i) to III (ii).

5.3 Credit Risk Measurement

Financing, advances and other financing

Credit evaluation is the process of analysing the creditworthiness of the prospective customer against the Bank's underwriting criteria and the ability of the Bank to make a return commensurate with the level of risk undertaken. Assessment and quantification of credit risk are supported by the use of internal rating models, scorecards and decision support tools.

The Bank adopts a credit risk grading methodology encompassing probability of default ('PD') driven scorecards for business financing, advances and other financing. Separate scorecards have been developed for two categories of business customers, Large Corporate ('LC') and Small Medium Enterprise ('SME').

For consumer mass market products, statistically developed application scorecards are used to assess the risks associated with the credit application as a decision support tool at financing, advances and other financing origination.

Stress Testing supplements the overall assessment of credit risk across the Bank.

Over-the-Counter ('OTC') Derivatives

The OTC Derivatives credit exposure is computed using the Current Exposure Method. Under the Current Exposure Method, computation of credit equivalent exposure for rate of return and exchange rate related contracts is derived from the summation of the two elements; the replacement costs (obtained by marking-to-market) of all contracts and the potential future exposure of outstanding contracts (Add On charges depending on the specific remaining tenor to maturity).

5.4 Risk Limit Control and Mitigation Policies

The Bank employs various policies and practices to control and mitigate credit risk.

Financing limits

The Bank establishes internal limits and related lending guidelines to manage large exposures and avoid undue concentration of credit risk in its credit portfolio. The limits include single customer groupings, connected parties, geographical and industry segments. These risks are monitored regularly and the limits reviewed annually or sooner depending on changing market and economic conditions.

5 CREDIT RISK

5.4 Risk Limit Control and Mitigation Policies (continued)

The credit risk exposure for derivative and financing, advances and other financing books is managed as part of the overall lending limits with customers together with potential exposure from market movements.

Collateral

Credits are established against customer's capacity to pay rather than rely solely on security. However, collateral may be taken to mitigate credit risk. The main collateral types accepted and given value by the Bank are:

- Mortgages over residential properties;
- Charges over commercial real estate or vehicles financed;
- Charges over business assets such as business premises, inventory and account receivables; and
- Charges over financial instruments such as marketable securities.

Credit related commitments

Commitment to extend credit represents unutilised portion of approved credit in the form of financing, advances and other financing, guarantees or letters of credit. In terms of credit risk, the Bank is potentially exposed to loss in an amount equal to the total unutilised commitments. However, the potential amount of loss is less than the total unutilised commitments, as most commitments to extend credit are contingent upon customers maintaining specific minimum credit standards.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than short-term commitments.

Refer to Appendix IV (a) to (b).

5.5 Credit Risk Monitoring

Corporate credits and large individual accounts are reviewed by the Business Units at least once a year using updated financial and other relevant information. This is to ensure that the credit grades remain appropriate and any signs of weaknesses or deterioration in the credit quality are detected. Remedial action is taken where evidence of deterioration emanates.

Retail credits are actively monitored and managed on a portfolio basis by product type. A collection management system is in place to promptly identify, monitor and manage delinquent accounts at early stages of delinquency.

An Early Alert Process is adopted to pro-actively identify, report, and manage warning signs of potential credit deterioration. Watchlist accounts are closely reviewed and monitored with corrective measures initiated to prevent them from turning impaired. As a rule, watchlist accounts are either worked up or worked out within a period of twelve months.

Active portfolio monitoring as well as exceptions reporting is in place to manage the overall risk profile, identify, analyse and mitigate adverse trends or specific areas of risk concerns.

5 CREDIT RISK

5.6 Impairment Provisioning

Individual impairment provisioning

All significant financing, advances and other financing exposures, with or without past due status, are subject to individual assessment for impairment when an evidence of impairment surfaces, or at the very least once annually during the Annual Review process.

If impaired, the amount of the 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 rate of return (i.e. the effective rate of return computed at initial recognition). The level of impairment allowance on financing, advances and other financing is to be reviewed at least quarterly, and more frequently when individual circumstances require. The review covers the collateral held (including reconfirmation of its enforceability) and an assessment of actual and expected receipts.

All significant financing, advances and other financing which are deemed not impaired after individual assessment and all financing, advances and other financing which are deemed impaired but do not result in impairment allowance after individual assessment are included in the collective impairment assessment.

Significant financing that are deemed not impaired after individual assessment are included in a group of financing with similar characteristics and collectively assessed for impairment.

Collective impairment provisioning

All financing, advances and other financing are grouped in respective business segments according to similar credit risk characteristics and is generally based on industry, asset or collateral type, credit grade and past due status.

Collective assessment for impairment allowance is conducted in accordance with the impairment methodologies approved by the Board for all financing, advances and other financing not covered under the individual impairment assessment.

Impairment allowance will be determined for each segment based on its respective loss probabilities (history) and other information relevant to estimation of the future cash flows.

The Bank is required to maintain, in aggregate, collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding financing (excluding financing with explicit guarantee from Government of Malaysia), net of individual impairment.

Total financing, advances and other financing - credit quality

All financing, advances and other financing are categorised into 'neither past due nor impaired', 'past due but not impaired' and 'impaired'.

Past due financing refers to financing, advances and other financing that are overdue by one day or more.

Financing, advances and other financing are classified impaired when they fulfill any of the following criteria:

i) the principal or profit or both is past due more than 90 days or 3 months from the first day of default
ii) where the account is in arrears for less than 90 days or 3 months, there is evidence of impairment to indicate that the borrower/customer is 'unlikely to repay' its credit obligations
iii) the financing is classified as rescheduled and restructured in Central Credit Reference Information System (CCRIS)

5 CREDIT RISK

5.6 Impairment Provisioning (continued)

Analysed by economic sectors

Past due financing	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Primary agriculture	**1,154**	865
Mining and quarrying	**132**	220
Manufacturing	**2,299**	1,898
Electricity, gas and water supply	**536**	643
Construction	**21,064**	25,496
Real estate	**20,643**	1,015
Wholesale & retail trade and restaurants & hotels	**10,858**	6,309
Transport, storage and communication	**3,012**	2,409
Finance, takaful/insurance and business services	**5,805**	3,854
Education, health and others	**8,560**	18,405
Household	**572,063**	466,515
	646,126	527,629

Individual impairment	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Manufacturing	**15**	-
Construction	**134**	-
Real estate	**17,413**	34,988
Wholesale & retail trade and restaurants & hotels	**-**	1,077
Household	**441**	2,451
	18,003	38,516

5 CREDIT RISK

5.6 Impairment Provisioning (continued)

Analysed by economic sectors (continued)

Individual impairment charged	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Manufacturing	**313**	25
Construction	**135**	-
Real estate	**17,116**	-
Wholesale & retail trade and restaurants & hotels	**469**	1,162
Household	**1,307**	2,373
	19,340	3,560

Individual impairment written-off	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Manufacturing	**-**	2,383
Wholesale & retail trade and restaurants & hotels	**1,544**	-
Household	**2,605**	-
	4,149	2,383

Collective impairment	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Primary agriculture	**482**	302
Mining and quarrying	**54**	39
Manufacturing	**575**	1,094
Electricity, gas and water supply	**311**	166
Construction	**2,608**	2,465
Real estate	**2,394**	1,641
Wholesale & retail trade and restaurants & hotels	**1,529**	887
Transport, storage and communication	**1,177**	850
Finance, takaful/insurance and business services	**1,236**	1,126
Education, health and others	**2,884**	2,437
Household	**31,745**	25,664
	44,995	36,671

5 CREDIT RISK

5.6 Impairment Provisioning (continued)

Analysed by geographical area

Past due financing	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Perlis	**1,607**	844
Kedah	**48,533**	42,401
Pulau Pinang	**21,394**	14,685
Perak	**58,896**	56,804
Selangor	**200,909**	154,251
Wilayah Persekutuan	**93,026**	76,127
Negeri Sembilan	**38,265**	26,460
Melaka	**19,181**	12,874
Johor	**51,172**	32,084
Pahang	**19,776**	21,444
Terengganu	**62,656**	55,596
Kelantan	**22,673**	25,727
Sarawak	**2,538**	2,841
Sabah	**5,403**	5,491
Outside Malaysia	**97**	-
	646,126	**527,629**

Individual impairment	Economic Entity and The Bank 2016 RM'000	2015 RM'000
Kedah	**22**	-
Selangor	**456**	2,423
Wilayah Persekutuan	**-**	1,105
Sarawak	**229**	-
Outside Malaysia	**17,296**	34,988
	18,003	38,516

5 CREDIT RISK

5.6 Impairment Provisioning (continued)

Analysed by geographical area (continued)

	Economic Entity and The Bank	
	2016	**2015**
Collective impairment	**RM'000**	**RM'000**
Perlis	**385**	409
Kedah	**2,796**	1,886
Pulau Pinang	**1,366**	948
Perak	**4,011**	3,709
Selangor	**14,246**	11,784
Wilayah Persekutuan	**7,921**	6,143
Negeri Sembilan	**1,900**	1,244
Melaka	**783**	501
Johor	**2,462**	1,759
Pahang	**1,490**	1,522
Terengganu	**4,091**	3,066
Kelantan	**2,533**	3,091
Sarawak	**442**	272
Sabah	**302**	277
Labuan	**194**	-
Outside Malaysia	**73**	60
	44,995	36,671

6 MARKET RISK

6.1 Market Risk Management Objectives and Policies

Market risk is the risk of losses in on and off-balance-sheet positions arising from movements in market prices. The Bank's exposure to market risk results largely from profit rate and foreign exchange rate risks.

The Market Risk Management Framework governs the market risk activities of the Bank which is supported by a set of approved market risk management policies, guidelines and procedures.

Risk control parameters are established based on risk appetite, market liquidity and business strategies as well as macroeconomic conditions. These parameters are reviewed at least annually.

Market risk arising from the Trading Book is primarily controlled through the imposition of Stop-loss and Value-at-Risk ('VaR') risk control parameters.

Profit rate risk is quantified by analysing the mismatches in timing repricing of the rate sensitive assets and rate sensitive liabilities. Earnings-at-Risk ('EaR') or Net Profit Income simulation is conducted to assess the variation in short term earnings under various rates scenarios. The potential long term effect of the overall exposure is tracked by assessing the impact on Economic Value of Equity ('EVE'), also known as Economic Value-at-Risk ('EVaR'). Thresholds are set for EaR and EVaR as management triggers.

Periodic stress tests are conducted to quantify market risk arising from probability of abnormal market movements.

6 MARKET RISK

6.2 Application of Standardised Approach for Market Risk

The Bank adopts the Standardised Approach for the purpose of calculating the capital requirement for market risk.

Refer Appendix I.

6.3 Market Risk Measurement, Control and Monitoring

The Bank's market risk management control parameters are established based on its risk appetite, market liquidity and business strategies as well as macroeconomic conditions. These parameters are reviewed at least on an annual basis.

Market risk arising from the Trading Book is primarily controlled through the imposition of Stop-loss and Value-at-Risk ('VaR') risk control parameters.

The Bank quantifies profit rate risk by analysing the mismatches in timing repricing of the rate sensitive assets and rate sensitive liabilities. Earnings-at-Risk ('EaR') or Net Profit Income simulation is conducted to assess the variation in short term earnings under various rates scenarios. The potential long term effect of the overall exposure is tracked by assessing the impact on Economic Value of Equity ('EVE'), also known as Economic Value-at-Risk ('EVaR'). Thresholds are set for EaR and EVaR as management triggers.

In addition, periodic stress tests are conducted to quantify market risk arising from probability of abnormal market movements.

The GALCO and BRMC are regularly kept informed of the Bank's risk profile and positions.

6.4 Value-at-Risk ('VaR')

Value-at-Risk ('VaR') is used to compute the maximum potential loss amount over a specified holding period of the Trading portfolio.

It measures the risk of losses arising from potential adverse movements in profit rates and foreign exchange rates that could affect values of financial instruments.

The Bank adopts Historical Pricing Simulation Method ('HPS') to compute potential loss or Value-at-Risk ('VaR') amount. The HPS Method uses the relative change of historical prices to estimate future potential changes in the market value of outstanding positions. The Bank currently adopts 250 simulated business days for its HPS VaR computation. After applying these price changes to the outstanding portfolios, 250 simulated market values for the portfolio are generated and the change in the day-to-day market value is taken as simulated Profit & Loss ('P&L') for the portfolio. As VaR calculates the worst expected loss over a given day horizon and confidence level under normal market condition, the 250 values are sorted from the lowest to the highest simulated P&L. The VaR focuses on the tail of the distribution (i.e. the loss figures) at the 99th percentile.

Backtesting of the VaR computation system is conducted regularly to gauge the accuracy of the risk measurement system.

Other risk measures include the following:

i) Mark-to-Market valuation tracks the current market value of the outstanding financial instruments.

ii) Stress tests are conducted to attempt to quantify market risk arising from abnormal market movements. Stress tests measure the changes in values arising from extreme movements in profit rates and foreign exchange rates based on past experiences and simulated stress scenarios.

6.5 Foreign Exchange Risk

The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The risk of fluctuations in foreign currency exchange rates is managed via setting of thresholds on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

7 LIQUIDITY RISK

7.1 Liquidity Risk Management Objectives and Policies

Liquidity risk is the risk of inability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. Liquidity risk includes the inability to manage sudden decreases or changes in funding sources. Liquidity risk also arises from the failure to recognise changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

The Liquidity Risk Management Framework governs the liquidity risk management activities of the Bank. The objective of liquidity risk management is to ensure that there are sufficient funds to meet contractual and regulatory obligations without incurring unacceptable losses as well as to undertake new transactions. The Bank's liquidity management process involves establishing liquidity risk management policies and prudential thresholds, liquidity risk threshold monitoring, stress testing and establishing contingency funding plans. These building blocks of liquidity risk management are subject to regular reviews to ensure relevance in the context of prevailing market conditions.

7.2 Liquidity Risk Measurement, Control and Monitoring

The Bank's short term liquidity risk management is premised on BNM's Liquidity Coverage Ratio ('LCR') final standards. The LCR is a quantitative requirement which seeks to ensure that the Bank holds sufficient high-quality liquid assets ('HQLA') to withstand a significant liquidity stress scenario over a 30-day horizon. Long term liquidity risk profile is assessed via the Net Stable Funding Ratio ('NSFR') which promotes resilience over a longer time horizon for the Bank to fund its activities with more stable sources of funding on an ongoing basis.

The LCR and NSFR are tracked to assess the short term and long term liquidity risk profile of the Bank, in line with BNM's Liquidity Coverage Ratio ('LCR') final standards re-issued on 25th August 2016 as well as BNM's revised Basel III Observation Period reporting for Net Stable Funding Ratio ('NSFR') and Leverage Ratio ('LR') issued on 7th August 2015.

The Bank also employs a set of liquidity risk indicators as an early alert of any structural change for liquidity risk management. The liquidity risk indicators include internal and external qualitative as well as quantitative indicators.

Liquidity stress tests are conducted periodically and on ad-hoc basis to gauge the Group's resilience in the event of a liquidity disruption.

The Contingency Funding Plan provides a systematic approach in handling liquidity disruption. The document encompasses strategies, decision-making authorities, and courses of action to be taken in the event of liquidity crisis and emergencies, enabling the Group to respond to an unexpected liquidity disruption in an effective and efficient manner.

The Board Risk Management Committee ('BRMC') is responsible for the Bank's liquidity policy and the strategic management of liquidity has been delegated to the Group Asset Liability Management Committee ('GALCO'). The Liquidity Management Committee ('LMC'), which is a sub-committee of GALCO, augments the functions of GALCO by directing its focus specifically to liquidity issues. The BRMC is informed regularly on the liquidity position of the Bank.

8 OPERATIONAL RISK

8.1 Operational Risk Management Objectives and Policies

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or external events. The definition includes legal risk, and exposure to litigation from all aspects of the Bank's activities, but excludes strategic business, reputational and systemic risks.

The Group Operational Risk Management Framework governs the management of operational risk across the Bank.

BRMC approves all policies/policy changes relating to operational risk. GORMC supports BRMC in the review and monitoring of operational risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

The operational risk management ('ORM') function within GRM operates in independent capacity to manage the risks in activities associated with the operational function of the Bank.

8.2 Application of Basic Indicator Approach for Operational Risk

The Bank adopts the Basic Indicator Approach for the purpose of calculating the capital requirement for operational risk. The capital requirement is calculated by taking 15% of the Bank's average annual gross income over the previous three years.

8.3 Operational Risk Measurement, Control and Monitoring

Operational risks are managed daily through established systems and processes to ensure compliance with policies, guidelines and control procedures.

To identify and assess operational risk issues and exposure, the following tools are employed:

- Risk Control Self Assessment ('RCSA')
- Key Control Standards ('KCS')
- Key Risk Indicator ('KRI')
- Loss Event Database ('LED')

Information Technology ('IT') and cyber risks are managed as part of the operational risk activities. The IT systems and processes are assessed and tested regularly for resilience and continuity, and that they are secure from internal and external threats.

Introduction of new products or services are evaluated to assess suitability, potential risks and operational readiness.

Operational Risk Coordinators ('ORC') are appointed at business and support units as champions of ORM activities within respective units. The ORC is responsible for the reporting of ORM activities and to liaise with Group Operational Risk Management on all operational defects and results.

8.4 Certification

As an internal requirement, all Operational Risk Coordinators must satisfy an Internal Operational Risk (including business continuity management) Certification Program. These coordinators will first go through an on-line self learning exercise before attempting on-line assessments to measure their skills and knowledge level. This will enable Group Risk Management to prescribe appropriate training and development activities for the coordinators.

9 SHARIAH NON-COMPLIANCE RISK

9.1 Shariah non-compliance risk objectives and policies

Shariah non-compliance is the risk of failure to comply with the Shariah rules and principles as determined by SC and/or any other relevant bodies, such as BNM Shariah Advisory Council.

The Shariah Governance Framework for Islamic Financial Institutions issued by BNM is the main reference for the Shariah governance process and oversight within the Bank.

Shariah Committee ('SC') is established to deliberate on Shariah issues and provide resolution as well as guidance. GORMC together with BRMC assist in the overall oversight of Shariah risk management of the Bank.

Shariah Risk Management is part of an integrated risk management control function to identify all possible risks of Shariah non-compliance and where appropriate, to provide mitigating measures that need to be taken to reduce the risk. The scope covers overall business activities and operations, commencing from Islamic product origination until maturity.

9.2 Shariah non-compliance risk measurement, control and monitoring

Each business and support unit is responsible to identify and assess potential Shariah Non-Compliance Risk using the RCSA process. Half yearly RCSA checklist is performed to gauge the level of Shariah compliance.

All Islamic products, services and strategies related matters must be approved by the SC.

Shariah Resolutions/Circulars are issued and training on Shariah Compliance is conducted on a regular basis.

Shariah non-compliance reports are regularly submitted for further deliberation, decision and remedial action.

10 BUSINESS CONTINUITY RISK

10.1 Business continuity risk management objectives and policies

Business continuity risk is the risk of losses in assets, revenue, reputation and stakeholder/customer confidence due to the discontinuation of services in both business and technology operations.

The Business Continuity Management Framework governs the management of business continuity issues, in line with BNM Guidelines on Business Continuity Management ('BCM').

BRMC approves all policies and its changes relating to business continuity management. It also reviews, monitors and discusses business continuity management reports tabled at its meetings. GORMC supports BRMC in the review and monitoring of Business Continuity Risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

The BCM function is an independent body overseeing the management of the overall business continuity risk.

10.2 Business continuity risk measurement, control and monitoring

Annual Risk Assessment and Business Impact Analysis are made compulsory for each business and support unit in the Bank to undertake. The outcome of this assessment will translate into a risks listing that require business and support units to derive action plans to address the risks.

Risk control is established through adherence with established BCM guidelines and standards throughout the implementation of BCM programs. Rigorous testing on business continuity and disaster recovery plans are diligently performed to ensure effective and smooth execution of the plan for resumption and recovery of disrupted business.

Policies and processes are in place to support the monitoring and reporting of business continuity risks.

The Bank has adopted Basel II - Risk Weighted Assets computation under the BNM's Risk-Weighted Capital Adequacy Framework with effect from 1 January 2008. The Bank has adopted the Standardised Approach for credit risk and market risk, and Basic Indicator Approach for operation risk computation.

The following information concerning the Economic Entity and the Bank's risk exposures are disclosed as accompanying information to the annual report, and does not form part of the audited accounts.

Disclosure on Capital Adequacy under the Standardised Approach (RM'000)
Economic Entity and The Bank
2016

	Exposure Class		**Gross Exposures/ EAD before CRM**	**Net Exposures/ EAD after CRM**	**Risk Weighted Assets**	**Total Risk Weighted Assets after Effects of PSIA**	**Minimum Capital Requirements at 8%**
1	**CREDIT RISK**						
	On Balance Sheet Exposures						
	Corporates		4,417,410	4,332,373	3,428,386	3,428,386	274,271
	Regulatory Retail		3,441,735	3,425,420	2,569,159	2,569,159	205,533
	Other Assets		471,858	471,858	76,783	76,783	6,143
	Sovereigns/Central Banks		1,964,813	1,964,813	-	-	-
	Public Sector Entities		-	-	-	-	-
	Banks, Development Financial Institutions & MDBs		29,582	29,582	1,968	1,968	157
	Takaful/Insurance Companies, Securities Firms & Fund Managers		65	65	65	65	5
	Residential Mortgages		2,741,411	2,730,951	1,280,061	1,280,061	102,405
	Higher Risk Assets		23,002	22,546	24,767	24,767	1,981
	Specialised Financing/Investment		-	-	-	-	-
	Equity Exposure		-	-	-	-	-
	Securitisation Exposure		-	-	-	-	-
	Defaulted Exposures		147,920	144,717	189,837	189,837	15,187
	Total for On-Balance Sheet Exposures		13,237,796	13,122,325	7,571,026	7,571,026	605,682
	Off Balance Sheet Exposures						
	Off Balance Sheet Exposures other than OTC derivatives or credit derivatives		693,127	683,193	531,291	531,291	42,503
	Defaulted Exposures		14,937	14,769	22,124	22,124	1,770
	Total for Off-Balance Sheet Exposures		708,064	697,962	553,415	553,415	44,273
	Total for On and Off-Balance Sheet Exposures		13,945,860	13,820,287	8,124,441	8,124,441	649,955
2	**MARKET RISK**	**Long Position**	**Short Position**				
	Profit Rate Risk	1,051,537	1,043,829	7,708	8	-	1
	Foreign Currency Risk	37,245	-	37,245	37,246	-	2,980
3	**OPERATIONAL RISK**						
	Operational Risk				451,894		36,152
	Total RWA and Capital Requirements				8,613,589	8,124,441	689,088

OTC "Over The Counter"
PSIA "Profit Sharing Investment Account"

Basel II Pillar 3 Disclosures
as at 31 December 2016

Disclosure on Capital Adequacy under the Standardised Approach (RM'000) (continued)

Economic Entity and The Bank
2015

	Exposure Class		Gross Exposures/ EAD before CRM	Net Exposures/ EAD after CRM	Risk Weighted Assets	Total Risk Weighted Assets after Effects of PSIA	Minimum Capital Requirements at 8%
1	CREDIT RISK						
	On Balance Sheet Exposures						
	Corporates		3,670,640	3,400,665	2,656,194	2,656,194	212,496
	Regulatory Retail		2,904,191	2,890,253	2,167,828	2,167,828	173,426
	Other Assets		738,826	738,826	137,870	137,870	11,030
	Sovereigns/Central Banks		2,736,934	2,736,934	-	-	-
	Banks, Development Financial Institutions & MDBs		19,623	19,623	-	-	-
	Residential Mortgages		1,974,206	1,963,672	799,774	799,774	63,982
	Higher Risk Assets		6,345	6,345	9,518	9,518	761
	Defaulted Exposures		78,261	78,261	102,619	102,619	8,209
	Total for On-Balance Sheet Exposures		12,129,026	11,834,579	5,873,803	5,873,803	469,904
	Off Balance Sheet Exposures						
	Off Balance Sheet Exposures other than OTC derivatives or credit derivatives		599,980	582,972	447,760	447,760	35,821
	Defaulted Exposures		9,666	9,666	14,463	14,463	1,157
	Total for Off-Balance Sheet Exposures		609,646	592,638	462,223	462,223	36,978
	Total for On and Off-Balance Sheet Exposures		12,738,672	12,427,217	6,336,026	6,336,026	506,882
2	MARKET RISK	Long Position	Short Position				
	Profit Rate Risk	50,690	50,894	(205)	323	-	26
	Foreign Currency Risk	3,327	-	3,327	3,327	-	266
3	OPERATIONAL RISK						
	Operational Risk				403,377		32,270
	Total RWA and Capital Requirements				6,743,053	6,336,026	539,444

OTC "Over The Counter"
PSIA "Profit Sharing Investment Account"

BASEL II Pillar 3 Disclosures (continued)

Disclosure on Capital Adequacy under the Standardised Approach (continued)

Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices. The Bank's Capital-at-Risk ('CaR') is defined as the amount of the Bank's capital that is exposed to the risk of unexpected losses arising particularly from movements in profit and foreign exchange rates. A CaR reference threshold is set as a management trigger to ensure that the Bank's capital adequacy is not impinged upon in the event of adverse market movements. The Bank currently adopts BNM's Standardised Approach for the computation of market risk capital charges. The market risk capital charge addresses among others, capital requirement for market risk which includes the profit rate risk in the Bank's Trading Book as well as foreign exchange risk in the Trading and Banking Books.

The computation of market risk capital charge covers the following outstanding financial instruments:

a) Foreign Exchange ('FX')
b) Profit Rate Swap ('IRS')
c) Cross Currency Swap ('CCS')
d) Fixed Income Instruments (i.e. Corporate Sukuk and Government Securities)

The Bank's Trading Book Policy Statement stipulates the policies and procedures for including or excluding exposures from the Trading Book for the purpose of calculating regulatory market risk capital.

Basel II Pillar 3 Disclosures
as at 31 December 2016

Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000)

Economic Entity and The Bank
2016

	Exposures after Netting and Credit Risk Mitigation													
Risk Weights	Sovereigns & Central Banks	PSEs	Banks, MDBs and FDIs	Insurance Companies, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing / Investment	Securitisation	Equity	Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
0%	2,005,137	-	19,742	-	480,679	-	-	-	391,213	-	-	-	2,896,771	-
10%	-	-	-			-	-	-	-	-	-	-	-	-
20%	47,416	-	24,005	-	504,556	-	-	-	4,826	-	-	-	580,803	116,161
35%	-	-	-	-	-	-	1,977,746	-	-	-	-	-	1,977,746	692,211
50%	-	-	-	-	159,280	-	330,928	9,051	-	-	-	-	499,259	249,629
70%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	3,466,599	288	-	-	-	-	-	3,466,887	2,600,165
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	65	3,739,703	5,266	443,062	-	75,818	-	-	-	4,263,914	4,263,914
115%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	79,633	12,180	29,199	13,895	-	-	-	-	134,907	202,361
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Average Risk Weight											-		-	-
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-	

PSE "Public Sector Entities"
MDB "Multilateral Development Banks"
FDI "Financial Development Institutions"

Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000)

Economic Entity and The Bank
2015

	Exposures after Netting and Credit Risk Mitigation													
Risk Weights	Sovereigns & Central Banks	PSEs	Banks, MDBs and FDIs	Insurance Companies, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing / Investment	Securitisation	Equity	Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
0%	2,794,890	-	19,623	-	270,254	-	-	-	301,056	-	-	-	3,385,823	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	59,684	-	5,386	-	600,245	-	-	-	374,873	-	-	-	1,040,188	208,038
35%	-	-	-	-	-	-	1,635,087	-	-	-	-	-	1,635,087	572,280
50%	-	-	-	-	25,760	608	202,409	-	-	-	-	-	228,777	114,388
70%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	2,914,873	244	-	-	-	-	-	2,915,117	2,186,338
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	2,938,656	3,966	151,193	-	62,896	-	-	-	3,156,711	3,156,711
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115%														
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	17,953	14,249	26,451	6,861	-	-	-	-	65,514	98,271
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Average Risk Weight											-		-	-
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-	

PSE "Public Sector Entities"
MDB "Multilateral Development Banks"
FDI "Financial Development Institutions"

(i) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000)

Economic Entity and The Bank
2016

Exposure Class	**Ratings of Corporate by Approved ECAIs**					
	Moodys	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Ba3**	**B1 to C**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	RAM	**AAA to AA3**	**A to A3**	**BBB1 to BB3**	**B to D**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	Rating & Investment Inc	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
On and Off-Balance-Sheet Exposures						
Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		**-**	**-**	**-**	**-**	**-**
Takaful/Insurance Cos, Securities Firms & Fund Managers		**-**	**-**	**-**	**-**	**65**
Corporates		**234,345**	**91,360**	**-**	**-**	**4,878,163**
Total		**234,345**	**91,360**	**-**	**-**	**4,878,228**

Economic Entity and The Bank
2015

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance-Sheet Exposures						
Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	-
Takaful/Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	-
Corporates		269,112	-	-	-	3,836,014
Total		269,112	-	-	-	3,836,014

(i) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000) (continued)

Economic Entity and The Bank
2016

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Baa1 to Ba3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance-Sheet Exposures							
Sovereigns and Central Banks		-	2,052,552	-	-	-	-
Total		-	2,052,552	-	-	-	-

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance-Sheet Exposures							
Banks, MDBs and FDIs		12,414	-	-		-	31,333
Total		12,414	-	-		-	31,333

(i) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000) (continued)

Economic Entity and The Bank
2015

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance-Sheet Exposures Sovereigns and Central Banks		-	2,854,574	-	-	-	-
Total		-	2,854,574	-	-	-	-

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3-	A to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance-Sheet Exposures Banks, MDBs and FDIs		5,310	-	-		-	19,699
Total		5,310	-	-		-	19,699

a) **Disclosures on Credit Risk Mitigation (RM'000)**

Economic Entity and The Bank
2016

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees/ Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	1,964,813	-	-	-
Banks, Development Financial Institutions & MDBs	29,582	-	-	-
Insurance Cos, Securities Firms & Fund Managers	65	-	-	-
Corporates	4,417,410	53,633	90,551	-
Regulatory Retail	3,441,735	-	20,735	-
Residential Mortgages	2,741,411	-	10,460	-
Higher Risk Assets	23,002	9,051	457	-
Other Assets	471,858	-	-	-
Defaulted Exposures	147,920	-	3,370	-
Total for On-Balance Sheet Exposures	13,237,796	62,684	125,573	-
Off-Balance Sheet Exposures				
Off-Balance Sheet exposures other than OTC derivatives or credit derivatives	693,127	-	-	-
Defaulted Exposures	14,937	-	-	-
Total for Off-Balance Sheet Exposures	708,064	-	-	-
Total On and Off-Balance Sheet Exposures	13,945,860	62,684	125,573	-

a) Disclosures on Credit Risk Mitigation (RM'000)

Economic Entity and The Bank
2015

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees/ Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	2,736,934	-	-	-
Banks, Development Financial Institutions & MDBs	19,623	-	-	-
Corporates	3,670,640	28,960	279,259	-
Regulatory Retail	2,904,191	-	21,662	-
Residential Mortgages	1,974,206	-	10,535	-
Higher Risk Assets	6,345	-	-	-
Other Assets	738,826	-	-	-
Defaulted Exposures	78,261	-	-	-
Total for On-Balance Sheet Exposures	12,129,026	28,960	311,456	-
Off-Balance Sheet Exposures				
Off-Balance Sheet exposures other than OTC derivatives or credit derivatives	599,980	-	-	-
Defaulted Exposures	9,666	-	-	-
Total for Off-Balance Sheet Exposures	609,646	-	-	-
Total On and Off-Balance Sheet Exposures	12,738,672	28,960	311,456	-

b) Disclosure on Off-Balance Sheet and Counterparty Credit Risk (RM'000)

Counterparty Credit Risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cashflows. An economic loss could occur if the transactions with the counterparty has a positive economic value for the Bank at the time of default.

In contrast to the exposure to credit risk through a financing, where the exposure to credit risk is unilateral and only the financing bank faces the risk of loss, Counterparty Credit Risk creates a bilateral risk of loss where the market value for many types of transactions can be positive or negative to either counterparty.

In respect of off-balance sheet items, the credit risk inherent in each off-balance sheet instrument is translated into an on-balance sheet exposure equivalent (credit equivalent) by multiplying the nominal principal amount with a credit conversion factor ('CCF') as prescribed by the Standardised Approach under the Risk Weighted Capital Adequacy Framework. The resulting amount is then weighted against the risk weight of the counterparty. In addition, counterparty risk weights for over-the-counter ('OTC') derivative transactions will be determined based on the external rating of the counterparty and will not be subject to any specific ceiling.

Economic Entity and The Bank
2016

Description	Total Principle Amount	Positive Fair Value of Derivative Contracts	Total Credit Equivalent Amount	Total Risk Weighted Amount
Direct Credit Substitutes	33,386		33,386	25,476
Transaction related contingent Items	282,867		141,434	145,156
Short Term Self Liquidating trade related contingencies	312,550		62,510	17,534
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	469,986		234,993	226,458
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	1,129,279		225,856	136,791
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	39,538		-	-
Foreign exchange related contracts				
- less than one year	1,049,862	8,987	9,885	1,979
Total	3,317,468	8,987	708,064	553,394

b) Disclosure on Off-Balance Sheet and Counterparty Credit Risk (RM'000)

Economic Entity and The Bank
2015

Description	Total Principle Amount	Positive Fair Value of Derivative Contracts	Total Credit Equivalent Amount	Total Risk Weighted Amount
Direct Credit Substitutes	9,383		9,383	9,383
Transaction related contingent Items	147,960		73,980	74,399
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	348,409		174,205	171,299
Short Term Self Liquidating trade related contingencies	368,567		73,713	25,863
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,387,337		277,467	180,823
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	15,321		-	-
Foreign exchange related contracts				
- less than one year	222,777	132	898	456
Total	2,499,754	132	609,646	462,223

c) Disclosures on Market Risk - Profit Rate Risk/Rate of Return Risk in the Banking Book

Profit rate risk is the risk to earnings and capital arising from exposure to adverse movements in profit rates mainly due to mismatches in timing repricing of assets and liabilities. These mismatches are actively managed from an earnings and economic value perspective.

The objective of profit rate risk management is to achieve a stable and sustainable net profit income from the following perspectives:

(1) Next 12 months' Earnings - Profit rate risk from the earnings perspective is the impact based on changes to the net profit income ('NPI') over the next 12 months. This risk is measured through sensitivity analysis including the application of an instantaneous 100 basis point parallel shock in profit rates across the yield curve.

(2) Economic Value - Measuring the change in the economic value of equity ('EVE') is an assessment of the long term impact to the Bank's capital. This is assessed through the application of relevant duration factors to capture the net economic value impact over the long term or total life of all balance sheet assets and liabilities to adverse changes in profit rates.

Profit rate risk thresholds are established in line with the Group's strategy and risk appetite. These thresholds are reviewed regularly to ensure relevance in the context of prevailing market conditions.

Type of Currency (RM million)	**Economic Entity and The Bank**		Economic Entity and The Bank	
	2016	**2016**	2015	2015
	Impact on Positions (100 basis points) Parallel Shift		Impact on Positions (100 basis points) Parallel Shift	
	Increase/(Decline) in Earnings	**Increase/(Decline) in Economic Value**	Increase/(Decline) in Earnings	Increase/(Decline) in Economic Value
Ringgit Malaysia	**(13.2)**	**91.9**	(17.8)	73.0
US Dollar	**(0.8)**	**-**	(0.6)	-
Others (*)	**(3.6)**	**-**	(0.1)	-
Total	**(17.6)**	**91.9**	(18.5)	73.0

* Others comprise of SGD, JPY, EUR, AUD and GBP currencies where the amount of each currency is relatively small.

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