PUBLIC ISLAMIC BANK BERHAD
(Company No: 14328-V)
(Incorporated in Malaysia)

FINANCIAL STATEMENTS - 31 DECEMBER 2016

Registered Office
27th Floor, Menara Public Bank
146 Jalan Ampang
50450 Kuala Lumpur
Malaysia

PUBLIC ISLAMIC BANK BERHAD
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PUBLIC ISLAMIC BANK BERHAD
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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

The Directors have pleasure in presenting to the member their report together with the audited financial statements of the Bank for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in the business of Islamic banking and the provision of related financial services.

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

FINANCIAL RESULTS

	RM'000
Profit before zakat and taxation	528,714
Zakat and taxation	(124,252)
Profit for the year	404,462

DIVIDENDS

Subsequent to the financial year end, on 2 February 2017, the Directors declared a first interim dividend of 30% or RM0.30 per ordinary share, amounting to RM65,765,100. This is computed based on the issued and paid-up capital as at 31 December 2016 of 219,217,000 ordinary shares of RM1.00 each. The financial statements for the current financial year do not reflect this dividend. Upon declaration, this first interim dividend payment will be accounted for in equity as an appropriation of retained earnings during the financial year ending 31 December 2017.

The Directors do not propose any final dividend for the financial year ended 31 December 2016.

ISSUE OF SHARES

On 28 January 2016, the Bank increased its paid-up capital by 12,000,000 ordinary shares of RM1.00 each issued at RM25.00 per share. Upon completion, the issued and paid-up share capital of the Bank increased from RM207,217,000 to RM219,217,000.

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

There were no changes in the authorised share capital of the Bank during the financial year.

RESERVES, PROVISIONS AND ALLOWANCES

There were no material transfers to or from reserves or provisions or allowances during the year other than those disclosed in Note 8, Note 9 and Note 24 to the financial statements.

BAD AND DOUBTFUL FINANCING

Before the statement of profit or loss and statement of financial position 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 allowance for doubtful financing, and satisfied themselves that all known bad financing had been written off and adequate allowance had been made for 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 statement of profit or loss and statement of financial position of the Bank were made out, the Directors took reasonable steps to ensure that current assets, other than financing, which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Bank had been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Bank misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets and liabilities in the financial statements of the Bank misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

(a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or

(b) any contingent liability in respect of the Bank that has arisen since the end of the financial year other than those incurred in the ordinary course of business of the Bank.

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF 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 which is likely, in the opinion of the Directors, affect substantially the results of the operations of the Bank for the current financial year in which this report is made.

SIGNIFICANT EVENTS DURING THE YEAR

There were no significant events 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 OF THE BANK

The Directors who served since the date of the last report are:

Tan Sri Dato' Sri Dr. Teh Hong Piow
Dato' Mohammed Najeeb bin Abdullah
Tan Sri Dato' Sri Tay Ah Lek
Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid
Vasantha Kumar Tharmalingam (Appointed on 27 September 2016)
Lai Wan (Retired on 26 November 2016)
Dato' Sri Lee Kong Lam (Retired on 28 November 2016)
Tang Wing Chew (Retired on 29 March 2016)

In accordance with Article 96 of the Bank's Articles of Association, Mr Vasantha Kumar Tharmalingam retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 97 of the Bank's Articles of Association, Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings, the interests of the Directors in office at the end of the financial year in shares of the Bank's holding company, Public Bank Berhad ("PBB") and in shares of its related corporation during the financial year were as follows:

Shares Held in PBB

	Number of Ordinary Shares of RM1.00 Each			
	Balance as at 1.1.2016	**Acquired**	**Disposed**	**Balance as at 31.12.2016**
Direct interests:				
Tan Sri Dato' Sri Dr. Teh Hong Piow	24,711,282	-	-	24,711,282
Tan Sri Dato' Sri Tay Ah Lek	4,888,845	-	-	4,888,845

	Number of Ordinary Shares of RM1.00 Each			
	Balance as at 1.1.2016	**Acquired**	**Disposed**	**Balance as at 31.12.2016**
Deemed interests:				
Tan Sri Dato' Sri Dr. Teh Hong Piow	893,918,771	-	(9,723,800)	884,194,971
Tan Sri Dato' Sri Tay Ah Lek	1,389,745	-	-	1,389,745

DIRECTORS' INTERESTS (continued)

Shares Held in its related corporation, Public Financial Holdings Limited ("PFHL")

	Number of Ordinary Shares of HKD0.10 Each			
Direct interests:	**Balance as at 1.1.2016**	**Acquired**	**Disposed**	**Balance as at 31.12.2016**
Tan Sri Dato' Sri Tay Ah Lek	350,000	-	-	350,000

Other than as disclosed above, none of the Directors in office at the end of the financial year had any interest in shares in PBB or its related corporations during the financial year.

Tan Sri Dato' Sri Dr. Teh Hong Piow, by virtue of his total direct and deemed interests of 908,906,253 shares in PBB, and pursuant to Section 6A(4)(c) of the Companies Act 1965 is deemed interested in the shares in all of PBB's subsidiary and associated companies to the extent that PBB has interests.

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full time employee of the Bank as disclosed in Note 32 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 substantial financial interest except for those transactions arising in the ordinary course of business as disclosed in Note 36(a) to the financial statements.

REMUNERATION COMMITTEE

The Remuneration Committee carries out the annual review of the overall remuneration policy for Directors, Chief Executive Officer, Shariah Committee members and key Senior Management Officers whereupon recommendations are made to the Board of Directors for approval.

The members of the Remuneration Committee comprising of Non-Executive Directors of the Bank are:

Dato' Mohammed Najeeb bin Abdullah (Independent)
Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid (Independent)
Vasantha Kumar Tharmalingam (Independent)

BUSINESS REVIEW 2016

In 2016, the domestic Islamic finance industry continued to grow despite the challenging environment globally. The positive growth was supported by continuous roll out of innovative Islamic products and services by active industry participants. As at the end of 2016, Islamic banking assets accounted for 23.1% of the total banking system assets.

Public Islamic Bank Berhad (“Public Islamic”) recorded an increase of 17.5% in profit before tax to RM528.7 million in 2016.

In 2016, Public Islamic continued to focus on consumer financing, i.e. home financing, passenger vehicle financing and retail commercial financing. During the year, total Islamic financing grew by 17.1% mainly driven by the increase in residential financing and business financing. Home financing increased by 36.6% contributed by products based on the concepts of Musharakah Mutanaqisah. For business financing, Public Islamic continued to participate in the Shariah-compliant SME (“Small and Medium Enterprises”) Financing Scheme by the Government which entitles the customers to claim a rebate of 2% on the profit charged.

Underscored by the Public Bank Group’s prudent credit culture, Public Islamic’s asset quality remained strong. As at the end of 2016, it gross impaired financing ratio stood at 0.60%.

On deposit taking, Public Islamic registered a growth of 8.6% in total Islamic deposits. During the year, Public Islamic launched the PB MySalary Savings Account for crediting of employees’ salary.

In 2016, Public Islamic continued to promote its fee-based activity by working closely with AIA PUBLIC Takaful Berhad to develop bancatakaful business. During the year, Public Islamic continued to promote the Employee Benefit SME/SMI Plan, Mortgage Reducing Term Takaful and Hire Purchase Reducing Term Takaful.

Public Islamic continued to leverage on the Public Bank’s Group’s extensive branch network, strong PB Brand, superior delivery standards and efficient delivery channels to expand its Islamic business.

ECONOMIC OUTLOOK AND PROSPECTS FOR 2017

The Malaysian economy is expected to remain stable in 2017. With gross domestic product is expected to grow between 4.5% and 5.0%, supported by its domestic-driven and diversified economy. The private sector will continue to spearhead growth while the economy continues to expand led by healthy private consumption expenditure. In addition, private investments will be supported by on-going infrastructure projects in the Eleventh Malaysia Plan 2016 - 2020.

The prevailing economic fundamentals supported by manageable inflationary risk, accommodative macro policies and stable employment condition will be supportive of growth. Monetary policy will continue to focus on price stability and growth sustainability.

The Malaysian financial system remains well-capitalised while credit expansion amid the accommodative monetary policy stance will continue to augur well for domestic growth. In addition, further liberalisation of the financial sector, as guided by the Financial Sector Blueprint 2011-2020, will enable greater flexibility for the banking system and capital market to facilitate financing.

Despite the foreign exchange volatility and weak Ringgit, the weaker-than-expected Ringgit could potentially spur domestic growth due to better discretionary spending in Ringgit terms and increase in local expenses.

Globally, lacklustre commodity prices and weak global demand will continue to weigh on Malaysian exports. However, the implementation of prudent economic policies will continue to ensure that growth trajectory remains on track.

BUSINESS OUTLOOK FOR 2017

Despite the challenging operating environment, growth of the Malaysian Islamic finance industry is expected to remain positive in 2017. Efforts led by the Government and Bank Negara Malaysia to develop Islamic finance will continue to spur development of the industry. Furthermore, the launch of the Islamic Wealth Management Blueprint by the Securities Commission which charts out the strategic direction of the Islamic finance industry will provide further support to the development.

In 2017, Public Islamic will continue to focus on its core business activities including Islamic home financing, passenger vehicle hire purchase financing and business financing. Public Islamic will also continue to actively promote the Shariah-compliant SME Financing Scheme by the Government to support the SMEs.

BUSINESS OUTLOOK FOR 2017 (continued)

To maintain its stable funding position, Public Islamic will continue to source for low-cost Islamic savings and current account deposits. Public Islamic will explore opportunities to introduce new products and services as well as enhance the features of existing Islamic deposit products to cater for customers' needs.

To mitigate the effects of margin compression on net financing income, Public Islamic will strive to strengthen its fee-based revenue from its bancatakaful products, Islamic credit card, Islamic unit trust funds and Islamic trade finance products.

AUDITORS

The retiring auditors, Messrs. Ernst & Young, have indicated their willingness to accept re-appointment.

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

DATO' MOHAMMED NAJEEB BIN ABDULLAH
Director

TAN SRI DATO' SRI TAY AH LEK
Director

Kuala Lumpur, Malaysia

Dated : 2 February 2017

PUBLIC ISLAMIC BANK BERHAD
(Company No: 14328-V)
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STATEMENT BY DIRECTORS

We, DATO' MOHAMMED NAJEEB BIN ABDULLAH and TAN SRI DATO’ SRI TAY AH LEK, being two of the Directors of PUBLIC ISLAMIC BANK BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 17 to 159 are properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 December 2016 and of its financial performance and cash flows for the year then ended.

Signed in accordance with a resolution of the Directors:

DATO' MOHAMMED NAJEEB BIN ABDULLAH
Director

TAN SRI DATO’ SRI TAY AH LEK
Director

Kuala Lumpur, Malaysia

Dated : 2 February 2017

PUBLIC ISLAMIC BANK BERHAD
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STATUTORY DECLARATION

I, YIK SOOK LING, being the officer primarily responsible for the financial management of PUBLIC ISLAMIC BANK BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 17 to 159, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed **YIK SOOK LING** at KUALA LUMPUR
in WILAYAH PERSEKUTUAN this 2 February 2017

BEFORE ME:

Commissioner for Oaths
Kuala Lumpur

PUBLIC ISLAMIC BANK BERHAD
(Company No: 14328-V)
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SHARIAH COMMITTEE'S REPORT
In the name of Allah, The Beneficent, The Merciful

To the shareholders, depositors and customers of the Bank:

In carrying out the roles and responsibilities of the Bank's Shariah Committee as prescribed in the Shariah Governance Framework of Bank Negara Malaysia, we hereby submit the following report for the financial year ended 31 December 2016.

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank during the year 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 conduct of its business is in accordance with Shariah rules and principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank and to report to you.

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

We performed our review on the basis of 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 rules and principles.

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 to the best of our knowledge in compliance with the Shariah rules and principles;

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

3) the earnings that have been realised from sources or by means prohibited by the Shariah rules and principles or any other non-recognisable earnings such as *Gharamah* of RM33,000 (2015 - RM7,000) have been considered for disposal to charitable organisation; and

4) the calculation of zakat is in compliance with Shariah rules and principles.

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

On behalf of the Public Islamic Bank Shariah Committee

PROF. EMERITUS DATO' PADUKA DR MAHMOOD ZUHDI BIN HAJI AB MAJID
Chairman

HAJI MOHD RIDZUAN BIN AWANG
Member

Kuala Lumpur, Malaysia
Dated : 2 February 2017

PUBLIC ISLAMIC BANK BERHAD
(Company No: 14328-V)
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INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF PUBLIC ISLAMIC BANK BERHAD

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Public Islamic Bank Berhad, which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss, statement of profit loss and other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 17 to 159.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Basis for opinion

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

Independence and other ethical responsibilities

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

Information other than the financial statements and auditors' report thereon

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

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

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

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

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

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements 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.

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

Ernst & Young
AF: 0039
Chartered Accountants

Yap Seng Chong
No. 2190/12/17(J)
Chartered Accountant

Kuala Lumpur, Malaysia

Dated : 2 February 2017

PUBLIC ISLAMIC BANK BERHAD
(Company No: 14328-V)
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
ASSETS			
Cash and balances with banks	3	651,382	3,225,149
Financial assets held-for-trading	4	495,364	1,588,380
Derivative financial assets	5	18,153	56,019
Financial investments available-for-sale	6	6,140,438	4,780,808
Financial investments held-to-maturity	7	2,985,266	2,741,792
Financing and advances	8	37,235,682	31,736,855
Other assets	9	85,913	82,895
Statutory deposits with Bank Negara Malaysia	11	1,518,000	1,423,800
Deferred tax assets	12	4,242	-
Collective investment	13	497,836	-
Investment in an associated company	14	30,000	20,000
Property and equipment	15	1,250	1,267
TOTAL ASSETS		49,663,526	45,656,965
LIABILITIES			
Deposits from customers	16	42,473,074	39,097,445
Deposits from banks	17	2,322,128	2,318,814
Bills and acceptances payable	18	1,675	849
Recourse obligations on financing sold to Cagamas	19	500,016	500,016
Derivative financial liabilities	5	23,356	1,636
Subordinated Sukuk Murabahah	20	499,374	499,117
Other liabilities	21	215,490	212,673
Provision for zakat and taxation	22	43,251	40,680
Deferred tax liabilities	12	-	22,029
TOTAL LIABILITIES		46,078,364	42,693,259
EQUITY			
Share capital	23	219,217	207,217
Reserves		3,365,945	2,756,489
TOTAL EQUITY		3,585,162	2,963,706
TOTAL LIABILITIES AND EQUITY		49,663,526	45,656,965
COMMITMENTS AND CONTINGENCIES	43	11,222,116	10,194,763

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

PUBLIC ISLAMIC BANK BERHAD
(Company No: 14328-V)
(Incorporated in Malaysia)

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Income derived from investment of depositors' funds and others	25	2,109,906	1,816,324
Income derived from investment of shareholder's funds	26	167,592	134,344
Allowance for impairment on financing and advances	27	(58,426)	(68,806)
Writeback of impairment / (Impairment) on other assets	28	4	(28)
Profit Equalisation Reserves	21	(96)	(76)
Total distributable income		2,218,980	1,881,758
Income attributable to depositors and others	29	(1,323,908)	(1,121,954)
Total net income		895,072	759,804
Personnel expenses	30	(16,840)	(11,673)
Other overheads and expenditures	31	(349,518)	(298,009)
Profit before zakat and taxation		528,714	450,122
Zakat	33	(210)	(220)
Taxation	33	(124,042)	(109,455)
Profit for the year		404,462	340,447
Earnings per RM1.00 share			
- basic / diluted (sen)	34	185.3	168.0

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

PUBLIC ISLAMIC BANK BERHAD
(Company No: 14328-V)
(Incorporated in Malaysia)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Profit for the year		404,462	340,447
Other comprehensive income / (loss):			
Items that will not be reclassified to profit or loss			
Defined benefit reserves:			
- Gain / (Loss) on remeasurements of defined benefit plans	24	543	(4,364)
Items that may be reclassified to profit or loss			
Revaluation reserves:			
- Net change in revaluation of financial investments available-for-sale	24	(46,988)	26,856
Hedging reserves:			
- Net change in cash flow hedges	24	(62,774)	(237)
		(109,762)	26,619
Income tax relating to components of other comprehensive income / (loss):			
- Defined benefit reserves	24	(130)	1,047
- Revaluation reserves	24	11,277	(6,460)
- Hedging reserves	24	15,066	57
		26,213	(5,356)
Other comprehensive (loss) / income for the year, net of tax		(83,006)	16,899
Total comprehensive income for the year		321,456	357,346

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

PUBLIC ISLAMIC BANK BERHAD
(Company No: 14328-V)
(Incorporated in Malaysia)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

		<-----Non-distributable-----> Reserves		Distributable Reserve	
	Share Capital RM'000	**Share Premium RM'000**	**Other Reserves RM'000**	**Retained Profit RM'000**	**Total Equity RM'000**
At 1 January 2016	207,217	1,925,500	368,253	462,736	2,963,706
Profit for the year	-	-	-	404,462	404,462
Other comprehensive loss for the year	-	-	(83,006)	-	(83,006)
Total comprehensive (loss) / income for the year	-	-	(83,006)	404,462	321,456
Transactions with owner / other equity movements:					
Increase in share capital	12,000	288,000	-	-	300,000
Transfer to statutory reserves	-	-	12,000	(12,000)	-
Transfer to regulatory reserves	-	-	80,076	(80,076)	-
Transfer to Profit Equalisation Reserves of the Bank	-	-	86	(86)	-
	12,000	288,000	92,162	(92,162)	300,000
At 31 December 2016	219,217	2,213,500	377,409	775,036	3,585,162
	Note 23		Note 24		

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

PUBLIC ISLAMIC BANK BERHAD
(Company No: 14328-V)
(Incorporated in Malaysia)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

			<-----Non-distributable-----> Reserves		Distributable Reserve	
	Note	Share Capital RM'000	Share Premium RM'000	Other Reserves RM'000	Retained Profit RM'000	Total Equity RM'000
At 1 January 2015		200,217	1,757,500	262,582	431,300	2,651,599
Profit for the year		-	-	-	340,447	340,447
Other comprehensive income for the year		-	-	16,899	-	16,899
Total comprehensive income for the year		-	-	16,899	340,447	357,346
Transactions with owner / other equity movements:						
Increase in share capital		7,000	168,000	-	-	175,000
Transfer to statutory reserves		-	-	20,000	(20,000)	-
Transfer to regulatory reserves		-	-	68,739	(68,739)	-
Transfer to Profit Equalisation Reserves of the Bank		-	-	33	(33)	-
Dividends paid	35	-	-	-	(220,239)	(220,239)
		7,000	168,000	88,772	(309,011)	(45,239)
At 31 December 2015		207,217	1,925,500	368,253	462,736	2,963,706
		Note 23		Note 24		

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

PUBLIC ISLAMIC BANK BERHAD
(Company No: 14328-V)
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 RM'000	2015 RM'000
Cash flows from operating activities		
Profit before zakat and taxation	528,714	450,122
Adjustments for:		
Depreciation of property and equipment	443	451
Net gain on disposal of foreclosed properties	(41)	(98)
Net gain on disposal of property and equipment	(4)	(1)
Allowance for impairment on financing and advances	78,380	89,456
Net gain arising from sale of financial investments available-for-sale	(18,944)	(4,770)
Unrealised loss / (gain) on revaluation of financial assets held-for-trading	630	(455)
(Gain) / Loss representing ineffective portions of hedging derivatives	(3,188)	6,126
Profit Equalisation Reserves	96	76
Dividends from financial investments available-for-sale	(3,873)	(15,266)
Dividends from collective investment	(11,856)	-
Impairment (written back) / loss on foreclosed properties	(4)	28
Amortisation of cost on Subordinated Sukuk Murabahah issued	257	257
Operating profit before working capital changes	570,610	525,926
Decrease / (increase) in operating assets:		
Financial assets held-for-trading	1,092,386	983,869
Financing and advances	(5,578,773)	(6,392,303)
Other assets	380	(13,812)
Statutory deposits with Bank Negara Malaysia	(94,200)	(283,600)
Increase / (decrease) in operating liabilities:		
Deposits from customers	3,375,629	8,369,831
Deposits from banks	3,314	(1,301,290)
Bills and acceptances payable	826	299
Other liabilities	2,721	114,556
Cash (used in) / generated from operations	(627,107)	2,003,476
Income tax expense and zakat paid	(121,739)	(107,615)
Net cash (used in) / generated from operating activities	(748,846)	1,895,861

PUBLIC ISLAMIC BANK BERHAD
(Company No: 14328-V)
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 RM'000	2015 RM'000
Cash flows from investing activities		
Purchase of property and equipment	(426)	(415)
Proceeds from disposal of property and equipment	4	1
Net purchase of financial investments available-for-sale	(1,387,674)	(202,898)
Net purchase of financial investments held-to-maturity	(243,474)	(1,090,276)
Dividend received from financial investments available-for-sale	3,873	15,266
Dividend received from collective investment	10,612	-
Investment in collective investment	(497,836)	-
Additional investment in an associated company	(10,000)	-
Net cash used in investing activities	(2,124,921)	(1,278,322)
Cash flows from financing activities		
Proceeds from issuance of shares	300,000	175,000
Dividends paid	-	(220,239)
Net cash generated from / (used in) financing activities	300,000	(45,239)
Net (decrease) / increase in cash and cash equivalents	(2,573,767)	572,300
Cash and cash equivalents at beginning of year	3,225,149	2,652,849
Cash and cash equivalents at end of year	651,382	3,225,149

Note:

Cash and balances with banks (Note 3)	651,382	3,225,149
Less: Balances with banks with original maturity more than three months	-	-
Cash and cash equivalents at end of year	651,382	3,225,149

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

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Bank is principally engaged in the business of Islamic banking and the provision of related financial services.

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

The Bank is a licensed Islamic bank under the Islamic Financial Services Act 2013, incorporated and domiciled in Malaysia. The registered office of the Bank is located at 27th Floor, Menara Public Bank, 146, Jalan Ampang, 50450 Kuala Lumpur.

The ultimate holding company of the Bank is Public Bank Berhad, a licensed bank incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The financial statements were approved and authorised for issue by the Board of Directors on 2 February 2017.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The accounting policies adopted by the Bank are consistent with those adopted in the previous years except for the adoption or early adoption of the following Amendments to Malaysian Financial Reporting Standards ("MFRS"):

(i) Amendments to MFRSs that were Adopted or Early Adopted by the Bank

The Bank has adopted the following in the current financial year:

<u>Effective for annual periods commencing on or after 1 January 2016</u>
- Disclosure Initiative (Amendments to MFRS 101)

<u>Effective for annual periods commencing on or after 1 January 2017 (Early Adoption)</u>
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to MFRS 112)
- Disclosure Initiative (Amendments to MFRS 107)

<u>Effective for annual periods commencing on or after 1 January 2018 (Early Adoption)</u>
- Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(i) Amendments to MFRSs that were Adopted or Early Adopted by the Bank (continued)

The main effects of the adoption of Amendments to MFRSs above are summarised below:

(a) ***Disclosure Initiative (Amendments to MFRS 101)*** - The amendments to MFRS 101 aim to improve the presentation and disclosure in the financial statements and are designed to encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The adoption of these amendments resulted in changes to other comprehensive income disclosure. Since the amendments only affect disclosures, the adoption of these amendments did not have any financial impact on the Bank.

(b) ***Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to MFRS 112)*** - The amendments to MFRS 112 clarify the accounting treatment of deferred tax assets for unrealised losses on fixed-rate debt instruments measured at fair value. The adoption of these amendments did not have any financial impact on the Bank as the Bank already applied the principles under these amendments.

(c) ***Disclosure Initiative (Amendments to MFRS 107)*** - The amendments to MFRS 107 requires entity to provide disclosures on changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. Arising from the adoption of these amendments, a reconciliation between the opening and closing balances for liabilities from financing activities has been disclosed. The adoption of these amendments did not have any financial impact on the Bank as it only affected disclosures.

(d) ***Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)*** - The amendments provide guidance on how to account for the following situations:

- The effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based payments;
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations; and
- A modification to the terms and conditions of a share-based payment transaction that changes the classification of the transaction from cash-settled to equity-settled.

As the Bank does not have any share-based payment transactions, the adoption of these amendments did not have any financial impact on the Bank.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(ii) (a) Amended Bank Negara Malaysia ("BNM")'s Policy Document on Financial Reporting for Islamic Banking Institutions

On 5 February 2016, BNM amended the Policy Document on Financial Reporting for Islamic Banking Institutions (“Amended Policy Document”) to include requirements on the presentation and disclosure of investment account other than those which are reported as Islamic deposits, with immediate effect.

The Bank is not affected by the requirements of the Amended Policy Document as the Bank's investment accounts are classified as Islamic deposits in line with the transitional requirements under the BNM's Policy Document on Transition policy under Islamic Financial Services Act 2013. The adoption of this requirement did not have any financial impact on the financial statements of the Bank.

(b) Companies Act 2016

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

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

(i) removal of the authorised share capital;
(ii) shares of the Bank will cease to have par or nominal value; and
(iii) the Bank’s share premium account will become part of the Bank’s share capital.

The adoption of the New Act is not expected to have any financial impact on the Bank for the current financial year as any accounting implications will only be applied prospectively, if applicable, and the effect of adoption mainly will be on disclosures to the financial statements for the financial year ending 31 December 2017.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) MFRSs, Amendments to MFRSs and IC Interpretation that have been Issued but are Not Yet Effective to the Bank

The following MFRSs, Amendments to MFRSs and IC Interpretation have been issued by Malaysian Accounting Standards Board ("MASB") but are not yet effective to the Bank:

<u>Effective for annual periods commencing on or after 1 January 2017</u>

- Amendments to MFRSs contained in the document entitled "Annual Improvements to MFRS Standards 2014 - 2016 Cycle"
  - Amendments to MFRS 12 Disclosure of Interests in Other Entities

<u>Effective for annual periods commencing on or after 1 January 2018</u>

- MFRS 15 Revenue from Contracts with Customers
- MFRS 9 Financial Instruments (2014)
- Amendments to MFRSs contained in the document entitled "Annual Improvements to MFRS Standards 2014 - 2016 Cycle"
  - Amendments to MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards
  - Amendments to MFRS 128 Investments in Associates and Joint Ventures
- Transfers of Investment Property (Amendments to MFRS 140)
- IC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts (Amendments to MFRS 4)

<u>Effective for annual periods commencing on or after 1 January 2019</u>

- MFRS 16 Leases

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) MFRSs, Amendments to MFRSs and IC Interpretation that have been Issued but are Not Yet Effective to the Bank (continued)

A brief description of the new MFRSs, Amendments to MFRSs and IC Interpretation above that have been issued is set out below:

(a) **Amendments to MFRSs contained in the document entitled "Annual Improvements to MFRS Standards 2014 - 2016 Cycle".** The Annual Improvements consist of the following amendments:

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

The amendments clarify that an entity is not required to disclose summarised financial information for subsidiary, joint venture or associate when it is classified as held for sale in accordance with MFRS 5.

(ii) **Amendments to MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards**

The amendments remove certain provisions from the Standard that have served their intended purposes and are no longer required.

(iii) **Amendments to MFRS 128 Investments in Associates and Joint Ventures**

The amendments clarify that when an investment in an associate or a joint venture is held by an entity which is a venture capital organisation, or a mutual fund, unit trust or similar entities, the entity may elect to measure that investment at fair value on an investment by investment basis in accordance with the Standard.

The adoption of Annual Improvements to MFRS Standards 2014 - 2016 Cycle is not expected to have any financial impact on the financial statements of the Bank.

(b) ***MFRS 15 Revenue from Contracts with Customers*** - MFRS 15 establishes principles that an entity shall apply to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with customers. The core principle of MFRS 15 is that an entity recognises revenue in a manner which reflects the consideration an entity expects to be entitled in exchange for goods or services.

The adoption of MFRS 15 is not expected to have any material impact on the financial statements of the Bank.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) MFRSs, Amendments to MFRSs and IC Interpretation that have been Issued but are Not Yet Effective to the Bank (continued)

A brief description of the new MFRSs, Amendments to MFRSs and IC Interpretation above that have been issued is set out below (continued):

(c) ***MFRS 9 Financial Instruments (2014)*** - This final version of MFRS 9 replaces all previous versions of MFRS 9. Retrospective application is required, but comparative information is not compulsory.

The standard introduces new requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement
The approach for classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held with two measurement categories – amortised cost and fair value. All equity instruments are measured at fair value. 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 interest. For financial 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 fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch.

Impairment
The impairment requirements apply to financial assets measured at amortised cost and fair value through other comprehensive income, lease receivables and certain financing commitments as well as financial guarantee contracts. At initial recognition, allowance for impairment is required for expected credit losses ("ECL") resulting from default events that are possible within the next 12 months ("12 month ECL"). In the event of a significant increase in credit risk, allowance for impairment is required for ECL resulting from all possible default events over the expected life of the financial instrument. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the probability of default occurring over the remaining life of the financial instrument. The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should also take into account the time value of money.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) MFRSs, Amendments to MFRSs and IC Interpretation that have been Issued but are Not Yet Effective to the Bank (continued)

A brief description of the new MFRSs, Amendments to MFRSs and IC Interpretation above that have been issued is set out below (continued):

Hedge accounting
Under MFRS 9, the general hedge accounting requirements have been simplified for hedge effectiveness testing and permit hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting, which is being considered in a separate project.

MFRS 9 introduces significant changes in the way the Bank accounts for financial instruments, particularly on the accounting policy on allowance for financing and advances.

The adoption of the requirements on classification and measurement will have an effect on the classification and measurement of the financial assets of the Bank, but is not expected to have any impact on the classification and measurement of the financial liabilities of the Bank.

The recognition and measurement of impairment under MFRS 9 is intended to be more forward-looking than under MFRS 139 and will result in an increase in the allowances for financing and advances as more financial assets (MFRS 9 includes financing commitments and financial guarantee contracts) will be assessed for impairment and allowances for impairment will be made for at least 12 month ECL.

MFRS 9 allows entities to continue with the hedge accounting under MFRS 139 even when other elements of MFRS 9 become effective on 1 January 2018. The Bank will continue to apply hedge accounting under MFRS 139 until more clarity is obtained on the requirements of macro hedge accounting.

The preparation for MFRS 9 by the Bank had started in 2015 with the setting up of a MFRS 9 Project Team headed by the Chief Financial Officer of the Bank, and with assistance from consultants on the implementation of MFRS 9. During the financial year ended 31 December 2016, the Bank has completed the gap assessment and started on the development of MFRS 9 compliant impairment models for all impacted credit exposures.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iii) MFRSs, Amendments to MFRSs and IC Interpretation that have been Issued but are Not Yet Effective to the Bank (continued)

A brief description of the new MFRSs, Amendments to MFRSs and IC Interpretation above that have been issued is set out below (continued):

(d) ***Transfers of Investment Property (Amendments to MFRS 140)*** - The amendments clarify the existing provisions in the Standard on transfer to, or from the investment property category. The adoption of these amendments is not expected to have any financial impact on the financial statements of the Bank.

(e) ***IC Interpretation 22 Foreign Currency Transactions and Advance Consideration*** - The IC Interpretation addresses the issue on which exchange rate is to be used in reporting foreign currency transactions that involve advance consideration paid or received. The adoption of the IC Interpretation is not expected to have any material financial impact on the financial statements of the Bank.

(f) ***Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts (Amendments to MFRS 4)*** - The amendments address the issues arising from the transitional challenges of applying the temporary exemption from MFRS 9 for an insurer in view that the upcoming new insurance contracts standard MFRS 17 is expected to be issued soon. The expiration date of the temporary exemption from MFRS 9 coincide with the tentative effective date of MFRS 17, as decided by IASB in November 2016. In addition, to reduce the impact of temporary volatility in reported results of entity dealing with insurance contracts, the amendments introduce two additional voluntary options, namely an overlay approach and a deferral approach. The adoption of these amendments is not expected to have any financial impact on the financial statements of the Bank.

(g) ***MFRS 16 Leases*** - MFRS 16 introduces a single accounting model for a lessee and eliminates the distinction between finance lease and operating lease. Lessee is now required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Upon adoption of MFRS 16, the Bank is required to account for major part of their operating leases in the balance sheet by recognising the 'right-of-use' assets and the lease liability, thus increasing the assets and liabilities of the Bank.

The financial effects arising from the adoption of this standard are still being assessed by the Bank.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies

(a) Basis of Accounting

The financial statements of the Bank have been prepared on the historical cost basis (except for the following assets and liabilities which are stated at fair value: financial assets held-for-trading, financial investments available-for-sale and derivative financial instruments, as disclosed in the notes to the financial statements) and are in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

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

In the preparation of the financial statements, management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation, uncertainty and critical judgments used in applying accounting policies that have significant effect in determining the amounts recognised in the financial statements include the following:

(i) *Fair value estimation of financial instruments (Note 40)* - For financial instruments measured at fair value, where the fair values cannot be derived from active markets, these fair values are determined using a variety of valuation techniques, including the use of mathematical models. Whilst the Bank generally uses widely recognised valuation models with market observable inputs, judgment is required where market observable data are not available. Such judgment normally incorporate assumptions that other market participants would use in their valuations, including assumptions about profit rate yield curves, exchange rates, volatilities, prepayment and default rates.

(ii) *Impairment losses on financing and advances (Note 8)* - For impaired financing and advances which are individually assessed, judgment by management is required in the estimation of the amount and timing of future cash flows in the determination of impairment losses. In estimating these cash flows, judgments are made about the realisable value of collateral pledged and the customer's financial position. These estimations are based on assumptions and the actual results may differ from these, hence resulting in changes to impairment losses recognised.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(a) Basis of Accounting (continued)

(ii) For financing and advances of the Bank which are collectively assessed, judgments are made based on financing portfolio data (e.g. credit quality, default rates, recovery rates, etc.), credit concentration and economic data (e.g. unemployment rates, GDP growth rates, etc.) in order to arrive at impairment levels appropriate to the portfolio.

(iii) *Impairment of financial investments available-for-sale (Note 6)* - For debt instruments classified as available-for-sale, impairment is assessed at each reporting date whether there is objective evidence that a debt instrument is impaired. Where such evidence exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised) is removed from equity and recognised in the statement of profit or loss. Where impairment losses have been previously recognised in the statement of profit or loss, if there is a subsequent increase in the fair value of the debt instrument that can be objectively related to a credit event occurring after the impairment loss was recognised, the impairment loss is reversed through the statement of profit or loss.

(iv) *Income taxes (Note 33)* - Significant management judgment is required in estimating the provision for income taxes, as there may be differing interpretations of tax law for which the final outcome will not be established until a later date. Liabilities for taxation are recognised based on estimates of whether taxes will be payable. The estimation process may involve seeking the advice of experts, where appropriate. Where the final liability for taxation assessed by the tax authority is different from the amounts that were initially recorded, these differences will affect the income tax expense and deferred tax provisions in the period in which the estimate is revised or when the final tax liability is established.

(v) *Deferred tax assets (Note 12)* - Deferred tax assets are recognised for all unutilised tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised. Management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(a) Basis of Accounting (continued)

(vi) *Defined Benefit Plan (Note 10)* - The defined benefit obligation is determined based on an actuarial valuation. The actuarial valuation involves making assumptions regarding the discount rate, future salary increases and attrition rates. Due to the long term nature of the defined benefit plan, such estimates are subject to significant uncertainty. The amount of defined benefit asset recognised in the statement of financial position is limited to the present value of economic benefits in the form of refunds or reductions in future contributions to the fund. The levels of future contributions to the plan which are used to assess this limit is subject to some uncertainty due to other assumptions made regarding fund membership levels and future salary increases.

(b) Foreign Currency

(i) Functional and Presentation Currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates, i.e. the functional currency. The financial statements of the Bank are presented in Ringgit Malaysia ("RM"), which is also the Bank's functional currency.

(ii) Foreign Currency Transactions and Balances

In preparing the financial statements of the Bank, transactions in currencies other than the functional currency, i.e. foreign currencies, are translated into the functional currency at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the closing exchange rate ruling at the reporting date. Exchange differences arising on the settlement of monetary items or on translating monetary items at reporting date are recognised in profit or loss. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate prevailing at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated at exchange rates at the date when the fair value is determined. Any exchange component of a gain or loss on a non-monetary item is recognised directly in other comprehensive income if the gain or loss on the fair value of the non-monetary item is recognised directly in other comprehensive income. Any exchange component of a gain or loss on a non-monetary item is recognised directly in profit or loss if the gain or loss on the fair value of the non-monetary item is recognised in profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and bank balances with banks and other financial institutions, and short-term deposits with original maturity of less than three (3) months.

(d) Financial Assets and Liabilities

(i) Initial Recognition and Subsequent Measurement

Financial instruments are classified in the following categories - financial instruments at fair value through profit or loss, financing and receivables, financial investments held-to-maturity, financial investments available-for-sale and non-derivative financial liabilities. Management determines the classification of financial instruments at initial recognition.

(1) Financial Instruments at Fair Value through Profit or Loss
Financial instruments classified in this category consist of financial assets held-for-trading and derivative financial instruments not designated in an effective hedge transaction. Financial assets are classified as held-for-trading if they are acquired principally for the purpose of selling or repurchasing it in the near term.

Financial instruments included in this category are recognised initially at fair value and transaction costs are taken directly to profit or loss. Gains and losses from changes in fair value and dividend income are included directly in "Net gains and losses on financial instruments" in the statement of profit or loss. Finance income is recognised as "Finance income and Hibah" in the statement of profit or loss. Regular way purchases and sales of financial assets held-for-trading are recognised at settlement date.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(d) Financial Assets and Liabilities (continued)

(i) Initial Recognition and Subsequent Measurement (continued)

(2) Financing and Receivables

Financing and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified in this category include cash and balances with banks and financing and advances. Financing and advances consist of Bai' Bithaman Ajil, Ijarah Thumma Al-Bai', Bai' Inah, Musharakah Mutanaqisah, Murabahah and Ujrah contracts. These financial assets are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective profit method. Financing income on financing and receivables is recognised in "Finance income and Hibah" in the statement of profit or loss. Impairment losses on financing and advances are recognised in the statement of profit or loss as "Allowance for impairment on financing and advances". Regular way recognition of financing and advances is recorded on settlement date, when all the conditions under the financing contract have been fulfilled.

(3) Financial Investments Held-to-Maturity

Financial investments held-to-maturity are non-derivative financial assets with fixed or determinable payments that management has the intention and ability to hold to maturity. These financial assets are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective profit method. Finance income on investments held-to-maturity is included in "Finance income and Hibah" in the statement of profit or loss. Impairment losses, if any, are recognised in the statement of profit or loss as "Impairment on other assets". Regular way purchases and sales of financial investments held-to-maturity are recognised at settlement date.

If the Bank was to sell or reclassify more than an insignificant amount of financial investments held-to-maturity before maturity, the entire category would be tainted and be reclassified to available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial assets as held-to-maturity for the following two years.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(d) Financial Assets and Liabilities (continued)

(i) Initial Recognition and Subsequent Measurement (continued)

(4) Financial Investments Available-for-Sale

Financial investments available-for-sale are non-derivative financial assets that are designated as available-for-sale and are not categorised into any of the other categories above. Financial investments available-for-sale include financial assets that are intended to be held for an indefinite period of time, which may be sold in response to liquidity needs or changes in market conditions.

These financial assets are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at fair value. Gains and losses arising from changes in fair value are recognised in the other comprehensive income, except for impairment losses and foreign exchange gains and losses (for monetary items), which are recognised in profit or loss. If an investment available-for-sale is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss. Likewise, upon disposal of investments available-for-sale, the cumulative fair value gain or loss recognised in other comprehensive income is also transferred to profit or loss. Finance income on financial investments available-for-sale is included in "Finance income and Hibah" and dividend income is recognised in "Net gains and losses on financial instruments" in the statement of profit or loss. Regular way purchases and sales of financial investments available-for-sale are recognised at settlement date.

(5) Non-derivative Financial Liabilities

Non-derivative financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial liabilities are measured at amortised cost. The Bank does not have any non-derivative financial liabilities designated at fair value through profit or loss. Financial liabilities measured at amortised cost include deposits from customers, deposits from banks and Subordinated Sukuk Murabahah issued. Deposits from customers and deposits from banks consist of Wadiah, Murabahah, Tawarruq, Mudharabah and Wakalah contracts.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(d) Financial Assets and Liabilities (continued)

(ii) Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or when the rights to receive further cash flows from the assets have been transferred to a third party and substantially all the risks and rewards of ownership of the assets are also transferred. Financial liabilities are derecognised when they are redeemed or extinguished.

(iii) Reclassification of Financial Assets

The Bank may choose to reclassify non-derivative financial assets out from the held-for-trading category, in rare circumstances, where the financial assets are no longer held for the purpose of selling or repurchasing in the short term. In addition, the Bank may also choose to reclassify financial assets that would meet the definition of financing and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Reclassifications are made at fair value as at the reclassification date, whereby the fair value becomes the new cost or amortised cost, as applicable. Any fair value gains or losses previously recognised in profit or loss is not reversed.

During the reporting period, the Bank has not made any such reclassification of financial assets.

(iv) Determination of Fair Value

All financial instruments are recognised initially at fair value. At initial recognition, the fair value of a financial instrument is generally the transaction price, i.e. the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of financial instruments measured at fair value are measured in accordance with the valuation methodologies as set out in Note 40.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(d) Financial Assets and Liabilities (continued)

(v) Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported 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 to realise the asset and to settle the liability simultaneously. This is not generally the case for financial instruments with master netting agreements and therefore, the related assets and liabilities are presented on a gross basis in the statement of financial position.

(e) Derivative Financial Instruments and Hedge Accounting

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value. Derivatives are classified as financial assets when their fair values are positive and financial liabilities when their fair values are negative.

Derivatives which are not designated in an effective hedge transaction are classified as held-for-trading, with changes in fair value recognised in "Net gains and losses on financial instruments" in the statement of profit or loss. For derivative transactions which meet the specific criteria for hedge accounting, the Bank applies either fair value or cash flow hedge accounting.

At inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instruments, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedge relationship. Hedges are expected to be highly effective in offsetting the designated risk in the hedged item, and are assessed at inception of the hedge relationship and on an ongoing basis to ensure that they remain highly effective throughout the hedge period. A hedge is deemed as highly effective if the cumulative changes in the fair value or cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the period for which the hedge is designated.

The Bank will discontinue hedge accounting if the hedging instrument expires, is sold, terminated or exercised or if the hedge no longer meets the criteria for hedge accounting or is revoked.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(e) Derivative Financial Instruments and Hedge Accounting (continued)

(i) Cash Flow Hedge

Cash flow hedges are hedges of the exposure to variability in future cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in other comprehensive income are recycled to profit or loss in the periods when the hedged forecast cash flows affect the profit or loss. If the hedged forecast transaction results in the recognition of a non-financial asset or liability, the gain or loss previously recognised in other comprehensive income is adjusted to the initial cost of the asset or liability.

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

(f) Impairment of Financial Assets

(i) Financing and Advances

Financing and advances ("Financing") of the Bank are classified as impaired when they fulfil any of the following criteria:

(1) principal or profit or both are past due for ninety (90) days or more; or
(2) outstanding amount is in excess of approved limit for ninety (90) days or more in the case of revolving facilities; or
(3) where a financing is in arrears or the outstanding amount has been in excess of the approved limit for less than ninety (90) days, the financing exhibits indications of significant credit weaknesses; or
(4) where a financing has been classified as rescheduled and restructured ("R&R"), the financing will be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of at least six (6) months; or
(5) default occurs for repayments scheduled on intervals of ninety (90) days or more for financially distressed customer.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(f) Impairment of Financial Assets (continued)

(i) Financing and Advances (continued)

For the determination of impairment on financing, the Bank assesses at each reporting date whether there is any objective evidence that a financing or a group of financing is impaired. A financing or a group of financing is impaired and impairment losses are recognised 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 (i.e. an "incurred loss event") and that loss event has an impact on the estimated future cash flows of the financing or group of financing that can be reliably estimated.

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

(1) any significant financial difficulty of the obligor;
(2) a breach of contract, such as a default or delinquency in profit or principal payments;
(3) a high probability of bankruptcy or other financial reorganisation of the obligor;
(4) concerns over the viability of the obligor's business operations and its capacity to trade successfully out of financial difficulties and to generate sufficient cash flows to service its debt obligations; or
(5) any adverse news or developments affecting the local economic conditions or business environment which will adversely affect the repayment capacity of the customer.

The Bank first assesses individually whether objective evidence of impairment exists for financing which are individually significant, or collectively for financing which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financing, the financing is then included in a group of financing with similar credit risk characteristics and collectively assessed for impairment, where applicable. Financing that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment for impairment.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(f) Impairment of Financial Assets (continued)

(i) Financing and Advances (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the financing's carrying amount and the present value of the estimated future cash flows. The carrying amount of the financing is reduced through the use of an allowance account and the amount of loss is recognised in profit or loss. Where appropriate, the calculation of the present value of 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.

Collective assessment of financing is performed via grouping of financing on the basis of similar credit risk characteristics. Future cash flows of each of these groups of financing are estimated on the basis of historical loss experience for such assets and discounted to present value. Collective assessment impairment allowance is made on any shortfall in these discounted cash flows against the carrying value of the group of financing.

Where a financing is uncollectible, it is written off against the related allowance for financing impairment. Such financing are written off after the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off are recognised in profit or loss.

Where a financing shows evidence of significant credit weaknesses, the Bank may seek to renegotiate the financing rather than to take possession of collateral. This may involve an extension of the payment arrangements via rescheduling or the renegotiation of new financing terms and conditions via restructuring. Management monitors the renegotiated financing to ensure that all the revised terms are met and that the repayments are made promptly for a continuous period. Where a financing has been renegotiated and classified as R&R in the Central Credit Reference Information System, the customer must adhere to the revised and/or restructured repayment terms for a continuous period of six (6) months before the financing is classified as non-impaired. These financing continue to be subject to individual or collective impairment assessment.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(f) Impairment of Financial Assets (continued)

(ii) Financial Investments Available-for-Sale

The Bank assesses at each reporting date whether there is objective evidence that a financial investment classified as available-for-sale is impaired.

In the case of quoted equity investments, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether objective evidence of impairment exists. Where such evidence exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised) is removed from equity and recognised in profit or loss. For unquoted equity investments which are measured at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at the current market rate of return for a similar investment. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

For debt instruments, impairment is assessed based on the same criteria as other financial investments available-for-sale. Where impairment losses have been previously recognised in profit or loss, if there is a subsequent increase in the fair value of the debt instrument that can be objectively related to a credit event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(f) Impairment of Financial Assets (continued)

(iii) Financial Investments Held-to-Maturity

The Bank assesses at each reporting date whether objective evidence of impairment of financial investments held-to-maturity exists as a result of one or more loss events and that loss event has an impact on the estimated future cash flows of the financial investment or group of financial investments that can be reliably estimated.

Where there is objective evidence of impairment, an impairment loss is recognised as the difference between the acquisition cost and the present value of the estimated future cash flows, less any impairment loss previously recognised. If, in a subsequent period, the amount of the impairment loss decrease and the decrease can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(g) Collective Investment

Collective investment is an investment in unit trust fund which the Bank is deemed to have control, and hence consolidates the financial results of the fund. When assessing whether to consolidate the fund, the Bank considers all facts and circumstances to determine whether the Bank:

- has power over the funds by way of voting rights through the units held;
- is exposed, or has rights to variable returns from the involvement with the funds; and
- has the ability to affect those returns through its power over the funds.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(g) Collective Investment (continued)

In the Bank's financial statements, collective investment is stated at cost less impairment losses, if any. On disposal of such investment, the difference between the net disposal proceeds and the net carrying value of the investment is recognised in profit or loss.

The results of the collective investment has not been equity accounted as consolidated financial statements are not prepared by the Bank. Details of the collective investment and the effect on the profit or loss and collective investment had the equity method been applied are disclosed in Note 13.

(h) Associated Company

Associated company is an entity in which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the associated company but not control or joint control of those policies.

In the Bank's financial statements, the investment in an associated company is stated at cost less impairment losses, if any, determined on an individual basis. On disposal of such investment, the difference between the net disposal proceeds and the carrying amount of the investment is recognised in profit or loss.

The results of the associated company has not been equity accounted as consolidated financial statements are not prepared by the Bank as permitted by Paragraph 17 of MFRS 128 Investments in Associates and Joint Ventures (as amended by IASB in January 2015). Details of the associate and the effect on the profit or loss and investment in an associate had the equity method been applied are disclosed in Note 14.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(i) Property and Equipment and Depreciation

All items of property and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of replaced parts are derecognised. All other repairs and maintenance costs are charged to profit or loss when they are incurred.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent to initial recognition, property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(iv)(k).

Depreciation of property and equipment is provided on a straight line basis calculated to write off the cost of each asset to its residual value over the term of its estimated useful lives at the following principal annual rates:

Renovations	16.7%
Office equipment, furniture and fittings	7.5% - 15.0%
Computer equipment and software	20.0% - 33.3%
Motor vehicles	20.0%

The residual values, useful lives and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(j) Foreclosed Properties

Foreclosed properties are those acquired in full or partial satisfaction of financing and are stated at the lower of cost and fair value.

(k) Impairment of Non-Financial Assets

Non-financial assets such as property and equipment, collective investment, investment in an associated company and foreclosed properties, are assessed for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where such indications exist, the carrying amount of the asset is written down to its recoverable amount, which is the higher of the fair value less costs to sell and the value-in-use.

The impairment loss is recognised in profit or loss, and is reversed only if there is a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying value that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised for the asset in prior years.

(l) Bills and Acceptances Payable

Bills and acceptances payable represent the Bank’s bills and acceptances outstanding in the market.

(m) Profit Equalisation Reserve ("PER")

PER is the amount appropriated out of the total gross income in order to maintain a certain level of return to Investment Account Holders ("IAH") which is as stipulated by Bank Negara Malaysia’s Guidelines on Profit Equalisation Reserve. The amount appropriated is shared by the IAH and the Bank. The PER of the IAH is classified as a liability and is recognised at cost, with subsequent apportionments being recognised in profit or loss. The eventual distribution of PER as profit distributable to the IAH is treated as an outflow of funds due to the settlement of the obligation to the IAH. The PER of the Bank is classified as a separate reserve in equity and subsequent apportionments to and distributions from retained profits are treated as a transfer between reserves.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(n) Provisions

A provision is recognised when there is a present legal or constructive obligation where as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation and the amount can be reliably estimated.

Provisions are reviewed at each reporting date and if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

(o) Debt Securities Issued

Debt securities issued are classified as financial liabilities or equity in accordance with the substance of the contractual terms of the instruments. The Bank's debt securities issued consist of Subordinated Sukuk Murabahah. These debt securities are classified as liabilities in the statement of financial position as there is a contractual obligation by the Bank to make cash payments of either principal or profit or both to holders of the debt securities and that the Bank is contractually obliged to settle the debt securities in cash or another financial instrument.

Subsequent to initial recognition, debt securities issued are recognised at amortised cost.

(p) Share Capital

Ordinary shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Costs directly attributable to the issuance of new equity shares are taken to equity as a deduction from the proceeds.

(q) Contingent Liabilities and Contingent Assets

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(q) Contingent Liabilities and Contingent Assets (continued)

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

(r) Financing Income and Expense

For all financial instruments measured at amortised cost and profit-bearing financial assets classified as held-for-trading and available-for-sale, financing income and expense are recognised under "Finance income and Hibah" and "Income attributable to depositors and others" respectively in the statement of profit or loss using the effective profit method.

The effective profit method is a method of calculating the amortised cost of a financial asset or liability and of allocating the financing income or expense over the relevant period. The effective profit rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. Significant fees and transaction costs integral to the effective profit rate, as well as premiums or discounts are also considered.

For impaired financial assets where the value of the financial asset has been written down as a result of an impairment loss, financing income continues to be recognised using the profit rate used to discount the future cash flows for the purpose of measuring the impairment loss.

The policy for recognition of financing income and expense for the Bank's Shariah contracts are as follows:

(i) Bai' Bithaman Ajil
This contract involves the purchase and sale of an asset by the Bank to the customer on a deferred payment basis either be paid in lump sum or instalment basis within an agreed period of time at a price which includes a profit margin agreed by both parties. Financing income is recognised on effective profit rate basis over the period of the contract based on the principal amount outstanding.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(r) Financing Income and Expense (continued)

(ii) Ijarah Thumma Al-Bai'

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

(iii) Bai' Inah

Contract of sale and purchase of an asset whereby the Bank sells an asset to the customer on a deferred basis and subsequently buys back the asset at a cash price lower than the deferred sales price. Financing income is recognised on effective profit rate basis over the period of the contract based on the principal amount outstanding.

(iv) Musharakah Mutanaqisah

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

(v) Murabahah

This contract involves the sale of goods or assets by the Bank at a mark up price to the customer, which includes a profit margin as agreed by both parties. The price, costs and profit margin in Murabahah shall be made transparent and agreed by both parties. This contract applies to the Bank's financing and advances products whilst the Bank's Commodity Murabahah term deposit product is based on the contract of Murabahah and Tawarruq.

Financing income under this contract is recognised on effective profit rate basis over the period of the contract based on the principal amount outstanding.

Profit attributable to depositors is recognised as an expense in profit or loss as incurred. Profit distributed is based on the expected profit rate which is quoted to the customer on the placement date.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(r) Financing Income and Expense (continued)

(vi) Ujrah

The Bank's credit card issued is based on Ujrah contract. Ujrah is based on fee on service with a pre-assigned credit limit. It works on the premise that the Bank is providing a payment mechanism for purchases via a credit card and the Bank will receive a fee in return for the service.

Financing income is recognised on profit charged on the utilisation of the credit limit by the customer that has not been settled in full on or before the due date.

(vii) Wadiah

This is a contract where the customer deposits an item such as money or foreign currencies with the Bank on the principle of trust for safekeeping purposes and the Bank guarantees the safety of the deposits amount. The deposit must be refunded upon demand by the customer. The customers are not entitled to any share of the profits (generated from usage of the deposits by the Bank) but the Bank may provide return to the customer as a token of appreciation which is also known as Hibah. Profit attributable to Wadiah depositors or Hibah is recognised as an expense in profit or loss as incurred.

(viii) Tawarruq

Arrangement that involves a purchase of an asset or commodity based on Murabahah contract on deferred term and a subsequent sale of the same asset to a third party in order to obtain cash. The Bank's Commodity Murabahah term deposit product is based on the contract of Murabahah and Tawarruq. The commodity trading fee incurred in the Tawarruq arrangement is borne by the Bank and is recognised as an expense in profit or loss as incurred.

(ix) Mudharabah

This refers to a contract between the customer known as an investment account holder and the Bank where the customer agrees to participate in the financial activities undertaken by the Bank and shares the profit generated from financing and/or investment activities based on an agreed Profit Sharing Ratio ("PSR"). Profit is distributed according to the agreed PSR at the point of the contract. Profit attributable to Mudharabah depositors is recognised as an expense in profit or loss as incurred.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(r) Financing Income and Expense (continued)

(x) Wakalah

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

(s) Fee and Commission Income

The Bank earns fee and commission income from a diverse range of services provided to its customers. Such income are generally recognised on an accrual basis when the services have been provided.

Fees earned for the provision of services over a period of time, such as financing arrangement and management, are accrued over the period. Fee income from the provision of transaction services, such as funds remittances, are recognised upon completion of the underlying transaction.

(t) Dividend Income

Dividend income is recognised when the right to receive payment is established.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(u) Employee Benefits

(i) Short Term Employee Benefits

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

(ii) Defined Contribution Plan

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees' Provident Fund ("EPF"). Such contributions are recognised as an expense in profit or loss as incurred.

(iii) Defined Benefit Plan

The Bank contributes to a fully-funded defined benefit plan approved by the Inland Revenue Board known as the Public Bank Group Officers' Retirement Benefits Fund (the “Fund”) for its eligible employees. The obligations under the Fund are determined based on actuarial valuation where the amount of benefit that employees have earned in return for their service in the current and prior years are estimated. The benefit is calculated using the Projected Unit Credit Method in order to determine its present value. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding finance income), are recognised immediately in defined benefit reserve via other comprehensive income and are not subsequently recycled to profit or loss. Past service costs, whether unvested or already vested, are recognised immediately in profit or loss as incurred. Net finance income or cost is calculated by applying the discount rate to the net defined benefit asset or liability. The Bank recognises the changes in the net defined benefit obligation which includes current service costs, past service costs and net finance cost or income under "Personnel expenses" in the statement of profit or loss.

The amount recognised in the statement of financial position represents the actual deficit or surplus in the Fund. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from or reductions in future contributions to the Fund.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(v) Tax Expense

Tax expense comprises current and deferred tax. Tax expense is calculated on the basis of the applicable tax law in Malaysia and is recognised as an expense in profit or loss except to the extent that it relates to items that are charged or credited in other comprehensive income or directly to equity. In such cases, tax expense is charged or credited to other comprehensive income or to equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of prior years.

Deferred tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unutilised tax losses can be utilised. Deferred tax is not provided for the initial recognition of assets and liabilities that at the time of transaction, affects neither accounting nor taxable profit. Deferred tax relating to fair value remeasurement of financial investments available-for-sale and cash flow hedges, which are recognised in other comprehensive income, is also charged or credited directly to other comprehensive income, and is subsequently recognised in profit or loss when the deferred fair value gain or loss is recognised in profit or loss.

Deferred tax is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to set-off under the same taxable entity and taxation authority. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(iv) Significant Accounting Policies (continued)

(w) Zakat Obligations

This represents business zakat payable by the Bank to comply with Shariah principles. Zakat provision is calculated using the profit and loss method at a zakat rate of 2.5% and is based on the percentage of estimated Muslim individual shareholders of the holding company.

The beneficiaries of the Bank's zakat fund are state zakat collection centres, deserving orphanage homes for the poor and other deserving recipients (asnaf).

(x) Dividends

Dividends declared on ordinary shares are accounted for as an appropriation of retained profits in the period in which they are approved.

(y) Earnings Per Share

The Bank presents basic and diluted (where applicable) earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholder of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholder and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. No adjustment is made for anti-dilutive potential ordinary shares.

(z) Segment Reporting

Segment reporting in the financial statements are presented on the same basis as it is used by management internally for evaluating operating segment performance and in deciding how to allocate resources to operating segments. Operating segments are distinguishable components of the Bank that engage in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components. An operating segment is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance, and for which discrete financial information is available.

All transactions between operating segments are conducted based on mutually agreed allocation bases, with intra-segment revenues and expenses being eliminated. Revenues and expenses directly associated with each segment are included in determining business segment performance.

3. CASH AND BALANCES WITH BANKS

	2016 RM'000	2015 RM'000
Cash and bank balances	291,382	532,229
Money market deposit placements:		
- maturing within one month	360,000	2,692,920
	651,382	3,225,149

4. FINANCIAL ASSETS HELD-FOR-TRADING

	2016 RM'000	2015 RM'000
At fair value		
Money market instruments:		
Negotiable Islamic Debt Certificates	495,364	1,588,380

5. DERIVATIVE FINANCIAL ASSETS / LIABILITIES

Derivative financial instruments are financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, profit rates and equity prices) of the underlying instruments. These instruments further allow the Bank to transfer, modify or reduce its foreign exchange and profit rate risks via designated hedge relationships. Derivative financial instruments that are entered into for hedging purposes but which do not meet the hedge effectiveness criteria or which relate to customers' transactions are classified as trading derivatives. The Bank may also take conservative positions, within certain pre-set limits, with the expectation to make arbitrage gains from favourable movements in prices or rates via its trading derivatives.

5. DERIVATIVE FINANCIAL ASSETS / LIABILITIES (continued)

The table below shows the Bank's derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts as at the reporting date. The notional amounts of these derivative financial instruments refer to the underlying contract value on which changes in the value of the derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end but are not indicative of either the market risk or credit risk inherent in the derivative contracts. The risks associated with the use of derivative financial instruments, as well as management's policy for controlling these risks are set out in Note 39 to the financial statements.

	2016			2015		
	Contract/ Notional Amount	Fair Value		Contract/ Notional Amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At fair value						
Hedging derivatives:						
Cash flow hedge						
Profit rate related contracts						
- Profit rate swaps	4,330,000	18,153	23,356	4,330,000	56,019	1,636

The fair values of derivative financial instruments are normally zero or negligible at inception. The subsequent change in fair value is either favourable or unfavourable as a result of fluctuations in the underlying market profit rates and/or foreign exchange rates relative to the terms of the respective contracts.

5. DERIVATIVE FINANCIAL ASSETS / LIABILITIES (continued)

As at 31 December 2016, the Bank has positions in the following type of derivative financial instruments:

Cash Flow Hedges

The Bank principally uses profit rate swaps to protect against exposures to variability in future cash flows on non-trading financial assets and liabilities which bear profit at variable rates.

Set out below is a schedule indicating as at the financial year end, the periods when the hedged cash flows are expected to occur and when they are expected to impact the statement of profit or loss:

	Within 1 year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	Over 5 years RM'000
2016				
Cash inflows on assets	-	-	-	-
Cash (outflows) / inflows on liabilities	(14,148)	(14,876)	388	23,433
Net cash (outflows) / inflows	(14,148)	(14,876)	388	23,433
2015				
Cash inflows on assets	-	-	-	-
Cash (outflows) / inflows on liabilities	(2,465)	(3,358)	10,015	50,191
Net cash (outflows) / inflows	(2,465)	(3,358)	10,015	50,191

There were no cash flow hedges that were discontinued as a result of the hedged cash flows no longer expected to occur.

The net gains or losses on cash flow hedges reclassified from other comprehensive income to profit or loss is recognised in "Net gains and losses on financial instruments". During the financial year, no gain or loss (2015 - None) was recognised by the Bank in the statement of profit or loss.

The gains and losses on the ineffective portions of such derivatives are recognised immediately in the statement of profit or loss under "Net gains and losses on financial instruments". During the financial year, a gain of RM3,188,000 (2015 - loss of RM6,126,000) was recognised by the Bank.

6. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	2016 RM'000	2015 RM'000
At fair value		
Government securities and treasury bills:		
Malaysian Government Investment Issues	6,140,438	4,607,572
Malaysian Government Treasury Bills	-	58,468
	6,140,438	4,666,040
Non-money market instruments:		
Unit trust funds	-	114,768
	6,140,438	4,780,808

7. FINANCIAL INVESTMENTS HELD-TO-MATURITY

	2016 RM'000	2015 RM'000
At amortised cost		
Government securities and treasury bills:		
Malaysian Government Investment Issues	2,414,016	2,170,549
Non-money market instruments:		
Debt securities		
- Unquoted private debt securities	571,250	571,243
	2,985,266	2,741,792

The maturity structure of government securities and treasury bills held is as follows:

	2016 RM'000	2015 RM'000
Maturity within one year	-	40,363
More than one year to three years	1,843,676	1,724,264
More than three years to five years	570,340	405,922
	2,414,016	2,170,549

The indicative market value of government securities and treasury bills held is as follows:

	2016 RM'000	2015 RM'000
Malaysian Government Investment Issues	2,411,973	2,173,998

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8. FINANCING AND ADVANCES

Net financing and advances analysed by type and Shariah contracts are as follows :

	Bai' Bithaman Ajil RM'000	Ijarah Thumma Al-Bai' RM'000	Bai' Inah RM'000	Musharakah Mutanaqisah RM'000	Murabahah RM'000	Ujrah RM'000	Total Financing and Advances RM'000
2016							
At amortised cost:							
Cash line	1,200,076	-	-	-	-	-	1,200,076
Term financing							
- House financing	4,074,478	-	-	7,406,025	-	-	11,480,503
- Syndicated financing	1,344,515	-	-	-	-	-	1,344,515
- Hire purchase receivables	-	11,732,886	-	-	-	-	11,732,886
- Other term financing	2,953,281	-	1,895,438	6,572,426	-	-	11,421,145
Credit card receivables	-	-	-	-	-	10,530	10,530
Bills receivables	-	-	-	-	3,270	-	3,270
Trust receipts	-	-	-	-	2,478	-	2,478
Claims on customers under acceptance credits	-	-	-	-	104,197	-	104,197
Revolving credits	197,789	-	-	-	-	-	197,789
Staff financing	-	4,746	-	35,215	-	-	39,961
Gross financing and advances	9,770,139	11,737,632	1,895,438	14,013,666	109,945	10,530	37,537,350
Less : Allowance for impaired financing and advances							
- collective assessment allowance							(301,634)
- individual assessment allowance							(34)
Net financing and advances							37,235,682

All the financing and advances are located in Malaysia.

8. FINANCING AND ADVANCES (continued)

Net financing and advances analysed by type and Shariah contracts are as follows (continued):

	Bai' Bithaman Ajil RM'000	Ijarah Thumma Al-Bai' RM'000	Bai' Inah RM'000	Musharakah Mutanaqisah RM'000	Murabahah RM'000	Ujrah RM'000	Total Financing and Advances RM'000
2015							
At amortised cost:							
Cash line	1,001,462	-	-	-	-	-	1,001,462
Term financing							
- House financing	4,357,798	-	-	4,044,663	-	-	8,402,461
- Syndicated financing	1,320,788	-	-	-	-	-	1,320,788
- Hire purchase receivables	-	12,048,635	-	-	-	-	12,048,635
- Other term financing	2,788,901	-	2,037,228	4,179,315	-	-	9,005,444
Credit card receivables	-	-	-	-	-	5,610	5,610
Bills receivables	-	-	-	-	511	-	511
Trust receipts	-	-	-	-	1,005	-	1,005
Claims on customers under acceptance credits	-	-	-	-	75,839	-	75,839
Revolving credits	181,994	-	-	-	-	-	181,994
Staff financing	-	1,712	-	7,289	-	-	9,001
Gross financing and advances	9,650,943	12,050,347	2,037,228	8,231,267	77,355	5,610	32,052,750
Less : Allowance for impaired financing and advances							
- collective assessment allowance							(315,895)
- individual assessment allowance							-
Net financing and advances							31,736,855

All the financing and advances are located in Malaysia.

8. FINANCING AND ADVANCES (continued)

Gross financing and advances presented by class of financial instruments are as follows:

	2016 RM'000	2015 RM'000
Retail financing *		
- House financing	11,480,503	8,402,461
- Hire purchase	11,732,886	12,048,635
- Credit cards	10,530	5,610
- Other financing ^	11,492,287	9,170,775
	34,716,206	29,627,481
Corporate financing	2,821,144	2,425,269
Gross financing and advances	37,537,350	32,052,750

** Included in retail financing are financing granted to individual customers and mid-market commercial enterprises.*

^ Included in other financing are term financing, trade financing, cash line and revolving credits.

The maturity structure of gross financing and advances by residual contractual maturity are as follows:

	2016 RM'000	2015 RM'000
Maturity within one year	1,824,406	1,502,816
More than one year to three years	3,255,053	2,726,624
More than three years to five years	3,236,267	3,591,140
More than five years	29,221,624	24,232,170
Gross financing and advances	37,537,350	32,052,750

8. FINANCING AND ADVANCES (continued)

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

	2016 RM'000	2015 RM'000
Domestic non-bank financial institutions		
- Others	228,592	230,965
Domestic business enterprises		
- Small and medium enterprises	7,023,420	5,530,622
- Others	1,109,988	678,085
Government and statutory bodies	1,313,959	1,316,438
Individuals	27,772,881	24,224,720
Other domestic entities	4,874	3,392
Foreign entities	83,636	68,528
Gross financing and advances	37,537,350	32,052,750

Gross financing and advances analysed by rate of return sensitivity are as follows:

	2016 RM'000	2015 RM'000
Fixed rate		
- House financing	429,769	481,805
- Hire purchase receivables	11,732,681	12,048,635
- Other fixed rate financing	3,042,732	3,468,374
Variable rate		
- Base rate / base financing rate plus	20,602,923	15,012,483
- Cost plus	1,729,245	1,041,453
Gross financing and advances	37,537,350	32,052,750

Gross financing and advances analysed by economic purpose are as follows:

	2016 RM'000	2015 RM'000
Purchase of transport vehicles	11,737,615	12,050,318
Purchase of landed properties	19,488,709	14,249,481
(of which: - residential	11,745,999	8,497,749
- non-residential)	7,742,710	5,751,732
Purchase of fixed assets (excluding landed properties)	4,660	13,213
Personal use	2,534,634	2,429,620
Credit card	10,530	5,610
Purchase of consumer durables	1,756	1,941
Construction	237,790	109,584
Working capital	3,454,971	3,124,576
Other purpose	66,685	68,407
Gross financing and advances	37,537,350	32,052,750

8. FINANCING AND ADVANCES (continued)

Gross financing and advances analysed by sectors are as follows:

	2016 RM'000	2015 RM'000
Agriculture, hunting, forestry and fishing	837,589	475,070
Mining and quarrying	33,442	34,962
Manufacturing	637,469	478,443
Electricity, gas and water	1,272	1,154
Construction	1,015,486	679,738
Wholesale & retail trade and restaurants & hotels	1,730,052	1,313,628
Transport, storage and communication	322,348	277,754
Finance, insurance and business services	641,868	620,903
Real estate	2,920,892	2,364,506
Community, social and personal services	1,538,381	1,509,692
Households	27,856,517	24,293,248
Others	2,034	3,652
Gross financing and advances	37,537,350	32,052,750

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

	2016 RM'000	2015 RM'000
At 1 January	211,804	232,348
Impaired during the year	593,015	558,945
Reclassified as non-impaired	(440,075)	(437,925)
Recoveries	(44,904)	(45,881)
Amount written off	(92,607)	(95,412)
Financing converted to foreclosed properties	(1,566)	(271)
At 31 December	225,667	211,804
Gross impaired financing as a percentage of gross financing and advances	0.60%	0.66%

8. FINANCING AND ADVANCES (continued)

Impaired financing and advances analysed by economic purpose are as follows:

	2016 RM'000	2015 RM'000
Purchase of transport vehicles	94,829	104,061
Purchase of landed properties	99,044	71,470
(of which: - residential	87,126	64,435
- non-residential)	11,918	7,035
Purchase of fixed assets (excluding landed properties)	-	39
Personal use	29,707	35,317
Credit card	66	21
Purchase of consumer durables	-	57
Working capital	2,007	820
Other purpose	14	19
Impaired financing and advances	225,667	211,804

Impaired financing and advances analysed by sectors are as follows:

	2016 RM'000	2015 RM'000
Agriculture, hunting, forestry and fishing	516	918
Mining and quarrying	43	130
Manufacturing	534	378
Construction	6,201	1,283
Wholesale & retail trade and restaurants & hotels	1,761	1,508
Transport, storage and communication	938	467
Finance, insurance and business services	763	1,270
Real estate	622	653
Community, social and personal services	345	566
Households	213,761	204,611
Others	183	20
Impaired financing and advances	225,667	211,804

All the impaired financing and advances are located in Malaysia.

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8. FINANCING AND ADVANCES (continued)

A reconciliation of the allowance for impaired financing and advances by class of financial instrument is as follows:

Collective Assessment Allowance	<------------------ Retail Financing		----------------->			
	House Financing RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Financing RM'000	Corporate Financing RM'000	Total RM'000
2016						
At 1 January 2016	58,474	180,587	31	72,974	3,829	315,895
Allowance made during the year (Note 27)	13,367	40,164	120	24,271	424	78,346
Amount written off	(5,124)	(61,168)	(67)	(26,248)	-	(92,607)
At 31 December 2016	66,717	159,583	84	70,997	4,253	301,634
2015						
At 1 January 2015	63,910	176,166	-	80,390	1,385	321,851
Allowance (written back) / made during the year (Note 27)	(2,842)	63,200	43	26,611	2,444	89,456
Amount written off	(2,594)	(58,779)	(12)	(34,027)	-	(95,412)
At 31 December 2015	58,474	180,587	31	72,974	3,829	315,895

8. FINANCING AND ADVANCES (continued)

A reconciliation of the allowance for impaired financing and advances by class of financial instrument is as follows (continued):

	<------------------- Retail Financing			---------------->		
Individual Assessment Allowance	**House Financing RM'000**	**Hire Purchase RM'000**	**Credit Cards RM'000**	**Other Financing RM'000**	**Corporate Financing RM'000**	**Total RM'000**
2016						
At 1 January 2016	-	-	-	-	-	-
Allowance made during the year (Note 27)	-	-	-	34	-	34
At 31 December 2016	-	-	-	34	-	34
2015						
At 1 January 2015 / 31 December 2015	-	-	-	-	-	-

9. OTHER ASSETS

	2016 RM'000	2015 RM'000
Deferred handling fees *	67,253	71,396
Income receivable	58	771
Other receivables, deposits and prepayments	13,810	7,384
Employee benefits (Note 10)	2,999	2,838
Foreclosed properties #	1,793	506
	85,913	82,895
# Stated net of accumulated allowance for impairment loss amounting to	277	310

* This represents the unamortised balance of handling fees paid to motor vehicle dealers for hire purchase financing.

10. EMPLOYEE BENEFITS

Defined Benefit Plan

The Bank contributes to a defined benefit plan known as the Public Bank Group Officers' Retirement Benefits Fund ("the Fund") for its eligible employees. Under the Fund, eligible employees are entitled to one month of the final or last drawn salary for each completed year of service with the Bank upon attainment of retirement age. Effective from 1 July 2013, the normal retirement age was raised from 55 years to 60 years in accordance with Malaysia's Minimum Retirement Age Act 2012, and an optional retirement age, from 55 years to anytime prior to 60 years was introduced. For employees who leave before the attainment of the normal retirement age or the optional retirement age, the retirement benefit will be computed based on the scale rate stipulated in the rules of the Fund.

The defined benefit plan is a tax exempt fund, fully funded by the Bank and its holding company and certain subsidiary companies of the Bank's holding company which are participating companies of the plan. Employees are not required to contribute to the plan. The funding requirements are based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions as set out below. The latest actuarial valuation for funding purposes was made as at 31 December 2015 by Actuarial Partners Consulting Sdn. Bhd.

As at 31 December 2016, the plan is in surplus of RM302,904,000 (2015 - RM286,646,000) and no contributions are required to be made to the plan in the forthcoming financial year by the Bank. However, should there be a significant fall in value of the asset portfolio of the plan, an actuarial valuation will be conducted to re-assess the funding requirement.

10. EMPLOYEE BENEFITS (continued)

Defined Benefit Plan (continued)

The assets of the Fund are held separately from the assets of the Bank and are administered by a board of trustees. There are three (3) trustees currently, one (1) of whom is a member of the Board of Directors of the Bank's holding company and the remaining two (2) trustees are members of senior management of the Bank's holding company.

The defined benefit plan exposes the Bank to actuarial risks such as market (investment) risk, profit rate risk and salary risk. Market risk arises from investments delivering an inadequate return; changes in profit rate would affect the finance cost as well as valuation of plan obligations; salary risk arises from higher than expected salary increase leading to higher plan obligations.

The investments of the plan comply with the requirement of the income tax ruling for tax exempt funds that 80% of the plan assets (gross) are invested in specified assets with at least 20% of plan assets (gross) in government issued securities. The strategic investment policy of the defined benefit plan can be summarised as plan asset mix based on 20% to 30% of investment properties, 20% to 25% of government securities and 45% to 60% in a combination of equities, unit trusts and cash.

Compliance with investment policies is reported quarterly to the Board of Trustees.

The amounts recognised in the statement of financial position are determined as follows:

	2016 RM’000	2015 RM’000
Present value of funded obligations	(9,805)	(8,900)
Fair value of plan assets	12,804	11,738
Net assets (Note 9)*	2,999	2,838

* The net assets represent the Bank's share of the Fund's total net assets.

10. EMPLOYEE BENEFITS (continued)

Defined Benefit Plan (continued)

Movements in the present value of funded obligations are as follows:

	2016 RM'000	2015 RM'000
Obligation at 1 January	8,900	13,126
Recognised in profit or loss		
- current service cost	541	495
- finance cost	490	409
- allocation adjustment	-	(5,251)
Benefits paid - the Fund	(126)	(154)
Remeasurements recognised in other comprehensive income (Note 24)		
- effects of changes in demographic assumptions	-	(218)
- effects of changes in financial assumptions	-	(273)
- effects of experience adjustments	-	766
Obligation at 31 December	9,805	8,900

Movements in the fair value of plan assets are as follows:

	2016 RM'000	2015 RM'000
Fair value at 1 January	11,738	17,578
Recognised in profit or loss		
- finance income	649	550
- allocation adjustment	-	(2,147)
Benefits paid - the Fund	(126)	(154)
Remeasurements recognised in other comprehensive income (Note 24)		
- return on plan assets (excluding amounts included in finance income)	543	796
- allocation adjustment	-	(4,885)
Fair value at 31 December	12,804	11,738

10. EMPLOYEE BENEFITS (continued)

Defined Benefit Plan (continued)

The fair value of plan assets constitutes the following:

	2016 RM'000	2015 RM'000
Deposit placements and cash	8	-
Government securities	4,894	4,709
Private debt securities	2,181	2,187
Quoted equity securities [1]	9,353	8,798
Unit trust funds [2]	1,332	1,303
Properties [3]	6,189	5,654
Plan assets (gross)	23,957	22,651
Other liabilities (net)	(60)	(67)
Borrowings	(11,093)	(10,846)
	12,804	11,738

[1] Quoted equity securities analysed by sectors are as follows:

	2016 RM'000	2015 RM'000
Financial institutions *	5,663	5,323
Insurance companies	2,536	2,489
Property companies	1,154	980
Commercial / trading companies	-	6
	9,353	8,798

* Included in the fair value of equity securities of the Fund are ordinary shares of the holding company of the Bank held by the Fund with a fair value of RM570,231,000 (2015 - RM535,531,000).

10. EMPLOYEE BENEFITS (continued)

Defined Benefit Plan (continued)

[2] Unit trust funds analysed by type of funds are as follows:

	2016 RM'000	2015 RM'000
Equity funds	1,136	1,121
Dividend funds	196	182
	1,332	1,303

[3] Properties analysed by type of properties are as follows * :

	2016 RM'000	2015 RM'000
Terraced shop offices	5,712	5,180
Stratified office lots	287	287
Commercial buildings	179	177
Residential buildings	11	10
	6,189	5,654

* All the properties held by the Fund are occupied by the Bank's holding company, Public Bank Berhad and its related companies. Certain floors in the commercial buildings and terraced shop offices are tenanted by external parties of which they contributed about 2.0% (2015: 2.0%) of the total rental income from properties.

10. EMPLOYEE BENEFITS (continued)

Defined Benefit Plan (continued)

The amounts recognised under personnel expenses in the statement of profit or loss are as follows:

	2016 **RM'000**	**2015** **RM'000**
Current service cost	541	495
Finance cost	490	409
Finance income	(649)	(550)
Allocation adjustment	-	(3,104)
Amount included under 'personnel expenses' (Note 30)	382	(2,750)

Actual return / (loss) on plan assets is as follows:

	2016 **RM'000**	**2015** **RM'000**
Finance income on plan assets	649	550
Remeasurements on plan assets	543	796
Allocation adjustment	-	(4,885)
Actual return / (loss) on plan assets	1,192	(3,539)

(i) Actuarial Assumptions

Principal actuarial assumptions used at the reporting date (expressed as weighted averages) are as follows:

	2016	**2015**
Discount rate	5.60%	5.60%
Expected rate of salary increases	7.00%	7.00%

The discount rate used in the actuarial assumptions is based on a blend of yields of long term high quality corporate bonds. The expected rate of salary increases takes into account the increases in salaries from factors such as inflation, productivity and promotions.

The principal actuarial assumptions are based on the latest actuarial valuation performed as of 31 December 2015.

As at 31 December 2016, the weighted average duration of the defined benefit obligation was 10.0 years.

10. EMPLOYEE BENEFITS (continued)

Defined Benefit Plan (continued)

(ii) Sensitivity Analysis

The effect of changes in the principal actuarial assumptions on the present value of funded obligations are as follows:

	2016 Sensitivity		**2015 Sensitivity**	
	+1%	**-1%**	**+1%**	**-1%**
	RM'000	**RM'000**	**RM'000**	**RM'000**
(Decrease) / Increase of present value of funded obligations:				
- Discount rate	(718)	844	(701)	828
- Expected salary	894	(774)	781	(674)

The sensitivity analysis presented above may not be representative of the actual change in the present value of funded obligations as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

11. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

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

12. DEFERRED TAX ASSETS / (LIABILITIES)

	2016 RM'000	2015 RM'000
At 1 January	(22,029)	(15,445)
Recognised in profit or loss (net) (Note 33)		
- relating to changes in tax rate	(18)	27
- relating to origination and reversal of temporary differences	190	(878)
- under provision in prior years	(114)	(377)
Recognised in other comprehensive income (net) (Note 24)	26,213	(5,356)
At 31 December	4,242	(22,029)

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 income taxes relate to the same tax authority. The net deferred tax assets and liabilities shown on the statement of financial position after appropriate offsetting are as follows:

	2016 RM'000	2015 RM'000
Deferred tax assets, net	4,242	-
Deferred tax liabilities, net	-	(22,029)
	4,242	(22,029)

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

	2016 RM'000	2015 RM'000
Deferred tax assets	5,351	424
Deferred tax liabilities	(1,109)	(22,453)
	4,242	(22,029)

12. DEFERRED TAX ASSETS / (LIABILITIES) (continued)

The components and movements in deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax assets	Hedging Reserves RM'000	Revaluation Reserves RM'000	Other Temporary Differences RM'000	Profit Equalisation Reserves RM'000	Total RM'000
At 1 January 2015	-	-	670	14	684
Recognised in profit or loss (Note 33)					
- relating to origination and reversal of temporary differences	-	-	(191)	(1)	(192)
- over provision	-	-	(68)	-	(68)
At 31 December 2015	-	-	411	13	424
Recognised in profit or loss (Note 33)					
- relating to changes in tax rate	-	-	(17)	(1)	(18)
- relating to origination and reversal of temporary differences	-	-	45	14	59
- over provision	-	-	(114)	-	(114)
	-	-	325	26	351
Reclassed from deferred tax liabilities	632	4,368	-	-	5,000
At 31 December 2016	632	4,368	325	26	5,351

12. DEFERRED TAX ASSETS / (LIABILITIES) (continued)

The components and movements in deferred tax assets and liabilities during the financial year prior to offsetting are as follows (continued):

Deferred tax liabilities	Hedging Reserves RM'000	Revaluation Reserves RM'000	Excess of Capital Allowances Over Depreciation RM'000	Defined Benefit Plan RM'000	Cost on Subordinated Sukuk Murabahah RM'000	Total RM'000
At 1 January 2015	14,491	449	121	1,068	-	16,129
Recognised in profit or loss (Note 33)						
- relating to changes in tax rate	-	-	(3)	(27)	3	(27)
- relating to origination and reversal of temporary differences	-	-	64	687	(65)	686
- under provision	-	-	-	-	309	309
Recognised in other comprehensive income (Note 24)	(57)	6,460	-	(1,047)	-	5,356
At 31 December 2015	14,434	6,909	182	681	247	22,453
Recognised in profit or loss (Note 33)						
- relating to origination and reversal of temporary differences	-	-	23	(92)	(62)	(131)
Recognised in other comprehensive income (Note 24)	(15,066)	(11,277)	-	130	-	(26,213)
	(632)	(4,368)	205	719	185	(3,891)
Reclassed to deferred tax assets	632	4,368	-	-	-	5,000
At 31 December 2016	-	-	205	719	185	1,109

13. COLLECTIVE INVESTMENT

Details of the collective investment are as follows:

Name of Fund	Principal Activities	Place of Incorporation	Effective Interest 2016 %	Effective Interest 2015 %
Public Islamic Wholesale Income Fund	Wholesale income fund	Malaysia	32.1	-

The Bank's collective investment is not material to the financial position, financial performance and cash flows of the Bank.

Had the equity method of accounting been applied, the carrying amount of collective investment would have been as follows:

	2016 RM'000	2015 RM'000
Unit trust fund, at cost	497,836	-
Share of post-acquisition reserves	5	-
	497,841	-
Represented by:		
Share of net assets	497,841	-
Share of results		
- Share of profit from continuing operations	9,715	-
- Share of other comprehensive income	271	-
Share of total comprehensive income	9,986	-

The summarised financial information of the collective investment is as follows:

	2016 RM'000	2015 RM'000
Total assets	1,556,980	-
Total liabilities	4,624	-
Operating revenue	35,891	-
Profit after tax	30,292	-
Total comprehensive income	31,137	-

There are no significant restrictions on the ability of the unit trust fund to transfer funds to the Bank in the form of cash dividends.

14. INVESTMENT IN AN ASSOCIATED COMPANY

	2016 RM'000	2015 RM'000
Unquoted shares in Malaysia, at cost	30,000	20,000

Details of the associated company are as follows:

Name	Principal Activities	Place of Incorporation	Effective Interest 2016 %	Effective Interest 2015 %
AIA PUBLIC Takaful Berhad	Family takaful	Malaysia	15	15

During the year, the Bank had subscribed to 10,000,000 new ordinary shares of RM1.00 each, issued by AIA PUBLIC Takaful Berhad ("AIA PUBLIC") at an issue price of RM1.00 per ordinary share, for a total consideration of RM10,000,000. The new ordinary shares issued by AIA PUBLIC were in proportion to its existing shareholders' respective shareholding interest, hence the effective interest of the Bank in AIA PUBLIC remains unchanged.

The Bank's associated company is not material to the financial position, financial performance and cash flows of the Bank.

Had the equity method of accounting been applied, the carrying amount of investment in the associated company would have been as follows:

	2016 RM'000	2015 RM'000
Unquoted shares, at cost	30,000	20,000
Share of post-acquisition reserves	(6,758)	(6,158)
Loss on dilution of interest in the associated company	(4,191)	(4,191)
	19,051	9,651
Represented by:		
Share of net assets	19,051	9,651
Share of results		
- Share of loss from continuing operations	(546)	(729)
- Share of other comprehensive loss	(54)	(27)
Share of total comprehensive loss	(600)	(756)

14. INVESTMENT IN AN ASSOCIATED COMPANY (continued)

The summarised financial information of the associated company is as follows:

	2016 RM'000	**2015 RM'000**
Total assets	808,770	517,867
Total liabilities	681,702	454,050
Operating revenue	500,233	299,671
(Loss) / Profit after tax	(9,472)	7,283
Total comprehensive (loss) / profit	(9,567)	7,377

There are no significant restrictions on the ability of the associated company to transfer funds to the Bank in the form of cash dividends.

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15. PROPERTY AND EQUIPMENT

	Note	Renovations RM'000	Office Equipment, Furniture & Fittings RM'000	Computer Equipment & Software RM'000	Motor Vehicles RM'000	Total RM'000
2016						
Cost						
At 1 January 2016		562	1,906	1,748	379	4,595
Additions		-	35	391	-	426
Disposals		-	(20)	(10)	-	(30)
Write-offs		-	-	(35)	-	(35)
At 31 December 2016		562	1,921	2,094	379	4,956
Accumulated depreciation						
At 1 January 2016		489	1,221	1,258	360	3,328
Depreciation charge for the year	31	62	181	181	19	443
Disposals		-	(20)	(10)	-	(30)
Write-offs		-	-	(35)	-	(35)
At 31 December 2016		551	1,382	1,394	379	3,706
Carrying amounts						
At 31 December 2016		11	539	700	-	1,250

15. PROPERTY AND EQUIPMENT (continued)

	Note	Renovations RM'000	Office Equipment, Furniture & Fittings RM'000	Computer Equipment & Software RM'000	Motor Vehicles RM'000	Total RM'000
2015						
Cost						
At 1 January 2015		562	1,845	1,456	383	4,246
Additions		-	61	354	-	415
Disposals		-	-	(13)	(4)	(17)
Write-offs		-	-	(49)	-	(49)
At 31 December 2015		562	1,906	1,748	379	4,595
Accumulated depreciation						
At 1 January 2015		417	1,032	1,205	289	2,943
Depreciation charge for the year	31	72	189	115	75	451
Disposals		-	-	(13)	(4)	(17)
Write-offs		-	-	(49)	-	(49)
At 31 December 2015		489	1,221	1,258	360	3,328
Carrying amounts						
At 31 December 2015		73	685	490	19	1,267

16. DEPOSITS FROM CUSTOMERS

The deposits presented by type of deposit and contract are as follows:

	2016 RM'000	2015 RM'000
At amortised cost		
Savings deposit		
- Wadiah	5,855,625	5,494,154
Demand deposit		
- Wadiah	3,839,873	3,521,768
Term deposit		
- Negotiable Islamic Debt Certificate		
- Bai' Inah	-	974,136
- Commodity Murabahah	27,684,903	24,388,180
- General investment account		
- Mudharabah	90,115	113,594
- Wakalah	110,184	149,849
	200,299	263,443
- Special term deposit account		
- Wadiah	4,892,374	4,455,764
	42,473,074	39,097,445

Deposits from customers are insured by Perbadanan Insurans Deposit Malaysia ("PIDM"), up to a limit of RM250,000 per depositor per PIDM member bank. The deposit insurance covers all Ringgit Malaysia and foreign currency deposits held under savings deposit, demand deposit, Commodity Murabahah term deposit and general investment account. This guarantee excludes special term deposit account and negotiable islamic debt certificate.

Included in deposits from customers are deposits of RM217,801,000 (2015 - RM173,742,000) held as collateral for financing and advances.

16. DEPOSITS FROM CUSTOMERS (continued)

The deposits presented by class of financial instrument are as follows:

	2016 RM'000	2015 RM'000
At amortised cost		
Core deposits:		
- Savings deposit	5,855,625	5,494,154
- Demand deposit	3,839,873	3,521,768
- Commodity Murabahah term deposit	27,684,903	24,388,180
- General investment account	200,299	263,443
	37,580,700	33,667,545
Wholesale deposits:		
- Negotiable Islamic Debt Certificate	-	974,136
- Special term deposit account	4,892,374	4,455,764
	4,892,374	5,429,900
	42,473,074	39,097,445

The maturity structure of term deposits are as follows:

	2016 RM'000	2015 RM'000
Due within six months	30,055,815	26,964,221
More than six months to one year	2,719,052	3,116,082
More than one year to three years	2,035	406
More than three years to five years	674	814
	32,777,576	30,081,523

The deposits are sourced from the following type of customers:

	2016 RM'000	2015 RM'000
Federal and state governments	5,287,126	4,386,909
Local government and statutory authorities	883,615	993,260
Business enterprises	6,477,550	7,167,337
Individuals	14,731,939	12,328,522
Foreign customers	580,445	444,119
Others	14,512,399	13,777,298
	42,473,074	39,097,445

17. DEPOSITS FROM BANKS

	2016 RM'000	2015 RM'000
At amortised cost		
Non-Mudharabah Fund		
Licensed banks	1,709,786	1,647,165
Licensed investment banks	741	264
Bank Negara Malaysia	18,451	7,997
Other financial institutions	593,150	663,388
	2,322,128	2,318,814

Included in Non-Mudharabah Fund of licensed banks is an amount placed by the Bank's holding company of RM1,709,786,000 (2015 - RM1,647,165,000).

18. BILLS AND ACCEPTANCES PAYABLE

Bills and acceptances payable represents the Bank's bills and acceptances outstanding in the market. These financial liabilities are stated at amortised cost.

19. RECOURSE OBLIGATIONS ON FINANCING SOLD TO CAGAMAS

This represents the proceeds received from house financing sold directly to Cagamas Berhad with recourse to the Bank. Under this agreement, the Bank undertakes to administer the financing on behalf of Cagamas Berhad and to buy-back any financing which are regarded as defective based on prudential criteria set by Cagamas Berhad. These financial liabilities are stated at amortised cost.

20. SUBORDINATED SUKUK MURABAHAH

	2016 RM'000	2015 RM'000
At amortised cost		
Issued under the RM5.0 billion Sukuk Murabahah Programme:		
First tranche:		
RM500 million 4.75% Subordinated Sukuk Murabahah due in 2024, callable in 2019	498,715	498,715
Cumulative amortisation of transaction cost	659	402
	499,374	499,117

20. SUBORDINATED SUKUK MURABAHAH (continued)

Movements in Subordinated Sukuk Murabahah issued are as follows:

	2016 RM'000	2015 RM'000
At 1 January	499,117	498,860
Amortisation of transaction cost during the year	257	257
	499,374	499,117

The Bank obtained approval from BNM and the Securities Commission on 24 March 2014 and 21 April 2014 respectively, for the establishment of an Islamic medium term note programme under the Shariah principle of Murabahah to facilitate the issuance of Senior Sukuk Murabahah and/or Subordinated Sukuk Murabahah of up to RM5.0 billion in nominal value.

The tenor of the Sukuk Murabahah Programme is up to thirty (30) years from the date of first issuance of Sukuk Murabahah under the Sukuk Murabahah Programme. The tenor of each issuance of Subordinated Sukuk Murabahah, and subject to the call option, shall have at least five (5) years from the issue date, provided that the Subordinated Sukuk Murabahah mature on or prior to the expiry of the Sukuk Murabahah Programme. Each issuance will bear profit at a rate to be determined prior to the issuance, payable semi-annually in arrears.

The Subordinated Sukuk Murabahah will, subject to the prior written consent of BNM, be redeemable in whole or in part, at the option of the Bank in the event of certain changes affecting taxation in Malaysia or if there is a more than insubstantial risk that the Subordinated Sukuk Murabahah will no longer fully qualify as Tier II Capital for the purposes of BNM's capital adequacy requirements or changes in law which will make it unlawful to continue performing its obligations or on the first call date or at any subsequent profit payment date thereafter at their nominal amount.

Contingent Write-off of the Bank

The Subordinated Sukuk Murabahah may, at the option of BNM and PIDM, be written off upon the occurrence of a trigger event in relation to the Bank. The trigger event would be the earlier of:

- The notification by BNM and PIDM to the Bank in writing that they are of the opinion that the write-off is necessary, without which the Bank would cease to be viable; or
- The public announcement by BNM and PIDM that a decision has been made by BNM, PIDM or any other federal or state government in Malaysia, to provide a capital injection or equivalent support to the Bank, without which the Bank would cease to be viable.

20. SUBORDINATED SUKUK MURABAHAH (continued)

Contingent Write-off of the Bank (continued)

The write-off of Subordinated Sukuk Murabahah shall be permanent and shall not constitute an event of default or trigger cross-default clause. BNM and PIDM shall have the option to require the entire principal amount of the Subordinated Sukuk Murabahah outstanding, or a part thereof, and all other amount owing under the Subordinated Sukuk Murabahah, be written off.

On 9 June 2014, the Bank issued the first tranche of RM500 million in nominal value of Subordinated Sukuk Murabahah due in 2024 callable in 2019. The Sukuk bear profit at the rate of 4.75% per annum from (and including) 9 June 2014 to (but excluding) the date of early redemption in full of such Sukuk or the maturity date of the Sukuk (whichever is earlier). The profit rate on these Sukuk will remain unchanged throughout the tenure of the Sukuk. The profit is payable semi-annually in arrears on 9 December and 9 June each year which commenced on 9 December 2014.

The Subordinated Sukuk Murabahah constitutes unsecured liabilities/obligations of the Bank, and is subordinated in right of payment upon the occurrence of any winding up proceeding to the prior payment in full of all deposit liabilities and all other liabilities of the Bank, in accordance with the terms and conditions of the Subordinated Sukuk Murabahah.

The Subordinated Sukuk Murabahah to be issued from time to time under the Sukuk Murabahah Programme will qualify as Tier II capital for the computation of the regulatory capital of the Bank in accordance with the BNM's Capital Adequacy Framework (Capital Components) for Islamic Banks.

21. OTHER LIABILITIES

	2016 RM'000	2015 RM'000
Income payable	180,708	191,355
Other payables and accruals #	34,671	21,265
Profit Equalisation Reserves @	111	53
	215,490	212,673

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21. OTHER LIABILITIES (continued)

\# Included in other payables and accruals are undistributed charity funds.

The movements in sources and uses of charity funds are as follows:

	2016 RM'000	2015 RM'000
<u>Sources of charity funds</u>		
Undistributed charity funds as at 1 January	43	36
Gharamah / penalty charges	33	7
Total sources of funds during the year	76	43
<u>Uses of charity funds</u>		
Contribution to non-profit organisations	43	-
Total uses of funds during the year	43	-
Undistributed charity funds as at 31 December	33	43

@ The movements in Profit Equalisation Reserves are as follows:

	2016 RM'000	2015 RM'000
At 1 January	53	55
Net increase / (decrease) :	58	(2)
- Amount arising during the year	96	76
- Amount written back	(38)	(78)
At 31 December	111	53

22. PROVISION FOR ZAKAT AND TAXATION

	2016 RM'000	2015 RM'000
Zakat	313	323
Tax expense	42,938	40,357
	43,251	40,680

23. SHARE CAPITAL

	Number of Ordinary Shares of RM1.00 Each		Amount	
	2016 '000	2015 '000	2016 RM'000	2015 RM'000
Authorised:				
Ordinary shares of RM1.00 each	500,000	500,000	500,000	500,000
Issued and fully paid:				
Ordinary shares of RM1.00 each				
At 1 January	207,217	200,217	207,217	200,217
Issued during the year	12,000	7,000	12,000	7,000
At 31 December	219,217	207,217	219,217	207,217

On 28 January 2016, the Bank increased its paid-up capital by 12,000,000 ordinary shares of RM1.00 each issued at RM25.00 per share. Upon completion, the issued and paid-up share capital of the Bank increased from RM207,217,000 to RM219,217,000.

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

There were no changes in the authorised share capital of the Bank during the financial year.

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24. OTHER RESERVES

	Statutory Reserves RM'000	Revaluation Reserves RM'000	Profit Equalisation Reserves RM'000	Hedging Reserves RM'000	Defined Benefit Reserves RM'000	Regulatory Reserves RM'000	Total RM'000
At 1 January 2016	227,546	21,879	87	45,709	4,293	68,739	368,253
Net change in revaluation of financial investments available-for-sale:							
- Net unrealised loss	-	(28,044)	-	-	-	-	(28,044)
- Net gain on disposal reclassified to profit or loss	-	(18,944)	-	-	-	-	(18,944)
	-	(46,988)	-	-	-	-	(46,988)
Net change in cash flow hedges:							
- Net unrealised loss	-	-	-	(62,774)	-	-	(62,774)
Gain on remeasurements of defined benefit plan (Note 10)	-	-	-	-	543	-	543
Deferred tax (Note 12)	-	11,277	-	15,066	(130)	-	26,213
Other comprehensive (loss) / income	-	(35,711)	-	(47,708)	413	-	(83,006)
Transferred from retained profits	12,000	-	86	-	-	80,076	92,162
At 31 December 2016	239,546	(13,832)	173	(1,999)	4,706	148,815	377,409

24. OTHER RESERVES (continued)

	Statutory Reserves RM'000	Revaluation Reserves RM'000	Profit Equalisation Reserves RM'000	Hedging Reserves RM'000	Defined Benefit Reserves RM'000	Regulatory Reserves RM'000	Total RM'000
At 1 January 2015	207,546	1,483	54	45,889	7,610	-	262,582
Net change in revaluation of financial investments available-for-sale:							
- Net unrealised gain	-	31,626	-	-	-	-	31,626
- Net gain on disposal reclassified to profit or loss	-	(4,770)	-	-	-	-	(4,770)
	-	26,856	-	-	-	-	26,856
Net change in cash flow hedges:							
- Net unrealised loss	-	-	-	(237)	-	-	(237)
Loss on remeasurements of defined benefit plan (Note 10)	-	-	-	-	(4,364)	-	(4,364)
Deferred tax (Note 12)	-	(6,460)	-	57	1,047	-	(5,356)
Other comprehensive income / (loss)	-	20,396	-	(180)	(3,317)	-	16,899
Transferred from retained profits	20,000	-	33	-	-	68,739	88,772
At 31 December 2015	227,546	21,879	87	45,709	4,293	68,739	368,253

24. OTHER RESERVES (continued)

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

Revaluation Reserves
The revaluation reserves are in respect of unrealised fair value gains and losses on financial investments available-for-sale.

Profit Equalisation Reserves
The Profit Equalisation Reserves ("PER") are maintained in compliance with the requirements of the revised PER Guidelines issued by Bank Negara Malaysia for the management of displaced commercial risk.

Hedging Reserves
The hedging reserves are in respect of the effective portion of unrealised fair value gains and losses on cash flow hedging instruments.

Defined Benefit Reserves
The defined benefit reserves are in respect of remeasurements of the net defined benefit assets/liabilities.

Regulatory Reserves
The regulatory reserves are maintained by the Bank as an additional credit risk absorbent in excess of the requirements of accounting standards. The reserves are maintained in line with the requirements of Bank Negara Malaysia.

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25. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	2016 RM'000	2015 RM'000
Income derived from investment of:		
(i) Term deposits	1,640,906	1,375,681
(ii) Other deposits	469,000	440,643
	2,109,906	1,816,324

(i) Income derived from investment of term deposits:

	2016 RM'000	2015 RM'000
Finance income and Hibah		
Financing and advances	1,310,439	1,081,246
Financial investments available-for-sale	125,068	127,115
Financial investments held-to-maturity	76,189	63,791
Balances with banks	53,068	30,504
	1,564,764	1,302,656
Financial assets held-for-trading	13,915	36,316
Total finance income and Hibah	1,578,679	1,338,972
Other operating income		
Fee and commission income:		
- Commissions	15,471	8,252
- Service charges and fees	13,524	11,943
- Other fee income	4,874	5,939
Net gains and losses on financial instruments:		
- Gross dividend income from financial investments available-for-sale	2,791	10,766
- Net gain arising from sale of financial investments available-for-sale	13,649	3,364
- Gain / (Loss) representing ineffective portions of hedging derivatives	2,297	(4,320)
- Others	229	567
Gross dividend income from collective investment	8,542	-
Other income	850	198
Total other operating income	62,227	36,709
	1,640,906	1,375,681
Of which:		
Financing income earned on impaired financing	8,422	8,700

25. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS (continued)

(ii) Income derived from investment of other deposits:

	2016 RM'000	2015 RM'000
Finance income and Hibah		
Financing and advances	374,547	346,332
Financial investments available-for-sale	35,747	40,716
Financial investments held-to-maturity	21,776	20,433
Balances with banks	15,168	9,771
	447,238	417,252
Financial assets held-for-trading	3,977	11,632
Total finance income and Hibah	451,215	428,884
Other operating income		
Fee and commission income:		
- Commissions	4,422	2,643
- Service charges and fees	3,865	3,825
- Other fee income	1,393	1,903
Net gains and losses on financial instruments:		
- Gross dividend income from financial investments available-for-sale	797	3,449
- Net gain arising from sale of financial investments available-for-sale	3,901	1,077
- Gain / (Loss) representing ineffective portions of hedging derivatives	656	(1,384)
- Others	66	182
Gross dividend income from collective investment	2,442	-
Other income	243	64
Total other operating income	17,785	11,759
	469,000	440,643
Of which:		
Financing income earned on impaired financing	2,407	2,787

26. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	2016 RM'000	2015 RM'000
Finance income and Hibah		
Financing and advances	133,840	105,591
Financial investments available-for-sale	12,774	12,414
Financial investments held-to-maturity	7,781	6,230
Balances with banks	5,420	2,979
	159,815	127,214
Financial assets held-for-trading	1,421	3,546
Total finance income and Hibah	161,236	130,760
Other operating income		
Fee and commission income:		
- Commissions	1,580	806
- Service charges and fees	1,381	1,166
- Other fee income	498	580
Net gains and losses on financial instruments:		
- Gross dividend income from financial investments available-for-sale	285	1,051
- Net gain arising from sale of financial investments available-for-sale	1,394	329
- Gain / (Loss) representing ineffective portions of hedging derivatives	235	(422)
- Others	24	55
Gross dividend income from collective investment	872	-
Other income	87	19
Total other operating income	6,356	3,584
	167,592	134,344
Of which:		
Financing income earned on impaired financing	860	850

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27. ALLOWANCE FOR IMPAIRMENT ON FINANCING AND ADVANCES

	2016 RM'000	2015 RM'000
Allowance / (Writeback of allowance) for impaired financing:		
Collective assessment allowance (Note 8)	78,346	89,456
- Retail financing		
- house financing	13,367	(2,842)
- hire purchase	40,164	63,200
- credit cards	120	43
- other financing	24,271	26,611
- Corporate financing	424	2,444
Individual assessment allowance (Note 8)	34	-
- Retail financing		
- other financing	34	-
Impaired financing recovered	(19,954)	(20,650)
	58,426	68,806

28. (WRITEBACK OF IMPAIRMENT) / IMPAIRMENT ON OTHER ASSETS

	2016 RM'000	2015 RM'000
Foreclosed properties	(4)	28

29. INCOME ATTRIBUTABLE TO DEPOSITORS AND OTHERS

	2016 RM'000	2015 RM'000
Deposits from customers		
- Mudharabah fund	3,102	5,124
- Non-Mudharabah fund	1,181,144	970,716
Deposits from banks		
- Mudharabah fund	-	5,935
- Non-Mudharabah fund	98,134	98,476
Financing sold to Cagamas	17,713	17,953
Subordinated Sukuk Murabahah	23,815	23,750
	1,323,908	1,121,954

Included in the income attributable to Mudharabah fund depositors is the utilisation of Profit Equalisation Reserves for distribution of profits to investment account holders of RM38,000 (2015 - RM78,000).

30. PERSONNEL EXPENSES

	2016 RM'000	2015 RM'000
Salaries, allowances and bonuses	12,595	11,215
Pension costs	1,962	(1,333)
Others	2,283	1,791
	16,840	11,673

(a) Included in personnel expenses are the following statutory disclosures:

	2016 RM'000	2015 RM'000
Pension costs		
- defined contribution plan	1,580	1,417
- defined benefit plan (Note 10)	382	(2,750)
	1,962	(1,333)

(b) Employees

The number of persons employed by the Bank (excluding Directors) as at the end of the financial year was 109 (2015 - 102).

31. OTHER OVERHEADS AND EXPENDITURES

	2016 RM'000	2015 RM'000
Establishment costs		
- Depreciation (Note 15)	443	451
- Rental	1,121	1,271
- Insurance	704	462
- Water and electricity	178	188
- General repairs and maintenance	412	327
- Others	347	402
	3,205	3,101
Marketing expenses		
- Advertisement and publicity	2,596	2,650
- Others	5,294	4,856
	7,890	7,506
Administration and general expenses		
- Communication expenses	3,087	2,863
- Legal and professional fees	10,369	7,821
- Others	16,814	11,935
	30,270	22,619
Shared service costs paid / payable to Public Bank Berhad	320,909	280,028
Recovery of expenses	(12,756)	(15,245)
	349,518	298,009

Included in other overheads and expenditures are the following statutory disclosures:

	2016 RM'000	2015 RM'000
Auditors' remuneration		
- audit	194	190
- regulatory related services *	87	85
Depreciation of property and equipment (Note 15)	443	451
Directors' remuneration (Note 32) #	1,155	1,224

* Regulatory related services included half year limited review and validation review based on agreed-upon procedures.

Included in total directors' remuneration is the Shariah Committee remuneration paid to Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid amounting to RM86,000 (2015 - RM72,000).

32. CHIEF EXECUTIVE OFFICER, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION

	2016 RM'000	2015 RM'000
Chief Executive Officer of the Bank		
- Salary and other remuneration	570	540
- Bonuses	290	286
- Benefits-in-kind	12	14
	872	840
Directors of the Bank (Note 31)		
Non-Executive Directors:		
- Fees	641	690
- Other remuneration	428	462
	1,069	1,152
Shariah Committee members		
- Allowance	324	276
- Other remuneration	73	58
	397	334
	2,338	2,326

The total remuneration of the Directors of the Bank are as follows:

2016	Fees RM'000	Other Remuneration RM'000	Total RM'000
Non-Executive Directors:			
Tan Sri Dato' Sri Dr. Teh Hong Piow	125	23	148
Dato' Mohammed Najeeb bin Abdullah	93	85	178
Tan Sri Dato' Sri Tay Ah Lek	92	29	121
Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid	92	77	169
Vasantha Kumar Tharmalingam +	31	21	52
Lai Wan #	101	93	194
Dato' Sri Lee Kong Lam ^	84	80	164
Tang Wing Chew *	23	20	43
	641	428	1,069

+ This represents the remuneration paid to this director since his appointment on 27 September 2016.
# This represents the remuneration paid to this director until his retirement on 26 November 2016.
^ This represents the remuneration paid to this director until his retirement on 28 November 2016.
* This represents the remuneration paid to this director until his retirement on 29 March 2016.

32. CHIEF EXECUTIVE OFFICER, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION (continued)

The total remuneration of the Directors of the Bank are as follows (continued):

2015	**Fees RM'000**	**Other Remuneration RM'000**	**Total RM'000**
Non-Executive Directors:			
Tan Sri Dato' Sri Dr. Teh Hong Piow	114	19	133
Tan Sri Datuk Seri Utama Thong Yaw Hong @	47	20	67
Tan Sri Dato' Sri Tay Ah Lek	84	26	110
Dato' Sri Lee Kong Lam	104	80	184
Dato' Mohammed Najeeb Bin Abdullah	84	71	155
Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid	84	66	150
Tang Wing Chew	84	82	166
Lai Wan	89	98	187
	690	462	1,152

@ This represents the remuneration paid to this Director until his demise on 28 May 2015.

The total remuneration of the Shariah committee members of the Bank are as follows:

2016	**Allowance RM'000**	**Other Remuneration RM'000**	**Total RM'000**
Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid	72	14	86
Mohd Ridzuan bin Awang	63	13	76
Dr. Mohd Afandi bin Awang Hamat	63	15	78
Dr. Abdul Bari bin Awang	63	15	78
Datin Dr. Rusnah binti Muhamad	63	16	79
	324	73	397
2015			
Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid	60	12	72
Mohd Ridzuan bin Awang	54	10	64
Dr. Mohd Afandi bin Awang Hamat	54	12	66
Dr. Abdul Bari bin Awang	54	11	65
Datin Dr. Rusnah binti Muhamad	54	13	67
	276	58	334

33. ZAKAT AND TAXATION

	2016 RM'000	2015 RM'000
Zakat	210	220
Malaysian income tax		
- in respect of current year profit	124,160	108,604
- over provision in prior years	(60)	(377)
	124,100	108,227
Deferred tax expense (Note 12)		
- Relating to changes in tax rate	18	(27)
- Relating to origination and reversal of temporary differences arising from:		
- Profit Equalisation Reserves	(14)	1
- excess of capital allowances over depreciation	23	64
- defined benefit plan	(92)	687
- other temporary differences	(107)	126
	(190)	878
- under provision in prior years	114	377
	(76)	1,255
Tax expense	124,042	109,455
	124,252	109,675

The Malaysian income tax is calculated at the statutory tax rate of 24% (2015 : 25%) on the estimated chargeable profit for the financial year. In accordance with the Finance Act 2015 which was gazetted on 30 December 2015, the corporate tax rate has been reduced to 24% with effect from Year of Assessment 2016 and therefore, the computation of deferred tax assets and deferred tax liabilities has been adjusted accordingly to reflect such changes.

A reconciliation of income tax expense applicable to profit before zakat and taxation at the statutory tax rate to income tax expense at the effective income tax rate of the Bank is as follows:

	2016 %	2016 RM'000	2015 %	2015 RM'000
Profit before zakat and taxation		528,714		450,122
Income tax using Malaysian tax rate of 24% (2015 : 25%)	24.0	126,891	25.0	112,530
Income not subject to tax	(0.7)	(3,775)	(0.9)	(3,817)
Expenses not deductible for tax purposes	0.2	854	0.2	769
Deferred tax relating to changes in tax rate	-	18	-	(27)
Under provision in prior years	-	54	-	-
Tax expense for the year	23.5	124,042	24.3	109,455

34. EARNINGS PER SHARE ("EPS")

The calculation of the basic earnings per share is based on the net profit attributable to the equity holder of the Bank for the year divided by the weighted average number of ordinary shares of RM1.00 each in issue during the year:

	2016	2015
Net profit attributable to the equity holder of the Bank (RM'000)	404,462	340,447
Number of ordinary shares at beginning of the year ('000)	207,217	200,217
Effect of the issuance of shares ('000)	11,115	2,436
Weighted average number of ordinary shares in issue ('000)	218,332	202,653
Basic earnings per share (sen)	185.3	168.0

There are no dilutive potential ordinary shares issued during the year.

35. DIVIDENDS

	Amount		Dividend per Share	
	2016	2015	2016	2015
	RM'000	RM'000	Sen	Sen
Dividends recognised as distribution to the ordinary equity holder of the Bank:				
- First interim dividend of 30% in respect of the financial year ended 31 December 2015	-	60,065	-	30
- Second interim dividend of 80% in respect of the financial year ended 31 December 2014	-	160,174	-	80
	-	220,239	-	110

Subsequent to the financial year end, on 2 February 2017, the Directors declared a first interim dividend of 30% or RM0.30 per ordinary share, amounting to RM65,765,100 computed based on the outstanding issued and paid-up capital of 219,217,000 ordinary shares of RM1.00 each in respect of the financial year ended 31 December 2016. The financial statements for the current financial year do not reflect this dividend. Upon declaration, this first interim dividend payment will be accounted for in equity as an appropriation of retained earnings during the financial year ending 31 December 2017. The Directors do not propose any final dividend for the financial year ended 31 December 2016.

36. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or if one other party controls both. The related parties of the Bank are:

(i) Holding and Related Companies

The holding company of the Bank is Public Bank Berhad, a licensed bank incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad. Related companies are those companies within the Public Bank Group, collective investments held by Public Bank Group and the Bank and also associated company in which the Bank has significant influence but not control. The details of the related companies are as follows:

Related Companies	**Principal Activities**
Local Related Companies	
Public Investment Bank Berhad	Investment banking
Public Invest Nominees (Tempatan) Sdn. Bhd.	Nominee services
Public Invest Nominees (Asing) Sdn. Bhd.	Nominee services
Public Consolidated Holdings Sdn Bhd	Investment holding
Public Mutual Berhad	Sale and management of unit trust funds and private retirement schemes
Public Holdings Sdn. Bhd.	Property holding
Public Nominees (Tempatan) Sdn. Bhd.	Nominee services
Public Nominees (Asing) Sdn. Bhd.	Nominee services
Public Bank (L) Ltd.	Offshore banking
PB Trust (L) Ltd.	Offshore trust company
PB Venture Capital Sdn. Bhd.	Investment holding
Public Leasing & Factoring Sdn. Bhd.	Leasing and factoring
PB International Factors Sdn. Bhd.	Investment holding
PBFIN Berhad	Special purpose vehicle to issue subordinated notes under its holding company's Stapled Securities Programme
PB Trustee Services Berhad	Trustee services

36. RELATED PARTY TRANSACTIONS (continued)

(i) Holding and Related Companies (continued)

Related Companies	Principal Activities
Overseas Related Companies	
Cambodian Public Bank Plc	Banking
Campu Securities Plc	Securities dealing and underwriting
Campu Lonpac Insurance Plc	General insurance
Public Financial Holdings Limited	Investment and property holding
Public Bank (Hong Kong) Limited	Banking
Public Finance Limited	Deposit-taking and finance
Public Financial Limited	Investment holding
Public Securities Limited	Stock and share broking
Public Securities (Nominees) Limited	Nominee services
Public Financial Securities Limited	Stock and share broking
Public Bank (Nominees) Limited	Nominee services
Public Futures Limited	Dormant
Public Credit Limited	Dormant
Public Pacific Securities Limited	Dormant
Winton (B.V.I.) Limited	Investment holding
Winton Financial Limited	Provision of financing
Winton Motors, Limited	Trading of taxi cabs and taxi licences, and leasing of taxis
Public Bank Vietnam Limited (formerly known as VID Public Bank)	Banking
Collective Investments	
Public Institutional Bond Fund	Bond fund
Public Wholesale Income Fund	Wholesale income fund
Public Islamic Wholesale Income Fund	Wholesale income fund
Associated Company	
AIA PUBLIC Takaful Berhad	Family takaful

(ii) Key Management Personnel and the Close Members of His/Her Family

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. The key management personnel of the Bank includes Non-Executive Directors of the Bank, chief executive officer and certain key members of senior management of the Bank.

(iii) Companies in Which Certain Directors Have Substantial Financial Interest

These are entities in which significant voting power in such entities directly or indirectly resides with certain Directors of the Bank.

36. RELATED PARTY TRANSACTIONS (continued)

All related party transactions are conducted on normal commercial terms which are no more favourable than those generally available to the public.

(a) The significant transactions of the Bank with its related parties are as follows:

	Key Management Personnel *		Companies in which Certain Directors have Substantial Interest		Holding Company		Other Related Companies		Collective Investment	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Income earned:										
Financing income on financing and advances	18	7	-	-	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-	-	-	11,856	-
Commission income	-	-	286	-	-	-	8,599	6,739	-	-
	18	7	286	-	-	-	8,599	6,739	11,856	-
Expenditure incurred:										
Profit expense attributable to depositors	29	14	-	-	64,042	64,903	197	150	35,639	-
Profit expense on profit rate swaps	-	-	-	-	13,468	6,076	-	-	-	-
Shared service costs paid / payable	-	-	-	-	320,909	280,028	-	-	-	-
Rental of premises	-	-	-	-	591	698	3	3	-	-
Professional fees	-	-	-	-	-	-	49	50	-	-
	29	14	-	-	399,010	351,705	249	203	35,639	-

* Included transactions with close members of the key management personnel's family.

The table above includes the following transactions of the Bank with its Directors (including close members of their families):

(i) profit expense on deposits of RM28,000 (2015 - RM14,000); and

(ii) financing income on financing and advances of RM10,000 (2015 - RM5,000).

36. RELATED PARTY TRANSACTIONS (continued)

(b) The significant outstanding balances of the Bank with its related parties are as follows:

	Key Management Personnel *		Holding Company		Other Related Companies		Collective Investment	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Amount due from related parties								
Interbank placement	-	-	216,865	452,296	-	-	-	-
Derivative financial assets	-	-	15,486	48,534	-	-	-	-
Financing and advances	240	233	-	-	-	-	-	-
Dividend receivable	-	-	-	-	-	-	1,244	-
Rental deposits	-	-	148	148	1	1	-	-
	240	233	232,499	500,978	1	1	1,244	-
Amount due to related parties								
Demand deposits	4	18	-	-	54,970	108,103	51	-
Term deposits	155	689	1,709,786	1,647,165	98,649	-	1,372,359	-
Derivative financial liabilities	-	-	23,356	1,636	-	-	-	-
Income payable	-	-	2,520	1,033	6	-	17,288	-
	159	707	1,735,662	1,649,834	153,625	108,103	1,389,698	-
Commitments and contingencies								
Commitments	125	28	-	-	-	-	-	-

* Included transactions with close members of the key management personnel's family.

The table above includes the following outstanding balances of the Bank with its Directors (including close members of their families):

(i) demand deposits and term deposits of RM106,000 (2015 - RM681,000); and

(ii) financing granted of RM64,000 (2015 - RM72,000).

36. RELATED PARTY TRANSACTIONS (continued)

(c) The financing granted to the Directors and other key management personnel of the Bank are on similar terms and conditions generally available to other employees within the Bank.

None of the financing granted to the Directors and other key management personnel of the Bank (2015 - Nil) are impaired.

(d) Key Management Personnel Compensation

The remuneration of key management personnel during the year are as follows:

	2016 RM'000	2015 RM'000
Short-term employee benefits:		
- Fees	641	690
- Salary and other allowances	2,014	1,862
- Benefits-in-kind	14	15
Post-employment benefits	180	159
	2,849	2,726

Included in the total key management personnel compensation are:

	2016 RM'000	2015 RM'000
Directors' remuneration including benefits-in-kind		
- Directors of the Bank (Note 32) *	1,155	1,224

* Included in total directors' remuneration is the Shariah Committee remuneration paid to Dato' Dr. Mahmood Zuhdi bin Haji Ab Majid amounting to RM86,000 (2015 - RM72,000).

37. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	2016 RM'000	2015 RM'000
Outstanding credit exposures with connected parties	105,088	73,125
of which:		
Total credit exposures which are impaired or in default	97	27
Total credit exposures	41,128,304	35,274,893
Percentage of outstanding credit exposures to connected parties		
- as a proportion of total credit exposures	0.26%	0.21%
- as a proportion of total capital	2.49%	2.07%
- which is impaired or in default	0.09%	0.04%

The disclosure on Credit Transactions and Exposures with Connected Parties above is presented in accordance with para 9.1 of Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties for Islamic Banks.

Based on these guidelines, a connected party refers to any of the following:

(i) Directors of the Bank and their close relatives;
(ii) Controlling shareholder and his close relatives;
(iii) Influential shareholder and his close relatives;
(iv) Executive officer, being a member of management having authority and responsibility for planning, directing and/or controlling the activities of the Bank, and his close relatives;
(v) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;
(vi) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (v) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;
(vii) Any person for whom the persons listed in (i) to (v) above is a guarantor; and
(viii) Subsidiary of or an entity controlled by the Bank and its connected parties.

Credit transactions and exposures to connected parties as disclosed above include the extension of credit facilities and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and financing commitments. It also includes holdings of equities and private debt securities issued by the connected parties.

The credit transactions with connected parties above are all transacted on an arm's length basis and on terms and conditions no more favourable than those entered into with other counterparties with similar circumstances and credit worthiness. Due care has been taken to ensure that the credit worthiness of the connected party is not less than that normally required of other persons.

38. INTERNATIONAL CURRENCY BUSINESS UNIT

The financial position as at 31 December 2016 and results for the financial year ended on this date under the International Currency Business Unit of the Bank, are summarised as follows:

Statement of Financial Position as at 31 December 2016

	2016 RM	2015 RM
ASSETS		
Cash and balances with banks	41,005	42,568
TOTAL ASSETS	41,005	42,568
LIABILITIES		
Deposits from customers	41,005	42,568
TOTAL LIABILITIES	41,005	42,568
Reserves	-	-
TOTAL LIABILITIES AND RESERVES	41,005	42,568

39. FINANCIAL RISK MANAGEMENT

Overview

The Bank’s business activities involve the use of financial instruments, including derivatives entered into for hedging purposes. These activities expose the Bank to a variety of financial risks, mainly credit risk, market risk, and liquidity and funding risk.

The Bank’s financial risk management is underpinned by the Bank's risk appetite and is subject to the Board of Directors' oversight, through the Risk Management Committee ("RMC"), a Board Committee, which oversees the establishment of enterprise-wide risk management policies and processes. The RMC is assisted by Public Bank Berhad ("PBB")'s specific risk oversight committees and working group which are the Assets & Liabilities Management Committee ("ALCO"), the Credit Risk Management Committee ("CRMC"), the Operational Risk Management Committee ("ORMC") and the Internal Capital Adequacy Assessment Process ("ICAAP") Working Group.

Credit Risk

Credit risk is the potential loss of revenue as a result of failure by the customers or counterparties to meet their contractual financial obligations. As the Bank's primary business is in Islamic banking, the Bank's exposure to credit risk is primarily from its financing to retail consumers, small and medium enterprises ("SMEs") and corporate customers. Trading activities and investing the surplus funds of the Bank, such as trading or holding of debt securities, deposit placements, settlement of transactions, also expose the Bank to credit risk and counterparty credit risk ("CCR").

Risk Governance

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews the Bank's credit risk frameworks and policies, credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance level.

Risk Management Approach

The Bank's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the Bank's financing standards, discretionary power for financing approval, credit risk rating, acceptable collateral and valuation, and the review, rehabilitation and restructuring of problematic and delinquent financing. The credit policies, guidelines and procedures are periodically reviewed to ensure their continued relevance.

Within the Risk Management Division ("RMD"), the Credit Risk Management Department has functional responsibility for credit risk management which includes formulating and reviewing the Bank's credit risk policies, guidelines and procedures. Other independent risk management and control units are responsible for managing the credit portfolios and ensuring the credit risk policies are implemented and complied with.

39. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

The management of credit risk starts with experienced key personnel appointed to the Credit Committee of PBB ("Credit Committee"). The Credit Committee approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. Financing applications of significant amounts and/or higher risk exposure are approved at Head Office or by the Credit Committee while experienced senior credit officers at branches are given authority to approve financing with lower risk exposure. The Board of Directors has the authority to reject or modify the terms and conditions of financing which have been approved by the Credit Committee. The credit approving authorities are assigned discretionary powers based on their seniority and track record.

(a) Financing to Retail Consumers and SMEs

The credit granting to retail consumers and SMEs is individually underwritten, which amongst others, includes the assessment of the historical payment track record and the current payment capacity of the customer as well as the business condition and prospect. The credit assessment is assisted by the internal credit risk rating scoresheet. The credit approving authorities have the responsibility to ensure that credit risk is properly assessed and all crucial credit information of the customer is included in the customer's financing application.

(b) Financing to Corporate and Institutional Customers

The credit granting to corporate and institutional customers is individually underwritten and risk-rated through the use of an internal credit risk rating scoresheet. Credit officers identify and assess the credit risk of large corporate or institutional customers, or customer groups, taking into consideration their financial and business profiles, industry and economic factors, collateral, or other credit support such as standby letters of credit or bank guarantees.

(c) Credit Risk from Trading and Investment Activities

The management of the credit risk arising from the Bank's trading or investing its surplus funds is primarily via the setting of issuers' credit limits which are specifically approved by the relevant approving authorities. In addition, the investment in debt securities are subject to the minimum investment grade, minimum acceptable return and the maximum tenures and these investment parameters are subject to regular review. The holdings of Collateralised Debt Obligations ("CDO") or Collateralised Loan Obligations ("CLO") require the specific approval of the Board of Directors. As at reporting date, the Bank does not have any direct or indirect exposure to asset-backed securities, CDO or CLO and does not participate in any securitisation deals.

39. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(d) Counterparty Credit Risk on Derivative Financial Instruments

The Bank's derivative financial instruments is Islamic Profit Rate Swap ("IPRS") which was entered into for hedging purposes. The CCR on this derivative financial instruments is the risk that the Bank's counterparty in IPRS defaults prior to maturity date of the contract and that the Bank, at the relevant time, has a claim on the counterparty.

Unlike on-balance sheet financial instruments, the Bank's financial loss is not the entire contracted notional principal value of the derivatives, but equivalent to the cost to replace the defaulted derivative financial instruments with another similar contract. The Bank will only suffer a loss if the contract carries a positive economic value at time of default.

The CCR arising from all derivative financial instruments is managed via the establishment of credit exposure limits and daily settlement limits for each counterparty. Where possible, Over-the-Counter ("OTC") derivative financial instruments, especially IPRS is transacted under master agreements, Islamic Derivatives Master Agreement ("IDMA") and Credit Support Annex ("CSA") agreements. IDMA allows for the close-out netting in the event of default by a counterparty and CSA provides credit protection with the requirements to post collateral, usually in the form of cash or government securities upon any excess over the threshold levels.

All outstanding financial derivative positions are marked-to-market on a daily basis. Treasury Control & Processing Department monitors counterparties' positions and promptly follows up with the requirements to post collateral upon any excess over the threshold levels.

Proposition of counterparty limits to financial institutions by the business units are independently assessed and evaluated by RMD before approval is granted by the relevant approving party. The Independent Credit Review ("ICR") Team within RMD was set up with objectives of providing independent evaluation and views on retails business financing and corporate financing of selected financing size and/or type. Periodical review/assessment of business sectors and industries in which the Bank’s customers are significantly exposed to are also carried out by the ICR Team besides providing assistance in the formulation of credit policies and guidelines undertaken by the business units.

39. **FINANCIAL RISK MANAGEMENT** (continued)

Credit Risk (continued)

Risk Management Approach (continued)

Post approval reviews are performed regularly to complement risk identification as well as to evaluate the quality of credit appraisals and the competency of credit personnel. Various credit risk analytics are performed periodically to identify key risk characteristics and to risk profile the credit portfolio. In addition, comprehensive assessment on emerging risk is conducted to assess the impact of the risk on the Bank's portfolio as well as establishing appropriate measures to mitigate the risk. Internal risk management reports are presented to the Credit Committee, CRMC and RMC, containing information on asset quality trends across major credit portfolios, results of the credit profiling conducted, emerging risk assessment, significant credit exposures to connected parties and credit concentration by economic sectors and by large single customers. Such information allows senior management, Credit Committee, CRMC and RMC to identify adverse credit trends, take corrective actions and formulate business strategies.

There have been no changes to the process for managing credit risk and the methods used to measure credit risk.

(i) Credit Risk Exposures and Credit Risk Concentration

The following tables present the Bank’s maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For on-balance sheet exposures, the maximum exposure to credit risk equals their carrying amount. For financial guarantees, the maximum exposure to credit risk is the full amount that the Bank would have to pay if the obligations for which the instruments are issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit granted to customers.

Credit concentration risk arises from excessive exposures to any single exposure or group of exposure or sector that will potentially result in losses which are large enough to undermine the health of the Bank. To manage this large exposures and to avoid any undue credit concentration risk, the Bank has emplaced internal exposure limits expressed as a percentage of the Bank's capital.

By Industry Analysis

The analysis of credit risk concentration presented below relates only to financial assets subject to credit risk and are based on the industry in which the counterparties are engaged (for non-individual counterparties) or the economic purpose of the credit exposure (for individuals). The exposures to credit risk are presented without taking into account any collateral held or other credit enhancements.

Company No. 14328-V

39. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Industry Analysis (continued)

31 December 2016	Government and Central Banks RM'000	Financial Services RM'000	Transport and Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Financing RM'000	Total RM'000
On-Balance Sheet Exposures									
Cash and balances with banks	360,176	291,206	-	-	-	-	-	-	651,382
Financial assets held-for-trading									
- Money market instruments	-	495,364	-	-	-	-	-	-	495,364
Derivative financial assets	-	18,153	-	-	-	-	-	-	18,153
Financial investments available-for-sale									
- Government securities and treasury bills	6,140,438	-	-	-	-	-	-	-	6,140,438
Financial investments held-to-maturity									
- Government securities and treasury bills	2,414,016	-	-	-	-	-	-	-	2,414,016
- Non-money market instruments	55,802	278,069	141,984	95,395	-	-	-	-	571,250
Gross financing and advances									
- Retail financing									
- house financing	-	-	-	-	-	11,480,503	-	-	11,480,503
- hire purchase	-	724	150,818	157,311	125,339	-	11,298,694	-	11,732,886
- credit cards	-	-	-	-	-	-	-	10,530	10,530
- other financing	12,080	9,357	805,026	2,590,350	3,007,555	340,222	4,744	4,722,953	11,492,287
- Corporate financing	1,301,879	218,511	3,784	494,117	802,853	-	-	-	2,821,144
Statutory deposits with Bank Negara Malaysia	1,518,000	-	-	-	-	-	-	-	1,518,000
Total	11,802,391	1,311,384	1,101,612	3,337,173	3,935,747	11,820,725	11,303,438	4,733,483	49,345,953
Commitments and contingencies									
Contingent liabilities	-	108	6,643	15,865	20,885	-	-	-	43,501
Commitments	-	2	230,157	1,186,568	1,374,219	2,988,829	44	1,068,796	6,848,615
	-	110	236,800	1,202,433	1,395,104	2,988,829	44	1,068,796	6,892,116
Total Credit Exposures	11,802,391	1,311,494	1,338,412	4,539,606	5,330,851	14,809,554	11,303,482	5,802,279	56,238,069

Company No. 14328-V

39. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Industry Analysis (continued)

31 December 2015	Government and Central Banks RM'000	Financial Services RM'000	Transport and Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Financing RM'000	Total RM'000
On-Balance Sheet Exposures									
Cash and balances with banks	2,658,023	567,126	-	-	-	-	-	-	3,225,149
Financial assets held-for-trading									
- Money market instruments	-	1,588,380	-	-	-	-	-	-	1,588,380
Derivative financial assets	-	56,019	-	-	-	-	-	-	56,019
Financial investments available-for-sale									
- Government securities and treasury bills	4,666,040	-	-	-	-	-	-	-	4,666,040
- Non-money market instruments	-	114,768	-	-	-	-	-	-	114,768
Financial investments held-to-maturity									
- Government securities and treasury bills	2,170,549	-	-	-	-	-	-	-	2,170,549
- Non-money market instruments	55,802	278,061	141,985	95,395	-	-	-	-	571,243
Gross financing and advances									
- Retail financing									
- house financing	-	-	-	-	-	8,402,461	-	-	8,402,461
- hire purchase	-	746	165,853	175,720	126,860	-	11,579,456	-	12,048,635
- credit cards	-	-	-	-	-	-	-	5,610	5,610
- other financing	14,556	9,854	690,582	1,982,114	2,166,632	132,259	1,711	4,173,067	9,170,775
- Corporate financing	1,301,882	220,365	3,975	148,986	750,061	-	-	-	2,425,269
Statutory deposits with Bank Negara Malaysia	1,423,800	-	-	-	-	-	-	-	1,423,800
Total	12,290,652	2,835,319	1,002,395	2,402,215	3,043,553	8,534,720	11,581,167	4,178,677	45,868,698
Commitments and contingencies									
Contingent liabilities	-	51,080	5,717	14,876	75,282	-	-	50	147,005
Commitments	-	694	196,374	873,465	1,439,467	2,401,931	1,221	804,606	5,717,758
	-	51,774	202,091	888,341	1,514,749	2,401,931	1,221	804,656	5,864,763
Total Credit Exposures	12,290,652	2,887,093	1,204,486	3,290,556	4,558,302	10,936,651	11,582,388	4,983,333	51,733,461

39. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(i) Credit Risk Exposures and Credit Risk Concentration (continued)

By Geographical Analysis

No analysis of credit concentration risk of financial assets categorised by geographical distribution as all the financial assets of the Bank are located in Malaysia.

(ii) Credit Quality of Gross Financing and Advances

Gross financing and advances are analysed as follows:

	2016 RM'000	**2015 RM'000**
Neither past due nor impaired	31,636,288	26,574,589
Past due but not impaired	5,675,395	5,266,357
Impaired	225,667	211,804
	37,537,350	32,052,750

(a) Neither Past Due Nor Impaired

Gross financing and advances which are neither past due nor impaired are identified into the following internally classified grades:

- "Good Grade" refers to financing and advances which are neither past due nor impaired in the last six months and have never undergone any rescheduling or restructuring exercise previously.

- "Satisfactory Grade" refers to financing and advances which may have been past due or impaired during the last six months or have undergone a rescheduling or restructuring exercise previously.

39. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(ii) Credit Quality of Gross Financing and Advances (continued)

(a) Neither Past Due Nor Impaired (continued)

The credit quality of gross financing and advances which is neither past due nor impaired is analysed as follows:

	Good RM'000	Satisfactory RM'000	Total RM'000
2016			
Retail financing			
- house financing	8,685,282	1,023,115	9,708,397
- hire purchase	7,007,622	1,214,404	8,222,026
- credit cards	6,721	2,032	8,753
- other financing	10,246,811	629,157	10,875,968
Corporate financing	2,821,144	-	2,821,144
	28,767,580	2,868,708	31,636,288
2015			
Retail financing			
- house financing	6,006,268	869,551	6,875,819
- hire purchase	7,298,216	1,298,493	8,596,709
- credit cards	4,316	626	4,942
- other financing	8,221,339	462,060	8,683,399
Corporate financing	2,412,204	1,516	2,413,720
	23,942,343	2,632,246	26,574,589

39. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(ii) Credit Quality of Gross Financing and Advances (continued)

(b) Past Due But Not Impaired

Past due but not impaired financing and advances are financing where the customer has failed to make a principal or profit payment when contractually due, and includes financing which are due one or more days after the contractual due date but less than ninety (90) days.

An aging analysis of financing and advances which are past due but not impaired is as follows:

	1 to 30 Days RM'000	**31 to 59 Days RM'000**	**60 to 89 Days RM'000**	**Total RM'000**
2016				
Retail financing				
- house financing	1,000,582	447,854	236,579	1,685,015
- hire purchase	1,862,033	1,266,626	287,372	3,416,031
- credit cards	1,291	325	95	1,711
- other financing	338,971	155,878	77,789	572,638
Corporate financing	-	-	-	-
	3,202,877	1,870,683	601,835	5,675,395
2015				
Retail financing				
- house financing	868,773	420,426	172,335	1,461,534
- hire purchase	1,887,884	1,184,470	275,511	3,347,865
- credit cards	440	155	52	647
- other financing	265,079	121,644	58,039	444,762
Corporate financing	11,549	-	-	11,549
	3,033,725	1,726,695	505,937	5,266,357

39. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(ii) Credit Quality of Gross Financing and Advances (continued)

(c) Impaired Financing and Advances

Financing and advances are classified as impaired when they fulfil any of the following criteria:

(i) principal or profit or both are past due for ninety (90) days or more; or
(ii) outstanding amount is in excess of approved limit for ninety (90) days or more in the case of revolving facilities; or
(iii) where a financing is in arrears or the outstanding amount has been in excess of the approved limit for less than ninety (90) days, the financing exhibits indications of significant credit weaknesses; or
(iv) where a financing has been classified as rescheduled and restructured ("R&R"), the financing will be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of at least six (6) months; or
(v) default occurs for repayments scheduled on intervals of ninety (90) days or more for financially distressed customer.

In addition, financing that is considered individually significant, the Bank assesses on a case-by-case basis at each reporting date whether there is any objective evidence that a financing is impaired. The criteria that the Bank uses to determine that there is objective evidence of impairment include:

(i) any significant financial difficulty of the issuer or obligor;
(ii) a breach of contract, such as a default or delinquency in profit or principal payments;
(iii) high probability of bankruptcy or other financial reorganisation of the customer;
(iv) the viability of the customer’s business operations and its capability to trade successfully out of financial difficulties and to generate sufficient cash flow to service its debt obligations; or
(v) any adverse news or developments affecting the local economic conditions or business environment of the customer which will adversely affect the repayment capacity of the customer.

39. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(ii) Credit Quality of Gross Financing and Advances (continued)

(c) Impaired Financing and Advances (continued)

The breakdown of the gross amount of financing and advances individually assessed as impaired, by class, along with the fair value of related collateral held by the Bank as security are as follows:

		of which Individually <---------- Assessed as Impaired --------->		
	Total Gross Impaired Financing and Advances RM'000	**Gross Individually Assessed Impaired Financing RM'000**	**Individual Assessment Allowance RM'000**	**Fair Value of Collateral RM'000**
2016				
Retail financing				
- house financing	87,091	-	-	-
- hire purchase	94,829	-	-	-
- credit cards	66	-	-	-
- other financing	43,681	1,944	34	1,944
	225,667	1,944	34	1,944
2015				
Retail financing				
- house financing	65,108	-	-	-
- hire purchase	104,061	-	-	-
- credit cards	21	-	-	-
- other financing	42,614	717	-	717
	211,804	717	-	717

39. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(iii) Collateral

The main types of collateral obtained by the Bank to mitigate credit risk are as follows:

- for residential mortgages - charges over residential properties
- for commercial property financing - charges over the properties being financed
- for motor vehicle financing - ownership claims over the vehicles financed
- for other financing - charges over business assets such as premises, inventories, trade receivables or deposits

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for gross financing and advances for the Bank as at 31 December 2016 is at 89.0% (2015 - 83.3%). The financial effect of collateral held for other remaining financial assets is not significant.

Repossessed Collateral

Assets obtained by taking possession of collateral held as security against financing and advances, and held as at the end of the financial year are as follows:

	2016 RM'000	**2015 RM'000**
Residential properties	1,404	458
Non-residential properties	389	48
	1,793	506

Repossessed collateral are sold as soon as practicable. Repossessed collateral are recognised in other assets on the statement of financial position. The Bank does not occupy repossessed properties for its business use.

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39. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Risk Management Approach (continued)

(iv) Credit Quality of Financial Investments

Set out below are the credit quality of money market instruments and non-money market instruments - debt securities analysed by ratings from external credit ratings agencies:

Financial Assets Held-for-trading

	2016 Money Market Instruments			2015 Money Market Instruments		
	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000
AAA to AA-	-	346,802	346,802	-	1,438,532	1,438,532
A+ to A-	-	148,562	148,562	-	149,848	149,848
Unrated	-	-	-	-	-	-
	-	495,364	495,364	-	1,588,380	1,588,380

Financial Investments Held-to-maturity

	2016 Non-money Market Instruments - Debt Securities			2015 Non-money Market Instruments - Debt Securities		
	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000
Sovereign guaranteed	-	429,265	429,265	-	429,258	429,258
AAA to AA-	-	141,985	141,985	-	141,985	141,985
	-	571,250	571,250	-	571,243	571,243

The ratings shown for money market instruments (e.g. negotiable Islamic debt certificates) are based on the ratings assigned to the respective financial institution issuing the financial instruments. The ratings shown for debt securities are based on the ratings assigned to the specific debt issuance.

As at the reporting date, there were no financial investments which were past due (2015 - Nil).

39. FINANCIAL RISK MANAGEMENT (continued)

Market Risk

Market risk is the risk that movements in market variables, including rate of return, foreign exchange rates, credit spreads, commodity prices and equity prices, will reduce the earnings or capital of the Bank.

The market risk exposure of the Bank is identified into two types:

(i) Traded Market Risk
Primarily the rate of return risk and credit spread risk, exists in the Bank's trading book positions held for the purpose of benefiting from short-term price movements. These trading book positions are mainly originated by the treasury operations.

(ii) Non-Traded Market Risk
Rate of return risk, foreign exchange risk and equity prices risk arising mainly from the retail and Islamic banking assets and liabilities, as well as financial investments designated as available-for-sale and held-to-maturity.

The Bank's core market risks are as follows:

(a) Rate of Return Risk in the Banking Book ("RoRBB") - Risk to the Bank's earnings and economic value of equity ("EVE") arising from adverse movements in the rate of return over time arising from activities such as deposits taking, financing and investment.

(b) Displaced Commercial Risk ("DCR") - Risk of the Bank bearing the credit and market risk losses as a result of paying a return that exceeds the actual return that was supposedly to be earned by the Investment Account Holders ("IAH") based on the contractual profit sharing ratio.

The Bank does not have any material exposure to foreign exchange risk as at the reporting date as the Bank's activities are mainly denominated in Ringgit Malaysia.

<u>Risk Governance</u>

The ALCO supports the RMC in market risk management oversight. The ALCO reviews the Bank's market risk frameworks and policies, aligns market risk management with risk appetite and implements actions to ensure that the market risk remains within established risk tolerance level.

39. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(i) Traded Market Risk

Risk Management Approach

The Bank's traded market risk frameworks comprise market risk policies and practices, delegation of authorities, market risk limits and valuation methodologies. The Bank’s traded market risk for fixed income instruments is measured by the present value of 1 basis point change ("PV01") and controlled by daily and cumulative cut-loss limits. The compliance officers conduct daily compliance checking on the treasury operations. Any instances of non-compliance with the operational processes, procedures and limits will be reported to the Audit Committee which oversees matters relating to compliance. In addition, the compliance officers conduct independent verification on the daily mark-to-market valuation of fixed income instruments.

The market risk limits are determined after taking into account the risk appetite and the risk-return relationship and are periodically reviewed by Risk Management Division. Changes to operational market risk limits are approved by the ALCO. The trading book positions and limits are reported to the ALCO regularly. The Bank does not have any exposures in trading financial derivative.

During the financial year, the Bank's traded market risk exposures on fixed income instruments as measured by PV01, averaged at RM10,000 (2015 - RM20,000). The composition of the Bank's trading portfolio is set out in Note 4 to the financial statements.

(ii) Non-Traded Market Risk

(a) Rate of Return Risk in the Banking Book

The sources of RoRBB are as follows:

(i) Repricing Risk - Risk caused by timing differences in the rate of return changes and cash flows that occur in the repricing and maturity of the Bank's fixed and floating rate assets, liabilities and off-balance sheet instruments.

(ii) Yield Curve Risk - Risk when unanticipated changes in the yield curve has adverse effects on the Bank's earnings and EVE.

(iii) Basis Risk - Risk arising from the imperfect correlation between changes in the rate of return earned and paid on different instruments with otherwise similar repricing characteristics. This will affect the Bank's net profit margin, i.e. earnings and also future cash flows, which in turn affect economic value of the Bank.

(iv) Optionality Risk - Risk of early payments of financing and early withdrawal of deposits due to changes in the rate of return which will potentially affect future earnings.

39. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Rate of Return Risk in the Banking Book (continued)

Risk Management Approach

The Bank emphasises the importance of RoRBB as most of the balance sheet items of the Bank generate profit income and profit expense that are correlated to rate of return. Hence, the primary objective in managing the RoRBB is to manage the volatility in the Bank's net profit income ("NPI") and EVE due to the changing levels of rate of return, whilst balancing the cost of hedging the risk. This is achieved in various manners such as the offsetting of positions against each other for any matching assets and liabilities, the acquisition of new financial assets and liabilities to narrow the mismatch in the rate of return of sensitive assets and liabilities and entering into derivative financial instruments which have the opposite effects. The use of derivative financial instruments to hedge the rate of return risk is set out in Note 5 to the financial statements.

The Bank's RoRBB is also governed by the Group's Interest Rate Risk/Rate of Return Risk Management Policy to ensure that all RoRBB is managed within its risk appetite. All limits and policies are approved by the Bank's Board of Directors and are regularly reviewed to ensure that the limits and policies remain applicable and is able to surface potential rate of return risk.

The Bank uses a range of approaches to measure RoRBB, whereby the impact on NPI and EVE is considered at all times, as follows:

(i) Repricing Gap Reports
Distribution of profit sensitive assets, liabilities and off-balance sheet positions into time bands according to their remaining maturity or next repricing maturity. One of the challenges of this mismatch repricing analysis is the underlying assumptions of the embedded optionality of financing prepayments, early deposits withdrawal and effective duration of liabilities which are contractually repayable on demand such as current and savings accounts.

This is measured on a monthly basis for the Bank.

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39. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Rate of Return Risk in the Banking Book (continued)

Risk Management Approach (continued)

The Bank uses a range of approaches to measure RoRBB, whereby the impact on NPI and EVE is considered at all times, as follows (continued):

(ii) Sensitivity Analysis
Impact to NPI - This is the projected Bank's NPI sensitivity to a 100 basis point parallel rate movement across all maturities applied on the Bank's rate of return sensitivity gap as at the reporting date after taking into consideration the behavioural pattern of certain indeterminate maturity of deposits such as demand and savings deposits to reflect the actual sensitivity behavioural of these deposits. Where the current rate of return is lower than 1%, the downward rate shock applied is restricted to the prevailing rate of return.

Impact to EVE - This measure takes a comprehensive view of the potential long-term effects of a 100 basis point parallel movement in rate of return on the economic value of the Bank's Balance Sheet. It requires all future cash flows associated with the Bank's assets, liabilities and off-balance sheet positions to be discounted at relevant market rates to determine the overall net present value of the Bank.

This is measured on a monthly basis for the Bank.

(iii) Simulation Scenarios
As and when the need arises, analysis is performed on the sensitivity of projected NPI and EVE under varying rate of return and balance sheet scenarios. The analysis also incorporates business assumptions obtained from various lines of business and behavioural assumptions established based on statistical methods for the Bank. The impact on earnings is measured against the approved Earning-at-Risk (EaR) and EVE limits where new business and hedging strategies are carried out to mitigate any increasing rate of return risk.

(iv) Stress Testing
The vulnerability of the Bank's earnings and EVE under various levels of stress using a variety of economic parameters. This semi-annual practice is also to determine the adequacy of capital in meeting the adverse impact of extreme rate of return movements on the Bank's statement of financial position which can provide an early warning of the potential losses and to facilitate proactive management of the rate of return risk.

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39. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Rate of Return Risk in the Banking Book (continued)

(i) The following tables indicate the effective rate of return at the reporting date and the Bank's sensitivity to the rate of return by time band based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual repricing dates due to prepayment of financing and advances.

2016	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective rate of return %
	<---------- Non-trading book								---------->			
ASSETS												
Cash and balances with banks	428,668	-	-	-	-	-	-	-	222,714	-	651,382	2.97
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	495,364	495,364	3.69
Financial investments available-for-sale	-	-	1,686,903	1,961,558	221,340	1,954,353	316,284	-	-	-	6,140,438	3.54
Financial investments held-to-maturity	-	-	-	1,722,379	283,512	562,772	416,603	-	-	-	2,985,266	3.67
Financing and advances												
- non-impaired	22,182,596	519,257	2,222,350	2,360,810	2,065,882	1,779,099	1,463,067	4,718,622	-	-	37,311,683	5.44
- impaired *	-	-	-	-	-	-	-	-	(76,001)	-	(76,001)	-
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	2,155,394	-	2,155,394	-
TOTAL ASSETS	22,611,264	519,257	3,909,253	6,044,747	2,570,734	4,296,224	2,195,954	4,718,622	2,302,107	495,364	49,663,526	

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39. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Rate of Return Risk in the Banking Book (continued)

2016	<--- Non-trading book								--->			
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective rate of return %
LIABILITIES AND EQUITY												
Deposits from customers	16,424,990	5,564,991	16,463,153	1,529	506	345	330	-	4,017,230	-	42,473,074	3.28
Deposits from banks	573,435	78	-	2,327	542,104	259,130	921,074	-	23,980	-	2,322,128	3.62
Bills and acceptances payable	-	-	-	-	-	-	-	-	1,675	-	1,675	-
Recourse obligations on financing sold to Cagamas	-	-	500,016	-	-	-	-	-	-	-	500,016	3.60
Subordinated Sukuk Murabahah	-	-	-	-	500,000	-	-	-	(626)	-	499,374	4.75
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	282,097	-	282,097	-
Total Liabilities	16,998,425	5,565,069	16,963,169	3,856	1,042,610	259,475	921,404	-	4,324,356	-	46,078,364	
Equity attributable to equity holder of the Bank	-	-	-	-	-	-	-	-	3,585,162	-	3,585,162	-
TOTAL LIABILITIES AND EQUITY	16,998,425	5,565,069	16,963,169	3,856	1,042,610	259,475	921,404	-	7,909,518	-	49,663,526	
On-balance sheet profit sensitivity gap	5,612,839	(5,045,812)	(13,053,916)	6,040,891	1,528,124	4,036,749	1,274,550	4,718,622	(5,607,411)	495,364	-	
Off-balance sheet profit sensitivity gap (profit rate swaps)	1,680,000	2,650,000	(200,000)	(600,000)	(900,000)	(130,000)	-	(2,500,000)	-	-	-	
TOTAL PROFIT SENSITIVITY GAP	7,292,839	(2,395,812)	(13,253,916)	5,440,891	628,124	3,906,749	1,274,550	2,218,622	(5,607,411)	495,364	-	

39. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Rate of Return Risk in the Banking Book (continued)

2015	Non-trading book: Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective rate of return %
ASSETS												
Cash and balances with banks	2,769,510	-	-	-	-	-	-	-	455,639	-	3,225,149	3.22
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	1,588,380	1,588,380	3.90
Financial investments available-for-sale	58,468	-	1,480,437	1,815,544	1,018,419	-	293,172	-	114,768	-	4,780,808	3.09
Financial investments held-to-maturity	-	-	40,363	-	1,724,264	232,643	430,889	313,633	-	-	2,741,792	3.68
Financing and advances												
- non-impaired	16,297,246	478,038	1,946,111	2,363,481	2,102,335	2,088,013	1,490,957	5,074,765	-	-	31,840,946	5.56
- impaired *	-	-	-	-	-	-	-	-	(104,091)	-	(104,091)	-
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	1,583,981	-	1,583,981	-
TOTAL ASSETS	19,125,224	478,038	3,466,911	4,179,025	4,845,018	2,320,656	2,215,018	5,388,398	2,050,297	1,588,380	45,656,965	

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39. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Rate of Return Risk in the Banking Book (continued)

2015	**Up to 1 month RM'000**	**> 1 - 3 months RM'000**	**> 3 - 12 months RM'000**	**> 1 - 2 years RM'000**	**> 2 - 3 years RM'000**	**> 3 - 4 years RM'000**	**> 4 - 5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective rate of return %**
	<---- Non-trading book ---->											
LIABILITIES AND EQUITY												
Deposits from customers	19,067,056	6,463,555	9,737,822	105	300	470	345	-	3,827,792	-	39,097,445	3.56
Deposits from banks	179,622	206,471	256,216	-	2,348	522,998	253,727	876,090	21,342	-	2,318,814	3.69
Bills and acceptances payable	-	-	-	-	-	-	-	-	849	-	849	-
Recourse obligations on financing sold to Cagamas	-	-	-	500,016	-	-	-	-	-	-	500,016	3.60
Subordinated Sukuk Murabahah	-	-	-	-	-	500,000	-	-	(883)	-	499,117	4.75
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	277,018	-	277,018	-
Total Liabilities	19,246,678	6,670,026	9,994,038	500,121	2,648	1,023,468	254,072	876,090	4,126,118	-	42,693,259	
Equity attributable to equity holder of the Bank	-	-	-	-	-	-	-	-	2,963,706	-	2,963,706	-
TOTAL LIABILITIES AND EQUITY	19,246,678	6,670,026	9,994,038	500,121	2,648	1,023,468	254,072	876,090	7,089,824	-	45,656,965	
On-balance sheet profit sensitivity gap	(121,454)	(6,191,988)	(6,527,127)	3,678,904	4,842,370	1,297,188	1,960,946	4,512,308	(5,039,527)	1,588,380	-	
Off-balance sheet profit sensitivity gap (profit rate swaps)	1,680,000	2,650,000	-	(200,000)	(600,000)	(900,000)	(130,000)	(2,500,000)	-	-	-	
TOTAL PROFIT SENSITIVITY GAP	1,558,546	(3,541,988)	(6,527,127)	3,478,904	4,242,370	397,188	1,830,946	2,012,308	(5,039,527)	1,588,380	-	

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired financing and advances

39. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(a) Rate of Return Risk in the Banking Book (continued)

(ii) Rate of Return Risk Sensitivity Analysis

The following table presents the projected Bank's sensitivity to a 100 basis point parallel rate movement across all maturities applied on the Bank's rate of return sensitivity gap as at reporting date taking into consideration the behavioural pattern of certain indeterminate maturity of deposits such as demand and savings deposits to reflect the actual sensitivity behavioural of these deposits. Where the current rate of return is lower than 1%, the downward rate shock applied is restricted to the prevailing rate of return.

	2016		**2015**	
	-100 bps	**+100 bps**	**-100 bps**	**+100 bps**
	<----------------- (Decrease) / Increase ----------------- >			
	RM'000	**RM'000**	**RM'000**	**RM'000**
Impact on NPI	(928)	(4,220)	18,801	(29,921)
Impact on EVE	311,932	(250,034)	282,273	(246,935)

The reported amounts do not capture the impact of business growth or of management actions and are based on the balance sheet as at reporting date. In reality, the ALCO seeks to proactively change the rate of return risk profile to minimise losses and maximise net revenue. The projection assumes a constant statement of financial position and that all positions run to maturity.

The repricing profile of financing that does not have maturity is based on the earliest possible repricing dates. Actual dates may differ from contractual dates owing to prepayments. Where possible and material, financing prepayments are generally estimated based on past statistics and trends. The impact on the NPI and EVE are measured on a monthly basis, both of which are reported to the ALCO and the RMC.

39. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(ii) Non-Traded Market Risk (continued)

(b) Displaced Commercial Risk ("DCR")

Risk Management Approach

The Bank uses Profit Equalisation Reserve ("PER") to manage its DCR and is governed by the Profit Equalisation Reserve Framework. PER is created by setting aside an amount out of the total gross income before distribution to the IAH and to the Bank. The amount of PER set aside is shared by both the IAH and the Bank. PER may be released to smoothen the rate of return. In the event that there is no PER balance to be released, the Bank may employ the following techniques to ensure that the IAH receive market rate of return:

(i) to forgo part or all of the Bank's share of profit as mudharib to the IAH by way of varying the percentage of profit taken as the mudharib share in order to increase the share attributed to the IAH in any particular year; and/or

(ii) to transfer the Bank's current year profits or retained earnings to the IAH on the basis of hibah.

In accordance with the BNM’s Transition Policy under Islamic Financial Services Act 2013, investment deposit products which are held as security against financing facilities are allowed to be classified as Islamic deposits until the settlement of the financing facilities. As at reporting date, the Bank’s investment deposits of RM90,115,000 (2015 – RM113,594,000) are subject to DCR and the Bank has RM284,000 (2015 - RM140,000) PER to manage the DCR.

39. FINANCIAL RISK MANAGEMENT (continued)

Liquidity and Funding Risk

Liquidity risk is the risk that the Bank is unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due or securing the funding requirements at excessive cost. Funding risk is the risk that the Bank does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient.

Risk Governance

The ALCO supports the RMC in liquidity and funding risk management oversight. The ALCO reviews the Bank's liquidity risk frameworks, policies and guidelines, and implements necessary actions to ensure that the liquidity and funding risk is well managed and within the established liquidity risk appetite and thresholds.

Risk Management Approach

The Bank's liquidity and funding risk management is guided by the Group's Liquidity and Funding Risk Management Policy. The policy sets out the processes involved in identifying, assessing, measuring, controlling, mitigating and monitoring of the liquidity and funding risk. The policy also addresses the regulatory requirements on Basel III Liquidity standards, including the BNM’s Basel III Liquidity Coverage Ratio which is effective from 1 June 2015 and Basel III Net Stable Funding Ratio.

The day-to-day funding management is undertaken by the treasury operations and this includes the maintenance of a portfolio of high quality liquid assets that can be easily liquidated as protection against any unforeseen interruption to cash flows and the replenishment of funds as they matured or are financed to the customers.

The Bank’s liquidity and funding positions are supported by the Bank’s core deposit base, accompanied by funding from wholesale markets. The Bank’s core deposit base comprises demand and time deposits which have traditionally in aggregate provided stable sources of funding. The Bank’s strong reputation in financial and capital strength, wide branches network and sound infrastructure together with offering of competitive deposit rates are core attributes to preserve depositors’ confidence and ensure liquidity. The Bank accesses the wholesale markets through the issuance of debt securities, certificate of deposits and the taking of Islamic money market deposits to meet short-term obligations and to maintain its presence in the local money markets.

39. FINANCIAL RISK MANAGEMENT (continued)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

Monitoring tools and liquidity/funding limits are established to manage liquidity and funding exposures within the Bank, including maturity mismatch, concentration of funding, and significant foreign currencies position. Liquidity and funding positions are reported to the ALCO on a monthly basis.

Contingency funding plans are in place to identify and monitor early warning signals of a liquidity event. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity event. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed on periodic basis or ad hoc if necessary by the Bank to detect any vulnerability in Bank's cash flows under the “Institution Specific Liquidity Problem” and “Market Wide Liquidity Problem” scenarios. The outcome of stress test exercise will be utilised to strengthen the liquidity management within the Bank.

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity

The following tables show the maturity analysis of the carrying amounts of the Bank's assets and liabilities based on remaining contractual maturity. The contractual maturity profile often does not reflect the actual behavioural patterns. In particular, the Bank has significant amounts of "demand and savings deposits" of non-bank customers which are at call (included in the "Up to 7 days" time band) but which are historically a stable source of long-term funding for the Bank.

The Bank is subject to liquidity requirements to support calls under outstanding contingent liabilities and commitments as set out in Note 43 to the financial statements. The total outstanding contractual amounts of these items do not represent future cash requirements since the Bank expects many of these commitments (such as direct credit substitutes) to expire without being called or drawn upon, whereas many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

39. FINANCIAL RISK MANAGEMENT (continued)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (continued)

2016	Up to 7 Days RM'000	> 7 Days - 1 Month RM'000	> 1 - 3 Months RM'000	> 3 - 6 Months RM'000	> 6 - 12 Months RM'000	> 1 - 3 Years RM'000	> 3 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
ASSETS									
Cash and balances with banks	651,382	-	-	-	-	-	-	-	651,382
Financial investments	-	-	148,778	904,444	1,129,045	4,188,789	3,250,012	-	9,621,068
Derivative financial assets	-	-	-	188	-	2,480	-	15,485	18,153
Financing and advances	1,524,967	318,098	893,217	1,296,130	2,566,352	10,225,871	6,532,503	13,878,544	37,235,682
Other asset balances	58	-	-	-	-	-	-	2,137,183	2,137,241
TOTAL ASSETS	2,176,407	318,098	1,041,995	2,200,762	3,695,397	14,417,140	9,782,515	16,031,212	49,663,526
LIABILITIES									
Deposits from customers	15,768,725	4,668,967	5,569,520	10,707,411	5,755,742	2,035	674	-	42,473,074
Deposits from banks	253,109	340,933	78	-	-	544,431	1,183,577	-	2,322,128
Recourse obligations on financing sold to Cagamas	-	-	-	500,016	-	-	-	-	500,016
Subordinated Sukuk Murabahah	-	-	-	-	-	499,374	-	-	499,374
Derivative financial liabilities	-	-	-	-	-	6,868	1,079	15,409	23,356
Other liability balances	13,320	39,451	47,967	84,473	35,610	1,524	3,289	34,782	260,416
TOTAL LIABILITIES	16,035,154	5,049,351	5,617,565	11,291,900	5,791,352	1,054,232	1,188,619	50,191	46,078,364
EQUITY									
Equity attributable to equity holder of the Bank	-	-	-	-	-	-	-	3,585,162	3,585,162
TOTAL EQUITY	-	-	-	-	-	-	-	3,585,162	3,585,162
NET MATURITY MISMATCH	(13,858,747)	(4,731,253)	(4,575,570)	(9,091,138)	(2,095,955)	13,362,908	8,593,896	12,395,859	-

39. FINANCIAL RISK MANAGEMENT (continued)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (continued)

2015	Up to 7 Days RM'000	> 7 Days - 1 Month RM'000	> 1 - 3 Months RM'000	> 3 - 6 Months RM'000	> 6 - 12 Months RM'000	> 1 - 3 Years RM'000	> 3 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
ASSETS									
Cash and balances with banks	3,190,149	35,000	-	-	-	-	-	-	3,225,149
Financial investments	-	208,316	1,438,532	-	1,520,800	4,558,227	956,704	428,401	9,110,980
Derivative financial assets	-	-	-	-	-	1,840	6,397	47,782	56,019
Financing and advances	1,267,037	311,623	802,080	1,169,459	2,341,981	8,873,926	6,169,690	10,801,059	31,736,855
Other asset balances	761	10	-	-	-	-	-	1,527,191	1,527,962
TOTAL ASSETS	4,457,947	554,949	2,240,612	1,169,459	3,862,781	13,433,993	7,132,791	12,804,433	45,656,965
LIABILITIES									
Deposits from customers	14,387,479	8,504,662	6,466,262	6,621,739	3,020,583	405	815	95,500	39,097,445
Deposits from banks	81,617	119,347	206,471	256,216	-	2,348	776,725	876,090	2,318,814
Recourse obligations on financing sold to Cagamas	-	-	-	-	-	500,016	-	-	500,016
Subordinated Sukuk Murabahah	-	-	-	-	-	-	499,117	-	499,117
Derivative financial liabilities	-	-	-	-	-	111	973	552	1,636
Other liability balances	12,319	60,418	64,040	74,092	42,666	5	649	22,042	276,231
TOTAL LIABILITIES	14,481,415	8,684,427	6,736,773	6,952,047	3,063,249	502,885	1,278,279	994,184	42,693,259
EQUITY									
Equity attributable to equity holder of the Bank	-	-	-	-	-	-	-	2,963,706	2,963,706
TOTAL EQUITY	-	-	-	-	-	-	-	2,963,706	2,963,706
NET MATURITY MISMATCH	(10,023,468)	(8,129,478)	(4,496,161)	(5,782,588)	799,532	12,931,108	5,854,512	8,846,543	-

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39. FINANCIAL RISK MANAGEMENT (continued)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(b) Behavioural maturity of deposits from customers

In practice, deposits from customers behave differently from their contractual terms and typically, short-term customer accounts and non-maturing savings and demand deposits extend to a longer period than their contractual maturity. The Bank's behavioural maturity for deposits from customers is as follows:

	Up to 7 Days RM'000	> 7 Days - 1 Month RM'000	> 1 - 3 Months RM'000	> 3 - 6 Months RM'000	> 6 - 12 Months RM'000	> 1 - 3 Years RM'000	> 3 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
2016									
By contractual maturity	15,768,725	4,668,967	5,569,520	10,707,411	5,755,742	2,035	674	-	42,473,074
By behavioural maturity	3,210,419	3,092,986	5,567,430	1,545,885	534,994	-	-	28,521,360	42,473,074
Difference	12,558,306	1,575,981	2,090	9,161,526	5,220,748	2,035	674	28,521,360	-
2015									
By contractual maturity	14,387,479	8,504,662	6,466,262	6,621,739	3,020,583	405	815	95,500	39,097,445
By behavioural maturity	3,085,110	2,731,400	4,911,204	1,935,064	1,534,116	-	-	24,900,551	39,097,445
Difference	11,302,369	5,773,262	1,555,058	4,686,675	1,486,467	405	815	(24,805,051)	-

39. FINANCIAL RISK MANAGEMENT (continued)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(c) Maturity analysis of financial liabilities on an undiscounted basis

The following tables show the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturity. The financial liabilities disclosed in the tables below will not agree to the carrying amounts reported in the statement of financial position as the amounts incorporated all contractual cash flows, on an undiscounted basis, relating to both principal and profit payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows.

Within the "More than 1 year" maturity time band are financial liabilities with principal amount of RM500.0 million (2015 - RM500.0 million) of which relate to Subordinated Sukuk Murabahah whereby the profit payment is computed up to the first optional redemption date.

	Up to 7 Days RM'000	> 7 Days - 1 Month RM'000	> 1 - 3 Months RM'000	> 3 - 6 Months RM'000	> 6 - 12 Months RM'000	> 1 - 3 Years RM'000	> 3 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
2016									
Deposits from customers	15,770,889	4,675,747	5,604,772	10,865,138	5,919,418	2,157	758	-	42,838,879
Deposits from banks	253,182	341,396	78	-	-	593,680	1,375,863	-	2,564,199
Recourse obligations on financing sold to Cagamas	-	-	-	508,633	-	-	-	-	508,633
Subordinated Sukuk Murabahah	-	-	-	10,378	11,875	535,625	-	-	557,878
Other liability balances	14,442	26,784	36,605	71,149	41,405	16,799	8,751	27,287	243,222
Total Liabilities	16,038,513	5,043,927	5,641,455	11,455,298	5,972,698	1,148,261	1,385,372	27,287	46,712,811
Direct credit substitutes	141	-	529	328	1,822	7,735	2,398	-	12,953
Transaction-related contingent items	4,563	-	474	890	6,033	5,289	7,521	2,897	27,667
Short term self-liquidating trade-related contingencies	150	-	731	-	2,000	-	-	-	2,881
Other commitments, such as formal standby facilities and credit lines	19,565	60,655	153,932	479,137	3,688,004	1,430,160	50,712	926,659	6,808,824
Unutilised credit card lines	39,791	-	-	-	-	-	-	-	39,791
Total Commitments and Contingencies	64,210	60,655	155,666	480,355	3,697,859	1,443,184	60,631	929,556	6,892,116

39. FINANCIAL RISK MANAGEMENT (continued)

Liquidity and Funding Risk (continued)

Risk Management Approach (continued)

(c) Maturity analysis of financial liabilities on an undiscounted basis (continued)

	Up to 7 Days RM'000	> 7 Days - 1 Month RM'000	> 1 - 3 Months RM'000	> 3 - 6 Months RM'000	> 6 - 12 Months RM'000	> 1 - 3 Years RM'000	> 3 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
2015									
Deposits from customers	14,390,007	8,519,043	6,511,195	6,726,390	3,121,176	433	915	95,501	39,364,660
Deposits from banks	81,638	119,524	207,675	259,606	-	2,436	885,459	1,061,602	2,617,940
Recourse obligations on financing sold to Cagamas	-	-	-	8,920	8,920	508,936	-	-	526,776
Subordinated Sukuk Murabahah	-	-	-	10,378	11,875	47,500	511,875	-	581,628
Other liability balances	13,048	53,196	50,239	53,055	27,082	8,996	2,344	3,937	211,897
Total Liabilities	14,484,693	8,691,763	6,769,109	7,058,349	3,169,053	568,301	1,400,593	1,161,040	43,302,901
Direct credit substitutes	51,334	809	1,316	885	9,216	2,496	55,000	-	121,056
Transaction-related contingent items	2,074	593	319	6,165	3,321	7,194	2,631	-	22,297
Short term self-liquidating trade-related contingencies	36	2,386	1,127	103	-	-	-	-	3,652
Other commitments, such as formal standby facilities and credit lines	24,398	57,874	97,858	395,559	1,494,945	2,763,379	38,795	820,326	5,693,134
Unutilised credit card lines	24,624	-	-	-	-	-	-	-	24,624
Total Commitments and Contingencies	102,466	61,662	100,620	402,712	1,507,482	2,773,069	96,426	820,326	5,864,763

39. FINANCIAL RISK MANAGEMENT (continued)

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Risk Governance

The Bank's operational risk management is guided by the Group's Operational Risk Management Framework which is designed to ensure that operational risks are consistently identified, assessed, mitigated/controlled, monitored and reported within the Bank.

The Board, through the RMC, maintains overall responsibility for risk oversight within the Bank. The ORMC assists the RMC in operational risk management oversight. The ORMC is responsible for assessing the effectiveness of risk management policies and processes in relation to operational risk. The Operational Risk Management Working Group ("ORMWG") is established to support and assist the ORMC in its ongoing review of the operational risk management policies and procedures and ensuring effective implementation of the policies and procedures within the business and support units.

To ensure effective management of operational risk, independent risk management and compliance functions provide support to the business and support units and conduct compliance checks on their implementation of risk management policies and tools to identify, assess, control and monitor operational risk.

The various business and support units are responsible for the day-to-day management of operational risks within their lines of business and functions and ensure that their business activities are carried out within the established operational risk management policies, guidelines, procedures and limits.

The Internal Audit Function provides independent assurance on the adequacy and effectiveness of operational risk management framework, processes and systems.

Risk Management Approach

The day-to-day management of operational risk exposures is through a system of risk management and internal controls to ensure that operational policies, guidelines and procedures are being adhered to at all levels throughout the Bank. As events and business conditions evolve, the Bank continues to strengthen and refine its operational risk management processes to ensure that the current and potential operational risk exposures are properly understood and managed.

39. FINANCIAL RISK MANAGEMENT (continued)

Operational Risk (continued)

Risk Management Approach (continued)

(a) Strategy and Processes

The Bank has put in place a disciplined product evaluation process. The Bank’s product evaluation process is governed by the Group's Policy and Procedures on Risk Management Practices for New Products. Each new product or service introduced as well as variations to existing products or services are subject to a rigorous risk review and sign-off process where risks are identified and assessed by divisions independent of the risk taking unit that proposes the products or services. This is further augmented by the Group's Framework on Product Transparency and Disclosure which emphasises the importance of safeguarding customers' confidentiality and promoting their awareness and understanding of the products and services, and informed decision making.

The Bank continues to direct bank-wide efforts to maintain its legal and regulatory compliance culture in all jurisdictions that the Bank operates. The Bank seeks to meet the standards and expectations of regulatory authorities through a number of initiatives and activities to ensure compliance with statutory and regulatory requirements as well as internal policies and guidelines.

Comprehensive risk assessments are conducted on major operational risk issues/emerging risk events arising from changes in business and operating environment to facilitate pro-active development of appropriate risk response to emerging operational risk events which would affect the achievement of the Bank's business objectives. Periodic reviews and enhancements to operational risk limits and assessment of the control effectiveness are also conducted in response to changes in internal and external factors so that the Bank's operational risk exposures are managed within its risk appetite.

The Bank has put in place the disaster recovery and business continuity plans which are regularly tested and updated that enable the Bank to respond and continue to operate critical business functions across a broad spectrum of interruptions to the business, arising from internal or external events.

The Bank protects information security through continuous assessment of the security features on all computer platforms and network infrastructure, and implementation of appropriate security controls to protect against the misuse or compromise of information assets. In addition, the Bank continues to undertake initiatives to maintain 100% system availability and robust system performance in the Bank's computer systems, peripherals and network infrastructure to ensure uninterrupted transmission.

The Bank manages its outsourcing activities through the Group's Guidelines on Outsourcing Activities which stipulate the requirements and the operating procedures to be observed in managing activities that are outsourced to third party service providers. This is to ensure that the risks associated with outsourcing activities are managed effectively.

39. FINANCIAL RISK MANAGEMENT (continued)

Operational Risk (continued)

Risk Management Approach (continued)

(b) Tools and Methods for Risk Mitigation

To monitor and mitigate operational risk, the Bank uses various tools and methods including:

(i) Control self-assessment - To assess the state of risk management and internal controls for continuous enhancements;

(ii) Key risk indicators - To collect statistical data on an ongoing basis to facilitate early detection of operational risk issues and control deficiencies; and

(iii) Operational risk incident reporting and data collection - To analyse the causes of operational risk incidents and trends of operational risk data which are useful in assessing the Bank's operational risk exposures and in strengthening the internal control environment.

(c) Reporting

Reporting is one of the important processes in operational risk management. The Bank's operational risk management processes are aimed to ensure that operational risk exposures are properly identified, escalated and managed on a timely manner.

Operational risk exposures for the key business and control units are reported through monthly operational risk management reports which provide analyses and action plans for each significant business operation. The key operational risk areas included in the operational risk management reports are premises controls and safety, losses due to fraud or control lapses, IT risk management, business continuity management, outsourcing activities, compliance review results as well as litigation against the Bank. The operational risk management reports are tabled to the ORMWG, the ORMC and the RMC for deliberations.

39. FINANCIAL RISK MANAGEMENT (continued)

Shariah Non-compliance Risk

Shariah non-compliance risk arises from the Bank's failure to comply with the Shariah rules and principles as determined by the Shariah Committee of the Bank or the relevant body, such as the Shariah Advisory Council of BNM.

This risk is managed through the Shariah Governance Framework ("the Framework") which was endorsed by the Shariah Committee and approved by the Board. The Framework is drawn up in accordance with the Shariah Governance Framework for Islamic Financial Institutions issued by BNM on 22 October 2010. The Framework, amongst others, sets out the Shariah governance structure, as well as the adoption of a systematic approach in reviewing Shariah compliance and the reporting process on Shariah matters. The Board is ultimately responsible for Shariah compliance. In this regard, the Board, in consultation with the Shariah Committee, approves all policies relating to Shariah matters. The Shariah Committee is presided by qualified members who deliberate and endorse all Shariah matters which are subsequently noted and/or approved by the Board. On a periodic basis, the members of the Shariah Committee perform on-site inspections at branches to review the operations of the Bank to ensure that the operations are conducted in accordance with Shariah rules and principles.

The Shariah Compliance Division, which comprises Shariah Review and Shariah Research functions, is responsible for the continuous assessment on Shariah compliance for all activities and business operations of the Bank. The role of Shariah Review is to examine and evaluate the Bank's level of compliance with the Shariah rules and principles through an end-to-end process from product development to operational review including the review of the uses of the financing extended to detect application of financing in Shariah non-compliance activities. Shariah Research is responsible for conducting research on Shariah and Islamic banking contemporary issues and providing Shariah advisory support to branches and business units. The main role of Shariah risk management function is to facilitate the process of identifying, measuring, controlling and monitoring Shariah non-compliance risk inherent in Islamic banking operations. Shariah risk management function forms part of the Group's Risk Management Framework. In addition, internal audits are performed periodically to verify that the Islamic operations conducted by the branches or business units are in compliance with the decisions endorsed by the Shariah Committee. Any incidences of Shariah non-compliance are reported to both the Shariah Committee and the Audit Committee. Remedial actions, including but not limited to the immediate termination of the Shariah non-compliant products or services and the treatment of the consequential Shariah non-compliant income or activities are proposed for the endorsement of the Shariah Committee and the approval by the Board prior to implementation.

Ongoing Shariah reviews and audits conducted on the Bank's operational processes in Islamic banking and financing transactions revealed that there is no Shariah non-compliant income recorded during the financial year under review (2015: Nil).

40. FAIR VALUE MEASUREMENTS

(a) Determination of fair value and the fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For financial instruments measured at fair value, where available, quoted and observable market prices in an active market or dealer price quotations are used to measure fair value. These include listed equity securities, price quotations from Bond Pricing Agency Malaysia and broker quotes on Bloomberg/Reuters.

Where such quoted and observable market prices are not available, fair values are determined using appropriate valuation techniques, which include the use of mathematical models, such as discounted cash flow models and option pricing models, comparison to similar instruments for which market observable prices exist and other valuation techniques. The valuation techniques used incorporate assumptions regarding discount rates, profit rate yield curves, estimates of future cash flows and other factors, as applicable. Changes in these assumptions could materially affect the fair values derived. The Bank generally uses widely recognised valuation techniques with market observable inputs, if available, for the determination of fair value, which require minimal management judgment and estimation, due to the low complexity of the financial instruments held.

MFRS 13 Fair Value Measurement requires each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition to be categorised according to a hierarchy that reflects the significance of inputs used in making the measurements, in particular, whether the inputs used are observable or unobservable. The following levels of hierarchy are used for determining and disclosing the fair value of those financial instruments:

Level 1 - Quoted market prices: quoted prices (unadjusted) in active markets for identical instruments;

Level 2 - Fair values based on observable inputs: inputs other than quoted prices included within Level 1 that are observable for the instrument, whether directly (i.e. prices) or indirectly (i.e. derived from prices), are used; and

Level 3 - Fair values derived using unobservable inputs: inputs used are not based on observable market data and the unobservable inputs may have a significant impact on the valuation of the financial instruments.

The Bank's control framework in respect of the measurement of Level 3 fair values enables that the fair values are determined and validated by a function independent of the business unit undertaking the risks. Finance Division establishes the accounting policies and procedures governing valuation and is responsible for ensuring compliance with all relevant accounting standards. The team within Finance Division which oversees the fair value measurements, including Level 3 fair values, reports directly to the Chief Financial Officer. Independent verification on financial instruments is performed by Compliance Division.

40. FAIR VALUE MEASUREMENTS (continued)

(b) Financial instruments carried at fair value

The following tables show the Bank's financial instruments which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy:

2016	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets held-for-trading				
- Money market instruments	-	495,364	-	495,364
Financial investments available-for-sale				
- Government securities and treasury bills	-	6,140,438	-	6,140,438
Derivative financial assets	-	18,153	-	18,153
Total financial assets measured at fair value	-	6,653,955	-	6,653,955
Financial liabilities				
Derivative financial liabilities	-	23,356	-	23,356
Total financial liabilities measured at fair value	-	23,356	-	23,356

40. FAIR VALUE MEASUREMENTS (continued)

(b) Financial instruments carried at fair value (continued)

The following tables show the Bank's financial instruments which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy (continued):

2015	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets held-for-trading				
- Money market instruments	-	1,588,380	-	1,588,380
Financial investments available-for-sale				
- Government securities and treasury bills	-	4,666,040	-	4,666,040
- Non-money market instruments	114,768	-	-	114,768
	114,768	4,666,040	-	4,780,808
Derivative financial assets	-	56,019	-	56,019
Total financial assets measured at fair value	114,768	6,310,439	-	6,425,207
Financial liabilities				
Derivative financial liabilities	-	1,636	-	1,636
Total financial liabilities measured at fair value	-	1,636	-	1,636

The Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the financial year (2015 - None).

40. FAIR VALUE MEASUREMENTS (continued)

(c) Fair values of financial instruments not carried at fair value

Set out below is the comparison of the carrying amounts and fair values of the financial instruments of the Bank which are not carried at fair value in the financial statements. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values:

	2016		2015	
	Carrying Amount RM'000	**Fair Value RM'000**	**Carrying Amount RM'000**	**Fair Value RM'000**
Financial assets				
Financial investments held-to-maturity				
- Government securities and treasury bills	2,414,016	2,411,973	2,170,549	2,173,998
- Non-money market instruments	571,250	571,104	571,243	569,134
Financing and advances				
- Retail financing				
- house financing	11,413,786	11,464,843	8,343,987	8,356,356
- hire purchase	11,573,303	11,447,927	11,868,048	11,662,390
- credit cards	10,446	10,446	5,579	5,579
- other financing	11,421,256	11,286,798	9,097,801	9,105,249
- Corporate financing	2,816,891	2,838,208	2,421,440	2,411,388
Financial liabilities				
Recourse obligations on financing sold to Cagamas	500,016	500,016	500,016	495,663
Subordinated Sukuk Murabahah	499,374	500,850	499,117	500,850

40. FAIR VALUE MEASUREMENTS (continued)

(c) Fair values of financial instruments not carried at fair value (continued)

The following tables show the Bank's financial instruments which are not carried at fair value at the reporting date, analysed by various levels within the fair value hierarchy. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values:

	<------------------------ Fair Value	------------------------>		
	Level 1 RM'000	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
2016				
Financial assets				
Financial investments held-to-maturity				
- Government securities and treasury bills	-	2,411,973	-	2,411,973
- Non-money market instruments	-	571,104	-	571,104
Financing and advances				
- Retail financing				
- house financing	-	-	11,464,843	11,464,843
- hire purchase	-	-	11,447,927	11,447,927
- credit cards	-	-	10,446	10,446
- other financing	-	-	11,286,798	11,286,798
- Corporate financing	-	-	2,838,208	2,838,208
Financial liabilities				
Recourse obligations on financing sold to Cagamas	-	-	500,016	500,016
Subordinated Sukuk Murabahah	-	500,850	-	500,850
2015				
Financial assets				
Financial investments held-to-maturity				
- Government securities and treasury bills	-	2,173,998	-	2,173,998
- Non-money market instruments	-	569,134	-	569,134
Financing and advances				
- Retail financing				
- house financing	-	-	8,356,356	8,356,356
- hire purchase	-	-	11,662,390	11,662,390
- credit cards	-	-	5,579	5,579
- other financing	-	-	9,105,249	9,105,249
- Corporate financing	-	-	2,411,388	2,411,388
Financial liabilities				
Recourse obligations on financing sold to Cagamas	-	-	495,663	495,663
Subordinated Sukuk Murabahah	-	500,850	-	500,850

40. FAIR VALUE MEASUREMENTS (continued)

(c) Fair values of financial instruments not carried at fair value (continued)

The methods and assumptions used to estimate the fair values of the financial instruments not carried at fair value are as follows:

(i) *Financial investments held-to-maturity* – The fair values of financial investments held-to-maturity are estimated based on quoted bid prices.

(ii) *Financing and advances* – The fair values of fixed rate financing with remaining maturity of less than one year and variable rate financing are estimated to approximate their carrying amounts. For fixed rate financing with remaining maturity of more than one year, the fair values are estimated based on discounted cash flows using prevailing market rates of financing of similar credit risks and maturity.

The fair values of impaired financing are represented by their carrying amounts, net of any collective and individual assessment allowances, being the expected recoverable amount.

(iii) *Recourse obligations on financing sold to Cagamas* – The fair values of recourse obligations on financing sold to Cagamas with remaining maturity of less than one year are estimated to approximate their carrying amounts. The fair values of recourse obligations on financing sold to Cagamas with remaining maturity of more than one year are estimated using discounted cash flows based on prevailing Cagamas rates with similar remaining period to maturity.

(iv) *Subordinated Sukuk Murabahah* – The fair values of Subordinated Sukuk Murabahah issued are estimated based on quoted bid prices.

41. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

Derivatives included in the amount not set-off in the statement of financial position relate to transactions where:

(i) the counterparty has an offsetting exposure with the Bank and a master netting or similar arrangements is in place with a right to set-off only in the event of default, insolvency or bankruptcy; and

(ii) cash that is received from or pledged with counterparties.

41. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

	Gross Amount Recognised as Financial Assets/ Liabilities RM'000	Gross Amount Offset in the Statement of Financial Position RM'000	Amount Presented in the Statement of Financial Position RM'000	Amount Not Set-off in the Statement of Financial Position: Value of the Financial Instruments RM'000	Amount Not Set-off in the Statement of Financial Position: Cash Collateral Received / Pledged RM'000	Net Amount RM'000
2016						
Financial assets						
Derivative financial assets						
- Profit rate related contracts						
- Profit rate swaps	18,153	-	18,153	-	-	18,153
			-			-
Financial liabilities						
Derivative financial liabilities						
- Profit rate related contracts						
- Profit rate swaps	23,356	-	23,356	-	-	23,356

41. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows (continued):

	Gross Amount Recognised as Financial Assets/ Liabilities RM'000	Gross Amount Offset in the Statement of Financial Position RM'000	Amount Presented in the Statement of Financial Position RM'000	Amount Not Set-off in the Statement of Financial Position: Value of the Financial Instruments RM'000	Amount Not Set-off in the Statement of Financial Position: Cash Collateral Received / Pledged RM'000	Net Amount RM'000
2015						
Financial assets						
Derivative financial assets						
- Profit rate related contracts						
- Profit rate swaps	56,019	-	56,019	-	-	56,019
Financial liabilities						
Derivative financial liabilities						
- Profit rate related contracts						
- Profit rate swaps	1,636	-	1,636	-	-	1,636

42. CAPITAL AND OTHER COMMITMENTS

	2016 RM'000	2015 RM'000
Authorised and contracted for:		
- Computer equipment and software	-	139

43. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incur certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. The commitments and contingencies are not secured against the Bank's assets.

The notional amounts of the commitments and contingencies of the Bank are as follows:

	2016 RM'000	2015 RM'000
Contingent liabilities		
Direct credit substitutes	12,953	121,056
Transaction-related contingent items	27,667	22,297
Short term self-liquidating trade-related contingencies	2,881	3,652
	43,501	147,005
Commitments		
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:		
- exceeding one year	5,408,727	4,581,376
- not exceeding one year	1,400,097	1,111,758
Unutilised credit card lines	39,791	24,624
	6,848,615	5,717,758
Derivative financial instruments		
Profit rate related contracts:		
- less than one year	200,000	-
- one year to less than five years	1,630,000	1,830,000
- five years and above	2,500,000	2,500,000
	4,330,000	4,330,000
	11,222,116	10,194,763

Disclosure of the credit equivalent amount and risk-weighted asset amount of the commitments and contingencies above, as required by BNM's Capital Adequacy Framework for Islamic Banks (CAFIB-Basel II) - Disclosure Requirements (Pillar 3), is presented in a separate Pillar 3 disclosures document.

44. CAPITAL ADEQUACY

The capital adequacy ratios of the Bank are as follows:

	2016	2015
Before deducting first interim dividend *		
Common Equity Tier I ("CET I") capital ratio	11.138%	10.771%
Tier I capital ratio	11.138%	10.771%
Total capital ratio	13.746%	13.481%
After deducting first interim dividend *		
CET I capital ratio	10.923%	10.771%
Tier I capital ratio	10.923%	10.771%
Total capital ratio	13.531%	13.481%

* Refers to first interim dividend declared subsequent to the financial year end.

The total risk-weighted assets of the Bank are computed based on the following approaches:
(i) Standardised Approach for Credit Risk;
(ii) Standardised Approach for Market Risk; and
(iii) Basic Indicator Approach for Operational Risk.

The capital adequacy ratios are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks (Capital Components and Basel II - Risk-weighted Assets) reissued on 13 October 2015 which became effective from 1 January 2016. The minimum regulatory capital adequacy ratios before including capital conservation buffer and countercyclical capital buffer ("CCyB") for CET I capital ratio, Tier I capital ratio and total capital ratio are 4.5%, 6.0% and 8.0% respectively.

Banking institutions are also required to maintain a capital conservation buffer of up to 2.5% and a CCyB above the minimum regulatory capital adequacy ratios above. Under the transition arrangements, capital conservation buffer will be phased-in as follows:

Calendar Year	Capital Conservation Buffer
2016	0.625%
2017	1.250%
2018	1.875%
2019 onwards	2.500%

A CCyB is required to be maintained if this buffer is applied by regulators in countries which the Bank has exposures to, determined based on the weighted average of prevailing CCyB rates applied in those jurisdictions. The CCyB which is in a range of between 0% and 2.5% is not a requirement for exposures in Malaysia yet but may be applied by regulators in the future.

44. CAPITAL ADEQUACY (continued)

(a) Components of CET I, Tier I and Tier II capital of the Bank are as follows:

	2016 RM'000	2015 RM'000
CET I capital / Tier I capital		
Paid-up share capital	219,217	207,217
Share premium	2,213,500	1,925,500
Other reserves	230,420	241,685
Retained profits	775,036	462,736
Less: Deferred tax assets, net	(4,242)	-
Less: Defined benefit pension fund assets	(2,279)	(2,157)
Less: Investment in an associated company deducted from CET I capital	(18,000)	(8,000)
Total CET I capital / Tier I capital	3,413,652	2,826,981
Tier II capital		
Collective assessment allowance and regulatory reserves #	311,939	224,109
Subordinated Sukuk Murabahah	499,374	499,117
Less: Investment in an associated company deducted from Tier II capital	(12,000)	(12,000)
Total Tier II capital	799,313	711,226
Total capital	4,212,965	3,538,207

Excludes collective assessment allowance on impaired financing restricted from Tier II capital of the Bank of RM138,510,000 (2015 - RM160,525,000). Includes the qualifying regulatory reserves for non-impaired financing of RM148,815,000 (2015 - RM68,739,000).

(b) The breakdown of risk-weighted assets by each major risk category is as follows:

	2016 RM'000	2015 RM'000
Credit risk	29,000,132	24,611,954
Market risk	40,861	85,600
Operational risk	1,608,488	1,549,041
	30,649,481	26,246,595

Detailed information on the risk exposures above, as prescribed under BNM's Capital Adequacy Framework for Islamic Banks (CAFIB-Basel II) - Disclosure Requirements (Pillar 3), is presented in a separate Pillar 3 disclosures document.

45. CAPITAL MANAGEMENT

The Bank actively manages its capital to support underlying risks in its business activities and to enable future business growth. The Bank's capital management strategy is to continue to maximise shareholder's value via an efficient capital structure, whilst ensuring that it complies with regulatory capital requirements. The allocation of capital resources represents part of the Bank's strategic planning review and is subject to the approval of the Board of Directors.

The Bank's capital is managed in line with the objectives of its holding company, Public Bank's Capital Management Framework. The key objectives under the framework include meeting regulatory capital requirements, optimising return to shareholders, maintaining adequate levels and optimum mix of capital, maintaining strong external credit ratings and allocation of capital across business units and subsidiary companies. In order to meet these objectives, the Bank actively manages its capital structure and makes adjustments to address changes in the economic environment, regulatory requirements and risk characteristics inherent in its business operations. These initiatives include issuances of capital securities, adjustments to the amount of dividends distributed to shareholder and focus on growth in non-finance income and other less capital-intensive business activities. The Bank's Internal Capital Adequacy Assessment Process ("ICAAP") assesses the Bank's internal capital requirements beyond the minimum regulatory requirements to ensure its capital commensurates with the Bank's risk profile, the complexity of the business activities undertaken and its risk appetite.

The Bank's regulatory capital are determined under BNM's Capital Adequacy Framework for Islamic Banks (Capital Components and Basel II - Risk-weighted Assets) and the Bank's capital ratios have complied with the minimum requirements set under this guideline. Information on the Bank's capital adequacy ratios, regulatory minimum capital requirements and the components of total capital are disclosed in Note 44 (a) and (b).

46. SEGMENT INFORMATION

The following segment information has been prepared in accordance with MFRS 8 Operating Segments, which defines the requirements for the disclosure of financial information of an entity's operating segments. It is prepared on the basis of the "management approach", which requires presentation of the segments on the basis of internal reports about the components of the entity which are regularly reviewed by the chief operating decision-maker in order to allocate resources to a segment and to assess its performance.

The Bank's operating and reportable segments are business units engaged in providing different products or services. These businesses are managed and assessed separately as each requires a differentiated strategy focused on the specific products and services provided for the economic, competitive and regulatory environment in which it operates. For each operating segment, the Management Committee (the chief operating decision-maker) reviews the internal management reports monthly in order to assess their performance.

The Bank's business is organised into the following key operating segments:

(i) Hire Purchase
The hire purchase operations focus on the provision of passenger vehicle financing to all levels of customers.

(ii) Retail Operations
Retail operations focus on providing products and services to individual customers and small and medium enterprises. The products and services offered to customers include credit facilities (mortgages, trade and personal financing), credit cards, remittance services and deposit collection.

(iii) Corporate Banking
The corporate banking operations cater to the funding needs of large corporate customers which are primarily public listed companies and their related corporations.

(iv) Treasury and Capital Market Operations
The treasury and capital market operations involve in proprietary trading in treasury related products and services such as money market operations and securities trading.

There are no changes in the operating segments during the year.

Measurement and Evaluation of Segment Performance

The Management Committee evaluates operating segments' performance on the basis of revenue, profit, cost-to-income ratio, financing and deposit growth and asset quality. Expenses directly associated with each operating segment are included in determining their respective profit. Transactions between operating segments are based on mutually agreed allocation bases. Funds are allocated between segments and inter-segment funding cost transfers are reflected in net finance income. In addition to the operating segments, the segment information disclosed also includes internal service providers (head office), which operate on a non-profit basis, and inter-segment eliminations.

Major Customers

There is no single customer which contributes revenue amount greater than 10% of the Bank's revenues for the current financial year (2015 - Nil).

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46. **SEGMENT INFORMATION** (continued)

2016	Hire Purchase RM'000	Retail Operations RM'000	Corporate Banking RM'000	Treasury and Capital Market Operations RM'000	Head Office RM'000	Inter-segment Elimination RM'000	Total RM'000
	<--- Operating Segments			--->			
External revenue	641,314	1,098,243	129,772	246,735	161,430	-	2,277,494
Revenue from other segments	-	439,649	-	20,771	471,304	(931,724)	-
Total revenue	641,314	1,537,892	129,772	267,506	632,734	(931,724)	2,277,494
Net finance income	180,027	505,534	24,340	10,740	146,485	-	867,126
Other operating income	900	45,723	1,382	19,205	19,158	-	86,368
Net income	180,927	551,257	25,722	29,945	165,643	-	953,494
Other operating expenses	(65,665)	(234,797)	(755)	(2,305)	(62,836)	-	(366,358)
of which:							
Depreciation	-	*(329)*	-	*(11)*	*(103)*	-	*(443)*
Allowance for impairment on financing and advances	(27,813)	(30,188)	(425)	-	-	-	(58,426)
Writeback of impairment on other assets	-	4	-	-	-	-	4
Profit before zakat and taxation	87,449	286,276	24,542	27,640	102,807	-	528,714
Cost-to-income ratio	36.3%	42.6%	2.9%	7.7%	37.9%	-	38.4%
Gross financing and advances	11,733,203	22,983,003	2,821,144	-	-	-	37,537,350
Financing growth	-2.6%	30.7%	16.3%	-	-	-	17.1%
Impaired financing and advances	94,829	130,838	-	-	-	-	225,667
Impaired financing ratio	0.8%	0.6%	-	-	-	-	0.6%
Deposits from customers	-	37,559,591	21,109	4,892,374	-	-	42,473,074
Deposits growth	-	11.7%	-30.1%	-9.9%	-	-	8.6%
Addition to non-current assets	-	297	-	18	111	-	426
Segment assets	11,640,927	38,638,183	2,817,606	7,117,012	5,451,969	(16,062,469)	49,603,228
Reconciliation of segment assets to total assets							
Investment in an associated company							30,000
Unallocated assets							30,298
Total assets							49,663,526

Company No. 14328-V

46. SEGMENT INFORMATION (continued)

2015	Hire Purchase RM'000	Retail Operations RM'000	Corporate Banking RM'000	Treasury and Capital Market Operations RM'000	Head Office RM'000	Inter-segment Elimination RM'000	Total RM'000
	<--- Operating Segments --->						
External revenue	607,909	887,270	79,159	254,626	121,704	-	1,950,668
Revenue from other segments	-	402,181	-	28,830	435,314	(866,325)	-
Total revenue	607,909	1,289,451	79,159	283,456	557,018	(866,325)	1,950,668
Net finance income	176,530	493,510	13,242	11,847	81,457	-	776,586
Other operating income	232	34,436	2,409	3,437	11,538	-	52,052
Net income	176,762	527,946	15,651	15,284	92,995	-	828,638
Other operating expenses	(62,784)	(196,430)	(1,322)	(1,878)	(47,268)	-	(309,682)
of which:							
Depreciation	-	*(314)*	-	*(10)*	*(127)*	-	*(451)*
Allowance for impairment on financing and advances	(52,772)	(13,590)	(2,444)	-	-	-	(68,806)
Impairment on other assets	-	(28)	-	-	-	-	(28)
Profit before zakat and taxation	61,206	317,898	11,885	13,406	45,727	-	450,122
Cost-to-income ratio	35.5%	37.2%	8.4%	12.3%	50.8%	-	37.4%
Gross financing and advances	12,048,754	17,578,727	2,425,269	-	-	-	32,052,750
Financing growth	9.7%	26.6%	174.3%	-	-	-	24.4%
Impaired financing and advances	104,061	107,743	-	-	-	-	211,804
Impaired financing ratio	0.9%	0.6%	-	-	-	-	0.7%
Deposits from customers	-	33,637,757	30,217	5,429,471	-	-	39,097,445
Deposits growth	-	51.7%	-14.6%	-36.2%	-	-	27.2%
Addition to non-current assets	-	163	-	5	247	-	415
Segment assets	11,939,690	34,846,291	2,422,479	8,923,294	3,681,332	(16,217,044)	45,596,042
Reconciliation of segment assets to total assets:							
Investment in an associated company							20,000
Unallocated assets							40,923
Total assets							45,656,965

47. RATING STATEMENT

As at 31 December 2016, the Bank was accorded the following ratings:

Agency	Date assigned	Ratings
Rating Agency Malaysia Berhad	26 April 2016 (Reaffirmed)	Long-Term Rating : AAA
	26 April 2016 (Reaffirmed)	Short-Term Rating : P1
	26 April 2016 (Reaffirmed)	Outlook : Stable

48. SHARIAH COMMITTEE

The Shariah Committee ("SCOM") is governed by the Bank's Shariah Governance Framework. The SCOM advises the Board of Directors on Shariah matters to ensure that the overall business operations is in line with Shariah requirements at all times. The role of the SCOM in the activities of the Bank includes:

- Oversight role on Shariah matters related to the Bank’s operations and activities;
- Advise the Board and provide input to the Bank on Shariah matters in order for the Bank to comply with Shariah principles at all times;
- Review principles and contracts relating to the introduction of products, transactions and application of Shariah principles to the Bank’s operations. In the review process, SCOM is guided by the resolutions and decisions made by the Shariah Advisory Council of Bank Negara Malaysia and Securities Commission where applicable;
- Endorse Shariah policies and procedures, product documentations and relevant disclosures presented to SCOM;
- Render opinion on the Bank’s operations to be in compliance with Shariah principles based on representation made by the management and the review of the financial reports;
- Ensure that the calculation and payment of zakat are in compliance with Shariah principles;
- Ensure rectification of any Shariah non-compliant events, preventive actions to avoid the recurrence of such events and disposal of the tainted income received from such events to the charitable bodies or Baitulmal have been undertaken by the Bank accordingly.

49. RESTATEMENT OF COMPARATIVES

Certain comparatives were restated to conform with current year presentation which better reflects the nature of the items.