Company No: 18417-M

# CIMB Investment Bank Berhad

(Incorporated in Malaysia)

# Reports and Financial Statement for the financial year ended 31 December 2017

Company No: 18417-M

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(Incorporated in Malaysia)

# Reports and Financial Statements for the financial year ended 31 December 2017

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Company No: 18417-M

# CIMB Investment Bank Berhad

(Incorporated in Malaysia)

# Directors' Report
# for the financial year ended 31 December 2017

The Directors have pleasure in submitting their Report and the Audited Financial Statements of the Group and CIMB Investment Bank Berhad ("the Bank") for the financial year ended 31 December 2017.

## Principal activities

The principal activities of the Bank during the financial year are investment banking and the provision of related financial services. The principal activities of the subsidiaries during the financial year are as set out in Note 11 to the Financial Statements, consist of futures broking and the provision of nominee services. There was no significant change in the nature of these activities during the financial year.

## Financial results

| | The Group RM'000 | The Bank RM'000 |
|---|---|---|
| Net profit after taxation | 96,766 | 92,045 |

## Dividends

The Directors have proposed an interim single tier dividend comprising of 92 sen per ordinary share, amounting to RM92,000,000 in respect of financial year ended 31 December 2017, which was approved by the Board of Directors in a resolution dated 26 January 2018.

A single tier interim dividend of 57 sen per ordinary share, amounting to RM57,000,000 in respect of the financial year ended 31 December 2016, which was approved by the Board of Directors on 25 January 2017, was paid on 4 April 2017.

## Reserves, provisions and allowances

There were no material transfers to or from reserves or provisions or allowances during the financial year other than those disclosed in the Financial Statements and Notes to the Financial Statements.

## Issuance of shares

There were no changes to authorised, issued and paid up capital of the Bank during the financial year.

## Bad and doubtful debts, and financing

Before the Financial Statements of the Group and of the Bank were prepared, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and financing and the making of allowance for doubtful debts and financing, and satisfied themselves that all known bad debts and financing had been written off and that adequate allowance had been made for doubtful debts and financing.

At the date of this Report, the Directors are not aware of any circumstances which would render the amounts written off for bad debts and financing, or the amount of the allowance for doubtful debts and financing in the Financial Statements of the Group and of the Bank, inadequate to any substantial extent.

## Current assets

Before the Financial Statements of the Group and of the Bank were prepared, the Directors took reasonable steps to ascertain that any current assets, other than debts and financing, which were unlikely to realise in the ordinary course of business, including the values of current assets as shown in the accounting records of the Group and of the Bank had been written down to an amount which the current assets might be expected so to realise.

At the date of this Report, the Directors are not aware of any circumstances which would render the values attributed to current assets in the Financial Statements of the Group and of the Bank misleading.

## Valuation methods

At the date of this Report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and 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 Group or the Bank which has arisen since the end of the financial year which secures the liability of any other person; or

## Contingent and other liabilities (Continued)

At the date of this Report, there does not exist: (Continued)

(b) any contingent liability of the Group or the Bank which has arisen since the end of the financial year other than in the ordinary course of banking business.

No contingent or other liability in the Group or 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 and its subsidiaries to meet their obligations 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 Group and of the Bank, that would render any amount stated in the Financial Statements misleading.

## Items of an unusual nature

In the opinion of the Directors:

(a) the results of the Group's and the Bank's operations for the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature; and

(b) there has not arisen in the interval between the end of the financial year and the date of this Report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group or the Bank for the financial year in which this Report is made.

## Directors

The names of the Directors of the Bank who have held office during the financial year and during the period from the end of the financial year to the date of the report are:

Dato' Robert Cheim Dau Meng
Puan Nadzirah binti Abd Rashid
Encik Didi Syafruddin Yahya (appointed on 10 January 2017)
Dato' David Chua Ming Huat (resigned on 10 January 2017)
Mr. Manu Bhaskaran
Dato' Kong Sooi Lin

In accordance with Articles 75A and 75B of the Bank's Articles of Association, Puan Nadzirah binti Abd Rashid and Mr. Manu Bhaskaran will retire from the Board at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

# CIMB Investment Bank Berhad
(Incorporated in Malaysia)

# Directors' Report
# for the financial year ended 31 December 2017 (Continued)

## Directors' interests in shares and share options

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act, 2016, the beneficial interests of the Directors who held office at the end of the financial year, in the shares and share options of the ultimate holding company or its related companies during the financial year are as follows:

| | Number of ordinary shares | | | |
|---|---|---|---|---|
| | As at 1 January | Acquired/ Granted | Disposed/ Vested | As at 31 December |
| Ultimate holding company | | | | |
| **CIMB Group Holdings Berhad** | | | | |
| Dato' Robert Cheim Dau Meng* | 285,574 | 47,658 (a) | (11,585) (b) | 321,647 |
| Dato' Kong Sooi Lin | 2,545,024 | 485,854 (a) | (681,078) (b) | 2,349,800 |
| Encik Didi Syafruddin Yahya ** | 3,000 | 146 (a) | - (b) | 3,146 |

* Include shareholding of spouse and children, details of which are as follows:

| | As at 1 January | Acquired/ Granted | Disposed/ Vested | As at 31 December |
|---|---|---|---|---|
| Cheim Tat Seng | 114,844 | 39,258 (a) | (11,585) (b) | 142,517 |

** Include shareholding of spouse and children, details of which are as follows:

| | As at 1 January | Acquired/ granted | Disposed/ vested | As at 31 December |
|---|---|---|---|---|
| Sarina Mahmood | 3,000 | 146 (a) | - | 3,146 |

*Note :[(a)] Shares granted under Equity Ownership Plan ("EOP") and acquired by way of the exercise of Dividend Reinvestment Scheme ("DRS")*

*[(b)] Shares released from EOP account and transferred into Director's account*

| | No. of debentures held | | | |
|---|---|---|---|---|
| | As at 1 January | Acquired/ Granted | Disposed/ Redeemded | As at 31 December |
| **CIMB Group Holdings Berhad** | | | | |
| **-Subordinated Fixed Rate Notes** | | | | |
| Dato' Robert Cheim Dau Meng | RM 1,000,000 | - | - | RM 1,000,000 |
| **-Perpetual subordinated capital securities** | | | | |
| Dato' Robert Cheim Dau Meng | RM 2,000,000 | - | - | RM 2,000,000 |
| **CIMB Niaga Tbk** | | | | |
| **-Subordinated Notes** | | | | |
| Dato' Robert Cheim Dau Meng | IDR 1,000,000,000 | - | (IDR 1,000,000,000) | - |
| Dato' Kong Sooi Lin | IDR 1,000,000,000 | - | (IDR 1,000,000,000) | - |
| **CIMB Thai Bank** | | | | |
| **-Subordinated Notes 2024** | | | | |
| Dato' Robert Cheim Dau Meng | RM 1,000,000 | - | - | RM 1,000,000 |

# Directors' Report
# for the financial year ended 31 December 2017 (Continued)

## Directors' interests in shares and share options (Continued)

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act, 2016, the beneficial interests of the Directors who held office at the end of the financial year, in the shares and share options of the ultimate holding company or its related companies during the financial year are as follows: (Continued)

| | No. of shares held | | | |
|---|---|---|---|---|
| CIMB Niaga Tbk | As at 1 January | Acquired/ Granted | Disposed/ vested | As at 31 December |
| Dato' Robert Cheim Dau Meng | 26,248 | - | - | 26,248 |
| Dato' Kong Sooi Lin | 385,001 | - | - | 385,001 |

Other than as disclosed in the previous page, according to the Register of Directors' Shareholdings, the Directors in the office at the end of the financial year did not hold any interest in shares, and option over shares and debentures of the Bank, the holding company, the ultimate holding company or its related companies during the financial year.

## Directors' benefits

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in Note 34 to the Financial Statements or the fixed salary as a full time employee of the Bank) by reason of a contract made by the Bank or a related company with the Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest.

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any other arrangements to which the Bank is a party with the object or objects of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate other than the Equity Ownership Plan of the ultimate holding company (see Note 40 to the Financial Statements) as disclosed in this Report.

## Subsidiaries

Details of subsidiaries are as set out in Note 11 to the Financial Statements.

## Auditors' Remuneration

Details of auditors' remuneration are as set out in Note 33 to the Financial Statements.

## 2017 Business Plan and Strategy

CIMB Investment Bank ("the Bank") registered a pre-tax profit of RM 137.3 million for the financial year ended 31 December 2017, an increase of RM44.5 million or 48% higher as compared to RM92.8 million in 2016. The increase in profit over 2016 was generally attributable to the increase in investment banking activities where the Bank continued to perform well and lead the industry especially in advisory, equity and debt capital markets. As a consequence, the Bank recorded higher fees and commission income of 8.0% or RM7.9 million over the preceding year. In line with the buoyant equity markets in 2017, brokerage income was also higher by 33.1% or RM36.1 million compared to 2016. Overheads increased by RM7.4 million as compared to 2016.

In terms of market ranking, the Bank was ranked #1 for IPO, #1 in Malaysia Equity Capital Market ("ECM") (source: Dealogic), #1 for Debt Capital Markets ("DCM") (source: Bloomberg), and #2 for Mergers & Acquisition ("M&A") (source : Bloomberg). The Bank's broker market share was #2 for 2017 (source: Bursa Malaysia) , maintaining its position for 4 years in a row.

The Bank continued to secure high profile ECM deals in 2017. The Bank was Joint Bookrunner for The Bank of Tokyo-Mitsubishi UFJ Ltd for USD RM2.6 billion block trade, the largest block transaction in Malaysia and the fifth largest APAC-ex-Japan block trade as at September 2017. The Bank was also Joint Bookrunner for three other major block trade transactions by Tenaga Nasional Berhad (RM489.0 million), Khazanah Nasional Berhad (RM571.0 million), Kuala Lumpur Kepong Berhad (RM480.0 million) and IHH healthcare Berhad (RM339.0 million). The Bank was the principal adviser, Joint Global Coordinator and Joint Book underwriter for Maxis Berhad's on the RM1.7 billion placement, the largest ever primary placement for a tele-communications company in ASEAN.

In terms of IPO, the Bank was the Joint Principal Adviser for RM2.6 billion listing of ECO World International Berhad. For the KIP REIT RM234.0 million IPO, the Bank was appointed as the Principal Adviser and sole Bookrunner. Other than ECO World and KPI, the Bank was joint Underwriter and Joint Bookrunner for Lotte Chemical Titan Holding Sdn. Bhd.'s for the RM3.8 billion IPO. In Thailand, the Bank was the Joint Financial Adviser for TPI Polene PCL's for USD 506 million IPO, which was the largest utilities IPO since 2015.

In the DCM, the Bank was accorded 14 awards for Sukuk transactions. Among the award winning transactions recognised were The Government of Malaysia USD1.5 billion dual tranche trust certificates for Islamic Deal of the Year, Best Sovereign Sukuk, Best Sukuk and Best Deal – Malaysia; Islamic Development Bank USD1.5 billion trust certificate for Best Supranational Sukuk; Lebuhraya DUKE Fasa 3 RM3.64 billion Wakala Bi Al Istithmar Sukuk for Best Project Finance Deal and Best Debut Sukuk; Bagan Capital USD398.8 million Exchangeable Sukuk for Best Exchangeable Sukuk and Government of Indonesia USD2.5 billion dual tranche trust certificates for Best Sovereign Sukuk. Other Sovereign Sukuk include the Hong Kong Government SAR USD 1.0 billion Trust Certificates.

## 2017 Business Plan and Strategy (Continued)

In the M&A space, the Bank was the principal adviser for Felda Global Ventures Holdings Berhad's disposal deal of its RM224.4 million equity interest in AXA Affin General Insurance Berhad. The Bank was also the principal adviser for Ekovest Berhad's RM1.13 billion divestment of its 40% interest in Konsortium Lebuhraya Utara-Timur (KL) Sdn. Bhd. to Employees Provident Fund. Other principal adviser roles include Actis' acquisition of 44.4% interest in GHL Systems Berhad, UEM Edgenta Berhad's disposal of it 61.2% equity interest in Opus International Consultants Limited and Kumpulan Perangsang Selangor Berhad's RM210.0 million acquisition of Century Bond Berhad.

In 2017, the Bank was recognised by research houses for various marquee and deal awards including 19 from The Asset Triple A and 12 from Alpha Southeast Asia. The Bank is especially pleased to have won The Best Investment Bank Award from Finance Asia for the 10th consecutive year. Other Best Investment Bank awards received includes the Best Islamic Investment Bank Award in Malaysia and APAC from The Asset Triple A and Islamic and the Best Islamic Investment Bank Award from Islamic Business and Finance. In addition, the Bank also won The Best Bond House Awards from Finance Asia and Alpha Southeast Asia and Best Sukuk House of the Year for Asia Pacific from The Asset Triple A. The firm also won three Project Finance and Infrastructure deal awards in from The Asset Triple A namely Transport Deal of the Year, Power Deal of the Year and Telecom Deal of the Year.

Group Equities also performed well, achieved 2nd position in terms of broker ranking with a market share of 9.92%. For the year 2017, the Bank continued to rake in the awards for the various units within the Equities department. In terms of awards, Asiamoney Polls ranked Group Equities 1st in Best Execution, Best in Sales Trading, Best for Roadshows/Company Visits whilst taking 2nd spot in the Best Local Brokerage, Best For Overall Country Research, Best Overall Sales Service, Most Improved Brokerage in the last 12 months and Best For Events/Conferences.

With a much stronger equity market, the Bank saw more active secondary market transactions valued at RM13.07 billion in the first 11 months of 2017. The larger transactions the Bank was involved in includes secondary placements in CIMB Group Holdings Berhad amounting to RM3.68 billion in 3 separate transactions, Maxis Berhad RM1.656 billion placement, Sapura Energy RM859 million block trade, AXIS REIT new shares placement amounting to RM178.75 million and IHH RM339 million block trade. For primary deals, the Bank was involved in the RM2.6 billion IPO of EcoWorld International, RM3.77 billion IPO of Lotte Titan and RM234 million IPO of KIP REIT.

# Directors' Report for the financial year ended 31 December 2017 (Continued)

## Outlook for 2018

The outlook for 2018 is underpinned by the modest recovery in global and regional economies which should encourage capital market and investment banking activities. Outlook for the fixed income market remains cautiously optimistic with expected infrastructure related bond and sukuk issuances whilst the equity markets are expected to see increased volatility given the recent market corrections in worldwide equity markets. M&A activity in 2018 may come from sectors benefiting from the growth in the economy.

## Ratings by External Rating Agencies

Details of the ratings of the Bank and its debt securities as at the date of this report are as follows:

| Rating Agency | Rating Date | Rating Classification | Rating Accorded | Outlook |
|---|---|---|---|---|
| RAM Rating Services Berhad | December 2017 | Long-term Financial Institution Rating<br>Short-term Financial Institution Rating | AAA<br>P1 | Stable |
| Moody's Investors Service | August 2017 | Long-term Issuer Rating<br>Short-term Issuer Rating | A3<br>P-2 | Stable |
| Standard & Poor's Ratings Services | October 2017 | Long-term Foreign rating<br>Short-term Foreign rating<br>Long-term local currency rating<br>Short-term local curency rating<br>Long-term local ASEAN rating<br>Short-term local ASEAN rating | A-<br>A-2<br>A-<br>A-2<br>axAA<br>axA-1 | Stable |

## Board Shariah Committee

Pursuant to the enterprise wide Shariah governance framework as provided by Bank Negara Malaysia in its Guideline on Shariah Governance for Islamic Financial Institutions and the Islamic Financial Services Act, 2013, the Board of Directors ("the Board") is ultimately responsible and accountable for the oversight and management of Shariah matters in the Bank's Islamic banking and finance operations. In undertaking its duties and responsibilities relating to Shariah, the Board relies on the advice of the Board Shariah Committee of CIMB Group as established under CIMB Islamic Bank Berhad, the core Islamic banking and finance operating entity of the group.

The main responsibility of the Board Shariah Committee is to assist the Board in the oversight and management of all Shariah matters relating to the Islamic banking and finance business of the Bank. The Board Shariah Committee operates on the authority as delegated and empowered to it by the Board and as attributed to it under relevant financial regulations and legislations.

All decisions by the Board on Shariah matters relating to its business shall be made based on the decisions, views and opinions of the Board Shariah Committee. If the Board disagrees with any decisions, views, and opinions of the Board Shariah Committee on any Shariah matter, the former shall refer back the matter to the latter for a second or third review before final decision is made. All and any final decision of the Board on Shariah matter shall be made based on the final decisions, views and opinions of the Board Shariah Committee. All decisions of the Board and the Board Shariah Committee on Shariah matters shall at all times be subordinated to the decision of the Shariah Advisory Council of the relevant Malaysian financial regulators and shall take into consideration the relevant authority on Shariah matters in the relevant jurisdiction it is doing business.

The Board Shariah Committee shall at all times assist the Board to ensure that the Group's Islamic banking and finance business does not have elements/activities which are not permissible under Shariah.

The members of the Board Shariah Committee are as follows:

1. Sheikh Professor Dr. Mohammad Hashim Kamali
2. Sheikh Dr Nedham Yaqoobi
3. Sheikh Yang Amat Arif Professor Adjung Dato' Dr. Haji Mohd Na'im bin Haji Mokhtar
4. Sheikh Associate Professor Dr. Shafaai bin Musa
5. Sheikh Professor Dr. Yousef Abdullah Al Shubaily
6. Sheikh Associate Professor Dr. Mohamed Azam bin Mohamed Adil (contract of appointment expired on 31 October 2017)

## Board Shariah Committee (Continued)

The Board hereby affirms based on advice of the Board Shariah Committee that the operations of the Bank's Islamic banking and finance has been done in a manner that does not contradict with Shariah save and except for those that have been specifically disclosed in this financial report (if any). This affirmation by the Board is independently verified and confirmed by the Board Shariah Committee in a separate Board Shariah Committee Report made herein.

## Significant event during the financial year

There were no significant events during the financial year.

## Subsequent events after the financial year end

There are no significant events subsequent to the financial year ended 31 December 2017.

## Statement of Director's Responsibility

In preparing the Financial Statements, the Directors have ensured that the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS"), and the requirements of the Companies Act, 2016 have been complied with and reasonable and prudent judgements and estimates have been made.

It is the responsibility of the Directors to ensure that the Financial Statements of the Group and the Bank present a true and fair view of the state of affairs of the Group and of the Bank as at 31 December 2017 and of the results and cash flows of the Group and of the Bank for the financial year ended on that date.

The Financial Statements are prepared on a going concern basis and the Directors have ensured that proper accounting records are kept so as to enable the preparation of the Financial Statements with reasonable accuracy.

The Directors have also overall responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Bank and for the implementation and continued operation of adequate accounting and internal control systems for the prevention and detection of fraud and other irregularities. The system of internal controls is designed to provide reasonable and not absolute assurance for achieving certain internal control standards and helps the Group and the Bank manage the risk of failure to achieve business.

The Statement by Directors pursuant to Section 251 (2) of the Companies Act, 2016 is set out on page 12 of the Directors' Report.

# Directors' Report for the financial year ended 31 December 2017 (Continued)

## Ultimate holding company

The Directors regard CIMB Group Holdings Berhad, a company incorporated in Malaysia and listed on the Main Board of the Bursa Malaysia Securities Berhad, as the Bank's ultimate holding company.

## Auditors

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to continue in office. PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 2 January 2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership.

This report was approved by the Board of Directors on 26 January 2018.

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

**Dato' Robert Cheim Dau Meng**
Chairman

**Dato' Kong Sooi Lin**
Director
6 March 2018

Company No: 18417-M

# CIMB Investment Bank Berhad

(Incorporated in Malaysia)

## Statement by Directors
## Pursuant to Section 251(2) of the Companies Act, 2016

We, Dato' Robert Cheim Dau Meng and Dato' Kong Sooi Lin, being two of the Directors of CIMB Investment Bank Berhad, hereby state that, in the opinion of the Directors, the Financial Statements set out on pages 20 to 207 are drawn up so as to give a true and fair view of the financial position of the Group and the Bank as at 31 December 2017 and financial performance of the Group and the Bank for the financial year ended 31 December 2017, in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

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

**Dato' Robert Cheim Dau Meng**
Chairman

**Dato' Kong Sooi Lin**
Director

6 March 2018

## Statutory Declaration
## Pursuant to Section 251(1) of the Companies Act, 2016

I, Leng Chee Keong, being the Officer primarily responsible for the financial management of CIMB Investment Bank Berhad, do solemnly and sincerely declare that the Financial Statements set out on pages 20 to 207 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.

**Leng Chee Keong**

Subscribed and solemnly declared by the abovenamed Leng Chee Keong at Kuala Lumpur before me, on 6 March 2018.

Commissioner for Oaths

PESURUHJAYA SUMPAH
No W533
Nama: YM TENGKU FARIDDUDIN BIN TENGKU SULAIMAN
MALAYSIA

205, Bangunan Loke Yew
4, Jln Mahkamah Persekutuan
50050 Kuala Lumpur (W.P.)

# CIMB Investment Bank Berhad

(Incorporated in Malaysia)

## Board Shariah Committee's Report

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

We, the members of the CIMB Group Board Shariah Committee as established under CIMB Islamic Bank Berhad, are responsible to assist the Board in the oversight and management of Shariah matters in the operation of the Bank. Although the Board is ultimately responsible and accountable for all Shariah matters under the Bank, the Board relies on our independent advice on the same.

Our main responsibility and accountability is to assist the Board in ensuring that the Bank's Islamic banking and finance businesses does not have elements/activities which are not permissible under Shariah. In undertaking our duties we shall follow and adhere to the decisions, views and opinions of the Shariah Advisory Council of the relevant Malaysian financial regulators for businesses undertaken in Malaysia and for businesses outside Malaysia we shall take into consideration the decisions, views and opinions of the relevant authority on Shariah matters (if any, sanctioned by law/regulation to be followed by the Bank) in the relevant jurisdiction that the Bank is doing business.

As members of the Board Shariah Committee, we are responsible to provide an independent assessment and confirmation in this financial report that the Islamic banking and finance operations of the Bank has been done in conformity with Shariah as has been decided and opined by us and with those Notices, Rules, Standards, Guidelines and Frameworks on Shariah matters as announced and implemented by Malaysian regulators and where relevant by the financial regulators in the relevant jurisdictions that the Bank's businesses were undertaken during the period being reported.

Our independent assessment and confirmation has been used as the basis for the Board's affirmation of the same in the Director's Report herein before.

In making our independent assessment and confirmation, we have always recognised the importance of the Bank maintaining and reinforcing the highest possible standards of conduct in all of its actions, including the preparation and dissemination of statements presenting fairly the Shariah compliant status of its Islamic banking and finance businesses. In this regard we have developed and maintained a system of monitoring and reporting which provides the necessary internal controls to ensure that any new Islamic financial transactions are properly authorised and transacted in accordance to the requirements of Shariah; the Bank's assets and liabilities under its Statement of Financial Positions of Islamic Banking are safeguarded against possible Shariah non-compliance; and, that the day to day conduct of its Islamic Banking and finance operations does not contradict Shariah principles.

The system is augmented by written policies and procedures, the careful selection and training of Shariah qualified staff, the establishment of an organisational structure that provides an appropriate and well defined division of responsibility by Management and the communication of Shariah policies and guidelines of business conduct to all staff of the Bank.

## Board Shariah Committee's Report (Continued)

Firstly, the system of internal control for effective Shariah governance is supported by a professional staff of Shariah researchers that supports us in our decision and deliberations, providing check and balance for all Shariah matters as presented to us by the Management. Secondly, the Management has a Shariah review framework that operates on a front to back basis comprising of self-assessment/self-reporting mechanism and periodic independent review undertaken by Group Compliance Department. Thirdly, for effective risk management and control, the Group adopted the strategic implementation of tiered model i.e. Three Lines of Risk Defense in governing and managing Shariah Non Compliant risk. Lastly, there is also a strong team of internal auditors who conduct periodic Shariah audits of all the Bank's Islamic banking and finance operations on a scheduled and periodic basis.

All in all, the Management of the Bank is responsible and accountable to the Board to ensure that the businesses of the Bank are done in accordance with the requirement of Shariah. It is our responsibility to form an independent opinion of the state of Shariah compliancy of the business and its operations and advise the Board accordingly. Based on the internal and external controls that have been put in place by the Management, in our opinion, to the best of our knowledge, the Bank has complied with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia and by all other financial regulators (where relevant), as well as Shariah decisions made by us.

Over and above these specific measures, we have also directed the Management to undertake more training sessions, courses and briefings aimed at building stronger and deeper understanding amongst the Bank's employee on Shariah application in the financial activities undertaken by the Bank as well as to infuse the right culture for Shariah compliance amongst them.

In our opinion:

1. The contracts, transactions and dealings entered into by the Bank during the financial year ended 31 December 2017 that were presented to us were done in compliance with Shariah;
2. The allocation of profit and charging of losses relating to investment accounts conformed to the basis that were approved by us in accordance with Shariah; and
3. All earnings that were realised from sources or by means prohibited by Shariah have been considered for disposal to charitable causes.

## Board Shariah Committee's Report (Continued)

We have assessed the independent work carried out for Shariah review and Shariah audit functions by the relevant functionaries under the established system of internal control, which included the examination, on a test basis, of each type of transaction, of relevant documentation and procedures adopted by the Bank. We are satisfied that the Management has planned and performed the necessary review and audit so as to obtain all the information and explanations which are considered necessary to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Shariah.

We, the members of the Board Shariah Committee, are of the opinion that the operations of the Bank for the financial year ended 31 December 2017 were conducted in conformity with Shariah.

On behalf of the Board Shariah Committee

**Sheikh Professor Dr. Mohammad Hashim Kamali**
Member

**Sheikh Associate Professor Dr. Shafaai bin Musa**
Member

6 March 2018

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF CIMB INVESTMENT BANK BERHAD.
(Incorporated in Malaysia)
(Company No. 18417-M)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

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

What we have audited

We have audited the financial statements of the Group and of the Bank, which comprise the statements of financial position as at 31 December 2017 of the Group and of the Bank, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 20 to 207.

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

*PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), Chartered Accountants, Level 10, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia*
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INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF CIMB INVESTMENT BANK BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 18417-M)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 Directors' Report, but does not include the financial statements of the Group and of the Bank and our auditors' report thereon.

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

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

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

Responsibilities of the Directors for the financial statements

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

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

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF CIMB INVESTMENT BANK BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 18417-M)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF CIMB INVESTMENT BANK BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 18417-M)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

ONG CHING CHUAN
02907/11/2019 J
Chartered Accountant

Kuala Lumpur
6 March 2018

Company No: 18417-M

# CIMB Investment Bank Berhad

(Incorporated in Malaysia)

## Statements of Financial Position as at 31 December 2017

| | | The Group | | The Bank | |
|---|---|---|---|---|---|
| | Note | 31 December 2017 RM'000 | 31 December 2016 RM'000 | 31 December 2017 RM'000 | 31 December 2016 RM'000 |
| **Assets** | | | | | |
| Cash and short term funds | 2 | 1,226,387 | 1,419,038 | 1,177,737 | 1,374,452 |
| Deposits and placements with banks and other financial institutions | 3 | 29 | 2,033 | - | 2,004 |
| Financial assets held for trading | 4 | 2,524 | 267 | 2,524 | 267 |
| Derivative financial instruments | 5 | 9,071 | 12,919 | 9,071 | 12,919 |
| Financial investments available-for-sale | 6 | 821 | 1,303 | - | 611 |
| Loans, advances and financing | 7 | 169,646 | 183,466 | 169,646 | 183,466 |
| Other assets | 8 | 2,030,591 | 992,038 | 2,027,910 | 989,408 |
| Tax recoverable | | 1 | 5,895 | - | 5,895 |
| Deferred tax assets | 9 | 21,344 | 15,891 | 21,217 | 15,771 |
| Amounts due from related companies | 38 | 4,477 | 18,075 | 4,788 | 18,118 |
| Statutory deposits with Bank Negara Malaysia | 10 | 91 | 146 | 91 | 146 |
| Investment in subsidiaries | 11 | - | - | 9,050 | 9,050 |
| Investment in associates | 12 | 7,753 | 7,202 | - | - |
| Property, plant and equipment | 13 | 48,359 | 65,093 | 49,229 | 66,027 |
| Investment properties | 14 | 17,849 | 18,364 | 17,849 | 18,364 |
| Goodwill | 15 | 964 | 964 | - | - |
| **Total assets** | | 3,539,907 | 2,742,694 | 3,489,112 | 2,696,498 |
| **Liabilities** | | | | | |
| Deposits from customers | 16 | 38,637 | 76,073 | 38,637 | 76,073 |
| Deposits and placements of banks and other financial institutions | 17 | 700,996 | 980,157 | 700,996 | 980,157 |
| Derivative financial instruments | 5 | 5,169 | 6,884 | 5,169 | 6,884 |
| Other liabilities | 18 | 2,078,390 | 1,023,449 | 2,076,286 | 1,021,138 |
| Provision for taxation | 19 | 6,298 | 100 | 6,242 | - |
| Amounts due to related companies | 38 | 17,090 | 3,530 | 17,090 | 3,530 |
| Subordinated loan | 20 | 10,000 | 10,000 | - | - |
| **Total liabilities** | | 2,856,580 | 2,100,193 | 2,844,420 | 2,087,782 |
| **Capital and reserves attributable to equity holders of the Bank** | | | | | |
| Ordinary share capital | 21 | 100,000 | 100,000 | 100,000 | 100,000 |
| Redeemable preference shares | 22 | 10 | 10 | 10 | 10 |
| Reserves | 23 | 583,317 | 542,491 | 544,682 | 508,706 |
| **Total equity** | | 683,327 | 642,501 | 644,692 | 608,716 |
| **Total equity and liabilities** | | 3,539,907 | 2,742,694 | 3,489,112 | 2,696,498 |
| **Commitments and contingencies** | 43 | 698,112 | 778,485 | 698,112 | 778,485 |

Company No: 18417-M

# CIMB Investment Bank Berhad

(Incorporated in Malaysia)

## Statements of Income
## for the financial year ended 31 December 2017

| | | The Group | | The Bank | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | Note | RM'000 | RM'000 | RM'000 | RM'000 |
| Interest income | 24 | 39,131 | 42,217 | 32,945 | 35,340 |
| Interest expense | 25 | (31,183) | (38,459) | (30,668) | (38,075) |
| Net interest income/(expense) | | 7,948 | 3,758 | 2,277 | (2,735) |
| Income derived from investment of shareholders' funds | 49 | 62,153 | 64,490 | 62,153 | 64,490 |
| Income attributable to the depositors | 49 | (20) | (10) | (20) | (10) |
| Income from Islamic Banking operations | | 62,133 | 64,480 | 62,133 | 64,480 |
| Writeback of/(allowance for) impairment losses on loans, advances and financing | 26 | 184 | (787) | 184 | (787) |
| (Allowance for) / writeback of impairment losses on other receivables | | (355) | 4,001 | (384) | 3,975 |
| Allowance for other impairment losses | 27 | - | (134) | - | (134) |
| | | 69,910 | 71,318 | 64,210 | 64,799 |
| Fee and commission income | 28 | 105,803 | 97,940 | 105,803 | 97,940 |
| Dividend income | 29 | 2 | 2 | 2 | 2 |
| Net trading (expense)/income | 30 | (8,730) | 2,189 | (8,730) | 2,189 |
| Loss arising from sale of financial investments available-for-sale | 31 | (37) | - | (37) | - |
| Income from asset management and securities services | | 22,134 | 14,944 | 22,134 | 14,944 |
| Brokerage income | | 145,236 | 109,117 | 139,464 | 104,256 |
| Other non-interest income | 32 | 30,273 | 17,156 | 30,177 | 17,170 |
| Non-interest income | | 294,681 | 241,348 | 288,813 | 236,501 |
| Net income | | 364,591 | 312,666 | 353,023 | 301,300 |
| Overheads | 33 | (227,822) | (220,381) | (221,920) | (214,683) |
| | | 136,769 | 92,285 | 131,103 | 86,617 |
| Share of profit of associates | 12 | 551 | 468 | - | - |
| Profit before taxation | | 137,320 | 92,753 | 131,103 | 86,617 |
| Taxation | 35 | (40,554) | (30,062) | (39,058) | (28,680) |
| **Profit after taxation** | | 96,766 | 62,691 | 92,045 | 57,937 |
| **Earnings per share attributable to ordinary equity holders (sen) -basic** | 36 | 96.77 | 62.69 | 92.05 | 57.94 |

Company No: 18417-M

# CIMB Investment Bank Berhad

(Incorporated in Malaysia)

# Statements of Comprehensive Income for the financial year ended 31 December 2017

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2,016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Profit for the financial year | 96,766 | 62,691 | 92,045 | 57,937 |
| Other comprehensive income | | | | |
| Items that may be reclassified subsequently to profit or loss | | | | |
| Revaluation reserve-financial investments available-for-sale | | | | |
| -Gain from change in fair value | 129 | - | - | - |
| Other comprehensive income for the financial year, net of tax | 129 | - | - | - |
| **Total comprehensive income for the financial year** | 96,895 | 62,691 | 92,045 | 57,937 |

# CIMB Investment Bank Berhad
(Incorporated in Malaysia)

## Statements of Changes in Equity
## for the financial year ended 31 December 2017

| | Note | Attributable to owners of Parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Share capital RM'000 | Redeemable preference shares RM'000 | Statutory reserve RM'000 | Revaluation reserve-financial investments available-for-sale RM'000 | Share-based payment reserve RM'000 | Regulatory reserve RM'000 | Retained profits RM'000 | Total RM'000 |
| **The Group** | | | | | | | | | |
| At 1 January 2017 | | 100,000 | 10 | 155,805 | 188 | 3,188 | 2,104 | 381,206 | 642,501 |
| Net profit for the financial year | | - | - | - | - | - | - | 96,766 | 96,766 |
| Other comprehensive income (net of tax) | | | | | | | | | |
| -Financial investments available-for-sale | | - | - | - | 129 | - | - | - | 129 |
| Total comprehensive income for the financial year | | - | - | - | 129 | - | - | 96,766 | 96,895 |
| Share-based payment expense | | - | - | - | - | 4,013 | - | - | 4,013 |
| Shares released under Equity Ownership Plan | | - | - | - | - | (3,082) | - | - | (3,082) |
| Transfer from statutory reserve | 23(i) | - | - | (155,805) | - | - | - | 155,805 | - |
| Transfer from regulatory reserve | | - | - | - | - | - | (152) | 152 | - |
| Final dividend paid in respect of the financial year ended 31 December 2016 | 37 | - | - | - | - | - | - | (57,000) | (57,000) |
| At 31 December 2017 | | 100,000 | 10 | - | 317 | 4,119 | 1,952 | 576,929 | 683,327 |

# CIMB Investment Bank Berhad
(Incorporated in Malaysia)

## Statements of Changes in Equity
## for the financial year ended 31 December 2017 (Continued)

| | Note | Attributable to owners of Parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Share capital RM'000 | Redeemable preference shares RM'000 | Statutory reserve RM'000 | Revaluation reserve-financial investments available-for-sale RM'000 | Share-based payment reserve RM'000 | Regulatory reserve RM'000 | Retained profits RM'000 | Total RM'000 |
| **The Group** | | | | | | | | | |
| **At 1 January 2016** | | 100,000 | 10 | 155,805 | 188 | 12,146 | 2,181 | 384,438 | 654,768 |
| Net profit for the financial year | | - | - | - | - | - | - | 62,691 | 62,691 |
| Total comprehensive income for the financial year | | - | - | - | - | - | - | 62,691 | 62,691 |
| Share-based payment expense | | - | - | - | - | 6,715 | - | - | 6,715 |
| Shares released under Equity Ownership Plan | | - | - | - | - | (15,673) | - | - | (15,673) |
| Transfer from regulatory reserve | | - | - | - | - | - | (77) | 77 | - |
| Final dividend paid in respect of the financial year ended 31 December 2015 | 37 | - | - | - | - | - | | (66,000) | (66,000) |
| **At 31 December 2016** | | 100,000 | 10 | 155,805 | 188 | 3,188 | 2,104 | 381,206 | 642,501 |

# CIMB Investment Bank Berhad
(Incorporated in Malaysia)

## Statements of Changes in Equity for the financial year ended 31 December 2017 (Continued)

| | Note | Non-distributable | | | | | | | Distributable | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital RM'000 | Redeemable preference shares RM'000 | Statutory reserve RM'000 | Merger reserve RM'000 | Share-based payment reserve RM'000 | Capital reserve RM'000 | Regulatory reserve RM'000 | Retained profits RM'000 | Total RM'000 |
| **The Bank** | | | | | | | | | | |
| At 1 January 2017 | | 100,000 | 10 | 155,805 | (272,007) | 3,188 | 271,377 | 2,104 | 348,239 | 608,716 |
| Net profit for the financial year | | - | - | - | - | - | - | - | 92,045 | 92,045 |
| Total comprehensive income for the financial year | | - | - | - | - | - | - | - | 92,045 | 92,045 |
| Share-based payment expense | | - | - | - | - | 4,013 | - | - | - | 4,013 |
| Shares released under Equity Ownership Plan | | - | - | - | - | (3,082) | - | - | - | (3,082) |
| Transfer from statutory reserve | 23(i) | - | - | (155,805) | - | - | - | - | 155,805 | - |
| Transfer from regulatory reserve | | - | - | - | - | - | - | (152) | 152 | - |
| Final dividend paid in respect of the financial year ended 31 December 2016 | 37 | - | - | - | - | - | - | - | (57,000) | (57,000) |
| At 31 December 2017 | | 100,000 | 10 | - | (272,007) | 4,119 | 271,377 | 1,952 | 539,241 | 644,692 |

Company No: 18417-M

# CIMB Investment Bank Berhad

(Incorporated in Malaysia)

## Statements of Changes in Equity for the financial year ended 31 December 2017 (Continued)

| | Note | Non-distributable | | | | | | | Distributable | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital RM'000 | Redeemable preference shares RM'000 | Statutory reserve RM'000 | Merger reserve RM'000 | Share-based payment reserve RM'000 | Capital reserve RM'000 | Regulatory reserve RM'000 | Retained profits RM'000 | Total RM'000 |
| **The Bank** | | | | | | | | | | |
| **At 1 January 2016** | | 100,000 | 10 | 155,805 | (272,007) | 12,146 | 271,377 | 2,181 | 356,225 | 625,737 |
| Net profit for the financial year | | - | - | - | - | - | - | - | 57,937 | 57,937 |
| Total comprehensive income for the financial year | | - | - | - | - | - | - | - | 57,937 | 57,937 |
| Share-based payment expense | | - | - | - | - | 6,715 | - | - | - | 6,715 |
| Shares released under Equity Ownership Plan | | - | - | - | - | (15,673) | - | - | - | (15,673) |
| Transfer from regulatory reserve | | - | - | - | - | - | - | (77) | 77 | - |
| Final dividend paid in respect of the financial year ended 31 December 2015 | 37 | - | - | - | - | - | - | | (66,000) | (66,000) |
| **At 31 December 2016** | | 100,000 | 10 | 155,805 | (272,007) | 3,188 | 271,377 | 2,104 | 348,239 | 608,716 |

Company No: 18417-M

# CIMB Investment Bank Berhad

(Incorporated in Malaysia)

## Statements of Cash Flows for the financial year ended 31 December 2017

| | Note | The Group | | The Bank | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Operating activities** | | | | | |
| Profit before taxation | | 137,320 | 92,753 | 131,103 | 86,617 |
| Add/(less) adjustments: | | | | | |
| (Write back of)/allowance for impairment losses on loans, advances and financing | | (184) | 787 | (184) | 787 |
| Depreciation of investment property | | 515 | 515 | 515 | 515 |
| Depreciation of property, plant and equipment | | 20,218 | 23,080 | 20,038 | 22,939 |
| Allowance for other impairment losses | | - | 134 | - | 134 |
| Allowance for/(write back of) impairment losses on other receivables (net) | | 355 | (4,001) | 384 | (3,975) |
| Net amortisation of premium less accretion of discounts | | (5) | (8) | (5) | (8) |
| Unrealised (gain)/loss on financial assets held for trading | | (37) | 27 | (37) | 27 |
| Unrealised loss on derivative financial instruments | | 2,133 | 2,531 | 2,133 | 2,531 |
| Gain on disposal of property, plant and equipment | | (1,631) | (1,011) | (1,597) | (1,011) |
| Loss from sale of financial investments available-for-sale | | 37 | - | 37 | - |
| Gross dividends from financial assets held for trading | | (2) | (2) | (2) | (2) |
| Unrealised foreign exchange (gain)/loss | | (15,481) | 408 | (15,501) | 396 |
| Share of results of associates | | (551) | (468) | - | - |
| Share-based payment expense | | 4,013 | 6,715 | 4,013 | 6,715 |
| Property, plant and equipment written off | | 12 | 1 | 12 | 1 |
| Cash flow from operating profit before changes in operating assets and liabilities | | 146,712 | 121,461 | 140,909 | 115,666 |
| | | | | | |
| **(Increase)/decrease in operating assets** | | | | | |
| Deposits and placements with banks and other financial institutions | | 2,004 | 271,677 | 2,004 | 271,676 |
| Financial assets held for trading | | (2,215) | 2,626 | (2,215) | 2,626 |
| Loans, advances and financing | | 14,004 | 10,612 | 14,004 | 10,612 |
| Other assets | | (1,027,549) | (33,081) | (1,027,506) | (33,013) |
| Statutory deposits with Bank Negara Malaysia | | 55 | (123) | 55 | (123) |
| Amounts due from related companies | | 13,633 | 7,030 | 13,631 | 7,033 |
| Amounts due from immediate holding company | | - | 6 | - | 6 |
| Amounts due from ultimate holding company | | (35) | (135) | (35) | (135) |
| Amounts due from subsidiaries | | - | - | (266) | 34 |
| | | (1,000,103) | 258,612 | (1,000,328) | 258,716 |

Company No: 18417-M

# CIMB Investment Bank Berhad

(Incorporated in Malaysia)

## Statements of Cash Flows for the financial year ended 31 December 2017 (Continued)

| | Note | The Group 2017 RM'000 | The Group 2016 RM'000 | The Bank 2017 RM'000 | The Bank 2016 RM'000 |
|---|---|---|---|---|---|
| **(Decrease)/increase in operating liabilities** | | | | | |
| Deposits from customers | | (37,436) | 20,760 | (37,436) | 20,760 |
| Deposits and placements of banks and other financial institutions | | (279,161) | (137,859) | (279,161) | (137,859) |
| Other liabilities | | 1,056,912 | 65,903 | 1,057,119 | 65,842 |
| Amounts due to related companies | | 13,560 | (5,739) | 13,560 | (5,739) |
| Cash (used in)/generated from operating activities | | (99,516) | 323,138 | (105,337) | 317,386 |
| Taxation paid | | (32,875) | (22,732) | (31,328) | (21,499) |
| Net cash (used in)/generated from operating activities | | (132,391) | 300,406 | (136,665) | 295,887 |
| **Investing activities** | | | | | |
| Dividends received from financial assets held for trading | | 2 | 2 | 2 | 2 |
| Net proceeds of financial investments available-for-sale | | 574 | - | 574 | - |
| Purchase of property, plant and equipment | | (4,443) | (5,649) | (4,201) | (5,569) |
| Proceeds from disposal of property, plant and equipment | | 2,578 | 2,025 | 2,546 | 2,025 |
| Net cash used in investing activities | | (1,289) | (3,622) | (1,079) | (3,542) |
| **Financing activities** | | | | | |
| Drawdown of subordinated loan | | - | 5,000 | - | - |
| Dividends paid | | (57,000) | (66,000) | (57,000) | (66,000) |
| Net cash used in financing activities | | (57,000) | (61,000) | (57,000) | (66,000) |
| **Net (decrease)/increase in cash and cash equivalents during the financial year** | | (190,680) | 235,784 | (194,744) | 226,345 |
| **Cash and cash equivalents at beginning of the financial year** | | 1,391,206 | 1,155,422 | 1,346,620 | 1,120,275 |
| **Cash and cash equivalents at end of the financial year** | | 1,200,526 | 1,391,206 | 1,151,876 | 1,346,620 |
| **Cash and cash equivalents comprise the following:** | | | | | |
| Cash and short term funds | 2 | 1,226,387 | 1,419,038 | 1,177,737 | 1,374,452 |
| Adjustment for monies held in trust: | | | | | |
| Remisiers' balances | | (25,861) | (27,832) | (25,861) | (27,832) |
| Cash and cash equivalents | | 1,200,526 | 1,391,206 | 1,151,876 | 1,346,620 |

There were no changes in liabilities arising from financing activities for the financial year ended 31 December 2017.

# Summary of Significant Accounting Policies for the financial year ended 31 December 2017

The following accounting policies have been used consistently in dealing with items that are considered material in relation to the Financial Statements.

## A Basis of preparation

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

The Financial Statements have been prepared under historical cost convention, as modified by the revaluation financial investments available-for-sale, financial assets and financial liabilities (including derivatives financial instruments) at fair value through profit or loss.

The Financial Statements incorporate those activities relating to Islamic banking ("SPI") which have been undertaken by the Group. Islamic banking refers generally to the acceptance of deposits, granting of financing and dealing in Islamic Securities in compliance with Shariah Principles.

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

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed in Note 46.

### (a) Standards and amendments to published standards that are effective and applicable to the Group and the Bank

The new accounting standards and amendments to published standards that are effective and applicable to the Group and the Bank for the financial year beginning 1 January 2017 are as follows:

- Amendments to MFRS 107 "Statement of Cash Flows - Disclosure Initiative"
- Amendments to MFRS 112 "Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses"
- Annual Improvements to MFRSs 2014 - 2016 Cycle
- MFRS 12 "Disclosure of Interests in Other Entities"

## A Basis of preparation (Continued)

### (a) Standards and amendments to published standards that are effective and applicable to the Group and the Bank (Continued)

The adoption of the Amendments to MFRS 107 has required additional disclosure of changes in liabilities arising from financing activities. Other than that, the adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods on the Financial Statements of the Group and the Bank.

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

The Group and the Bank will apply these standards, amendments to published standards from:

(i) Financial year beginning on/after 1 January 2018

Amendments to MFRS 140 "Classification on 'Change in Use' – Assets transferred to, or from, Investment Properties" clarify that to transfer to, or from investment properties there must be a change in use. A change in use would involve an assessment of whether a property meets, or has ceased to meet, the definition of investment property. The change must be supported by evidence that the change in use has occurred and a change in management's intention in isolation is not sufficient to support a transfer of property.

IC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

IC Interpretation 22 provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made. The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk

If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt. An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

## A Basis of preparation (Continued)

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

The Group and the Bank will apply these standards, amendments to published standards from: (Continued)

(i) Financial year beginning on/after 1 January 2018 (Continued)

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

**Classification and measurements**

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

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is:

- For financial liabilities classified as FVTPL, the fair value changes due to own credit risk should be recognised directly to OCI. There is no subsequent recycling to profit or loss.

The combined application of the entity's business model and the cash flow characteristics of the financial assets do not result in the significant change in the classification of financial asset when compared to the existing classification of financial assets in the statement of financial position as at 31 December 2017

## A Basis of preparation (Continued)

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

The Group and the Bank will apply these standards, amendments to published standards from: (Continued)

(i) Financial year beginning on/after 1 January 2018 (Continued)

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

  The Group and the Bank do not expect a significant impact arising from the changes in classification and measurement of the financial assets.

  There will be no changes to the Group's and the Bank's accounting for financial liabilities. All the financial liabilities, except for derivatives financial liabilities and financial liabilities designated at fair value, which are at FVTPL, will remain as amortised cost as there has not been significant change in the requirements for financial liabilities under MFRS 9.

  Impairment of financial assets

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

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

## A Basis of preparation (Continued)

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

The Group and the Bank will apply these standards, amendments to published standards from: (Continued)

(i) Financial year beginning on/after 1 January 2018 (Continued)

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

  **Impairment of financial assets (continued)**

  Under MFRS 9, impairment will be measured on each reporting date according to a three-stage expected credit loss impairment model:

- Stage 1 – from initial recognition of a financial assets to the date on which the credit risk of the asset has increased significantly relative to its initial recognition, a loss allowance is recognised equal to the credit losses expected to result from defaults occurring over the next 12 months (12-month ECL).

- Stage 2 – following a significant increase in credit risk relative to the initial recognition of the financial assets, a loss allowance is recognised equal to the credit losses expected over the remaining life of the asset (Lifetime ECL).

- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to full lifetime expected credit losses is to be recognised (Lifetime ECL).

As all financial assets within the scope of MFRS 9 impairment model will be assessed for at least 12-month ECL, and the population of financial assets to which full lifetime ECL applies is larger than the population of impaired loans for which there is objective evidence of impairment in accordance with MFRS 139, the total allowance for credit losses is expected to increase under MFRS 9 relative to the allowance for credit losses under MFRS 139.

## A Basis of preparation (Continued)

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

The Group and the Bank will apply these standards, amendments to published standards from: (Continued)

(i) Financial year beginning on/after 1 January 2018 (Continued)

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

- <u>Impairment of financial assets</u> **(continued)**

In addition, changes in the required credit loss allowance, including the impact of movements between Stage 1 (12-month ECL) and Stage 2 (lifetime ECL) and the application of forward looking information, will be recorded in profit or loss and allowance for credit losses will be more volatile under MFRS 9.

**<u>Disclosures</u>**

The new standard requires more extensive disclosures especially in the areas of ECL. The Group and the Bank expect changes in the extent of disclosures in the financial statements for 31 December 2018.

The Group and the Bank are still in the midst of finalising the financial impact in relation to the adoption of MFRS 9. Based on the preliminary assessments undertaken to-date, the Group and the Bank expect an increase in the allowance for impairment on loans, advances and financing and other impairment losses under the new impairment requirements, which will result in a reduction in the Group's and the Bank's opening retained profits and overall capital position as of 1 January 2018.

The Group and the Bank are now progressing to the finalisation of the implementation of the identified changes and will complete this process prior to the releasing of the interim results for the financial period ending 31 March 2018.

## A Basis of preparation (Continued)

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

The Group and the Bank will apply these standards, amendments to published standards from: (Continued)

(i) Financial year beginning on/after 1 January 2018 (Continued)

- MFRS 15 "Revenue from Contracts with Customers" replaces MFRS 118 "Revenue" and MFRS 111 "Construction Contracts" and related interpretations.

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

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

  A new five-step process is applied before revenue can be recognised:
  - Identify contracts with customers
  - Identify the separate performance obligations
  - Determine the transaction price of the contract;
  - Allocate the transaction price to each of the separate performance obligations ; and
  - Recognise the revenue as each performance obligation is satisfied.

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

  The Group and the Bank are in the process of finalising the financial implication arising from the adoption of this new standard and expects no significant impact to the fees and other income for the Group and the Bank.

# Summary of Significant Accounting Policies for the financial year ended 31 December 2017 (Continued)

## A Basis of preparation (Continued)

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

The Group and the Bank will apply these standards, amendments to published standards from: (Continued)

(ii) Financial year beginning on/after 1 January 2019

- MFRS 16 "Leases" supersedes MFRS 117 "Leases" and the related interpretations.

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

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

  The right-of-use asset is depreciated in accordance with the principle in MFRS 116 "Property, Plant and Equipment" and the lease liability is accreted over time with interest expense recognised in the Statement of Income.

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

- Amendments to MFRS 10 and MFRS 128 regarding sale or contribution of assets between an investor and its associate or joint venture (effective date is to be determined by the Malaysian Accounting Standards Board) resolve a current inconsistency between MFRS 10 and MFRS 128. The accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business'. Full gain or loss shall be recognised by the investor where the non-monetary assets constitute a 'business'. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor to the extent of the other investors' interests. The amendments will only apply when an investor sells or contributes assets to its associate or joint venture. They are not intended to address accounting for the sale or contribution of assets by an investor in a joint operation.

## A Basis of preparation (Continued)

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

The Group and the Bank will apply these standards, amendments to published standards from: (Continued)

(ii) Financial year beginning on/after 1 January 2019 (Continued)

- Amendments to MFRS 9 Prepayment Features with Negative Compensation

  The amendments allow entities to measure some prepayable financial assets with negative compensation at amortised cost. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than the unpaid amounts of principal and interest. To qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract, and the asset must be held within a 'held to collect' business model. The amendments will be applied retrospectively.

- Amendments to MFRS 128 Long-term Interests in Associates and Joint Ventures

  The amendments clarify that an entity should apply MFRS 9 'Financial Instruments' (including the impairment requirements) to long-term interests in an associate or joint venture, which are in substance form part of the entity's net investment, for which settlement is neither planned nor likely to occur in the foreseeable future. In addition, such long-term interest are subject to loss allocation and impairment requirements in MFRS 128.

- Annual Improvements to MFRSs 2015 – 2017 Cycle

  - Amendments to MFRS 3 "Business Combinations" clarify that when a party obtains control of a business that is a joint operation, the acquirer should account the transaction as a business combination achieved in stages. Accordingly it should remeasure its previously held interest in the joint operation (rights to the assets and obligations for the liabilities) at fair value on the acquisition date.
  - Amendments to MFRS 11 "Joint Arrangements" clarify that when a party obtains joint control of a business that is a joint operation, the party should not remeasure its previously held interest in the joint operation.

## A Basis of preparation (Continued)

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

The Group and the Bank will apply these standards, amendments to published standards from: (Continued)

(ii) Financial year beginning on/after 1 January 2019 (Continued)

- Annual Improvements to MFRSs 2015 – 2017 Cycle (Continued)

    - Amendments to MFRS 112 "Income Taxes" clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in profit or loss, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in profit or loss when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.
    - Amendments to MFRS 123 "Borrowing Costs" clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

- IC Interpretation 23 "Uncertainty over Income Tax Treatments" provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty. IC Interpretation 23 will be applied retrospectively.

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

# Summary of Significant Group Accounting Policies for the financial year ended 31 December 2017 (Continued)

## B Economic entities in the Group

### (a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct relevant activities of the entity.

The consolidated Financial Statements include the Financial Statements of the Bank and all its subsidiaries made up to the end of the financial year.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations.

Under the acquisition method of accounting, the consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement and fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired, and liabilities and contingent liabilities assumed in the business combination are with limited exception measured initially at their fair value on the date of acquisition.

The Group applies predecessor accounting to account for business combinations under common control. Under the predecessor basis of accounting, the results of subsidiaries are presented as if the business combination had been effected from the current years. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the ultimate holding company of the Group at the date of transfer. On consolidation, the cost of the business combination is cancelled with the values of the shares received. Any resulting credit difference is classified as equity. Any resulting debit difference is adjusted against merger reserves. Any share premium, capital redemption reserve and any other reserves which are attributable to share capital of the combined entities, to the extent that they have not been capitalised by a debit difference, are reclassified and presented as movement in other capital reserves.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the fair value of the acquiree's identifiable net assets acquired is recorded as goodwill. The accounting policy for goodwill is set out in Note M. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in statement of income on the acquisition date.

## B Economic entities in the Group (Continued)

### (a) Subsidiaries (Continued)

If the business combination is achieved in stages, the carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date, any gains or losses arising from such re-measurement are recognised in statement of income.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 139 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

All material transactions and balances between group companies are eliminated and the consolidated Financial Statements reflect external transactions only. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Where necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

### (b) Disposal of subsidiaries

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

Gains or losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the subsidiaries sold.

## B Economic entities in the Group (Continued)

### (c) Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the associates but not the power to exercise control over those policies. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

Investments in associates are accounted for using equity method of accounting. Under the equity method, the investment is initially recognised at cost, and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the associate in statement of income, and the Group's share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. Dividends received or receivable from an associate are recognised as a reduction in the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interests in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. The Group's investment in associates includes goodwill identified on acquisition.

After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

For any of the associate's net assets changes, other than profit or loss or other comprehensive income and distributions received, the Group's policy is to account for such changes to the statement of income.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. An impairment loss is recognised for the amount by which the carrying amount of the associate exceeds its recoverable amount. The Group presents the impairment loss adjacent to 'share of profit/(loss) of an associate' in the statement of income.

## B Economic entities in the Group (Continued)

### (c) Associates (Continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence on impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amount previously recognised in the other comprehensive income is reclassified to statement of income where appropriate.

Dilution gains and losses arising from investments in associates are recognised in the statement of income.

### (d) Interests in subsidiaries and associates

In the Bank's separate financial statements, investments in subsidiaries and associates are carried at cost less accumulated impairment losses. On disposal of investments in subsidiaries, and associates, the difference between disposal proceeds and the carrying amounts of the investments are recognised in statement of income.

The amounts due from subsidiaries of which the Bank does not expect repayment in the foreseeable future are considered as part of the Bank's investments in the subsidiaries.

## C Recognition of interest/profit income and interest/profit expense

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the statement of income using the effective interest method.

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

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

Income from Islamic banking business is recognised on an accrual basis in accordance with Shariah.

## D Recognition of fees and other income

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

Portfolio management fees and income from asset management and securities services which are material are recognised as income based on a time apportionment method.

Brokerage fees are recognised as income based on inception of such transactions.

Fee from advisory and corporate finance activities are recognised as income on completion of each stage of the engagement.

Dividends are recognised when the right to receive payment is established.

## E Financial assets

### (a) Classification

The Group and the Bank allocate their financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, financial investments held-to-maturity and financial investments available-for-sale. Management determines the classification of its financial instruments at initial recognition.

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

Financial assets at fair value through profit or loss comprise of financial assets held for trading and other financial assets designated by the Group and the Bank as fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments.

### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables comprise cash and short-term funds, deposits placements with bank and other financial institutions, loans, advances and financing and other assets, in the statement of financial position.

### (iii) Financial investments held-to-maturity

Financial investments held-to-maturity are non-derivative instruments with fixed or determinable payments and fixed maturities that the Group's and the Bank's management have the positive intent and ability to hold to maturity. If the Group or the Bank sells other than an insignificant amount of financial investments held-to-maturity, the entire category will be tainted and reclassified as financial investments available-for-sale.

## E Financial assets (Continued)

### (a) Classification (Continued)

### (iv) Financial investments available-for-sale

Financial investments available-for-sale are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as financial assets at fair value through profit or loss, loans and receivables and financial investments held-to-maturity.

### (b) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the trade date, the date on which the Group and the Bank commence to purchase or sell the asset. Interbank placements are recognised on settlement date. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Transaction costs for securities carried at fair value through profit or loss are taken directly to the statement of income.

### (c) Subsequent measurement

Financial assets at fair value through profit or loss and financial investments available-for-sale are subsequently carried at fair value, except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured in which case the investments are stated at cost. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the statement of income in the period which they arise. Gains and losses arising from changes in fair value of financial investments available-for-sale are recognised directly in other comprehensive income, until the securities are derecognised or impaired at which time the cumulative gains or loss previously recognised in equity are recognised directly in the statement of income. Foreign exchange gains or losses of financial investments available-for-sale are recognised in the statement of income in the period it arises.

Financial investments held-to-maturity are subsequently measured at amortised cost using the effective interest method. Gains or losses arising from the de-recognition or impairment of the securities are recognised in the statement of income.

# Summary of Significant Accounting Policies for the financial year ended 31 December 2017 (Continued)

## E Financial assets (Continued)

### (d) Reclassification of financial assets

Interest from financial assets held at fair value through profit or loss, financial investments available-for-sale and financial investments held-to-maturity is calculated using the effective interest method and is recognised in the statement of income. Dividends from available-for-sale equity instruments are recognised in the statement of income when the entity's right to receive payment is established.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including the transaction costs, and measured subsequently at amortised cost using the effective interest rate method. Interest on loans is included in the statement of income. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of income.

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

Reclassifications are made at the fair value at the date of the reclassification. The fair values of the securities becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before the reclassification date are subsequently made. The effective interest rates for the securities reclassified to held-to-maturity category are determined at the reclassification date. Further changes in estimates of future cash flows are recognised as an adjustment to the effective interest rates prospectively.

## E Financial assets (Continued)

### (d) Reclassification of financial assets (Continued)

Any previous gain or loss on that asset that has been recognised in other comprehensive income shall be accounted for as follows:

(i) In the case of a financial asset with a fixed maturity, the gain or loss shall be amortised to statement of income over the remaining life of the held-to-maturity investment using the effective interest method. Any difference between the new amortised cost and maturity amount shall also be amortised over the remaining life of the financial asset using the effective interest method, similar to the amortisation of a premium and a discount. If the financial asset is subsequently impaired, any gain or loss that has been recognised in other comprehensive income is reclassified from equity to statement of income in accordance with E(c).

(ii) In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognised in statement of income when the financial asset is sold or otherwise disposed of. If the financial asset is subsequently impaired any previous gain or loss that has been recognised in other comprehensive income is reclassified from equity to statement of income in accordance with E(c).

## F Financial liabilities

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

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

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

## F Financial liabilities (Continued)

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

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. The specific Group and Bank accounting policy on derivatives is detailed in Note O.

The financial liabilities measured at fair value through profit or loss upon initial recognition are trading derivatives.

### (b) Financial liabilities at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. The financial liabilities measured at amortised cost are deposits from customers, deposits and placements of banks and other financial institutions, sundry creditors, subordinated loans and amount due to related companies.

## G Derecognition of financial assets and financial liabilities

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Group and the Bank test control to ensure that continuing involvement on the basis of any retained powers of control does not prevent de-recognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

## H Offsetting 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 realise the asset and settle the liability simultaneously.

## I Impairment of financial assets

### (a) Assets carried at amortised cost

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The criteria that the Group and the Bank use to determine whether there is objective evidence of impairment loss include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default of delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Group and the Bank first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group and the Bank determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan or financial investment held-to-maturity has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Financial assets that have not been individually assessed are grouped together for portfolio impairment assessment. These financial assets are grouped according to their credit risk characteristics for the purposes of calculating an estimated collective loss. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being assessed. Future cash flows on a group of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group and the Bank to reduce any differences between loss estimates and actual loss experience.

## I Impairment of financial assets (Continued)

### (a) Assets carried at amortised cost (Continued)

When a financial asset is uncollectible, it is written off against the related allowance for impairment losses. Such financial assets are written off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

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

### (b) Assets classified as available-for-sale

The Group and the Bank assess at each date of the statement of financial position whether there is objective evidence that the financial asset is impaired.

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

In the case of equity instruments classified as financial investments available-for-sale, in addition to the criteria for "assets carried at amortised cost" above, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If there is objective evidence that an impairment loss on financial investments available-for-sale has incurred, the cumulative loss that has been recognised directly in equity is removed from other comprehensive income and recognised in the statement of income. The amount of cumulative loss that is reclassified to statement of income is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in statement of income. Impairment losses recognised in statement of income on equity instruments are not reversed through the statement of income.

## J Sale and repurchase agreements

Securities purchased under resale agreements ("reverse repurchase agreements") are securities which the Group and the Bank had purchased with a commitment to re-sell at future dates. The commitment to re-sell the securities is reflected as an asset on the statements of financial position.

Conversely, obligations on securities sold under repurchase agreements ("repurchase agreements") are securities which the Group and the Bank had sold from their portfolio, with a commitment to repurchase at future dates. Such financing transactions and the obligation to repurchase the securities are reflected as a liability on the statements of financial position.

The difference between sale and repurchase price as well as purchase and resale price is treated as interest and accrued over the life of the resale/repurchase agreement using the effective yield method.

## K Property, plant and equipment

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

Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the statement of income during the financial year in which they are incurred.

Freehold land and capital work-in-progress is not depreciated. Other property, plant and equipment are depreciated on a straight-line basis to write off the cost of the assets to their residual values over their estimated useful lives, summarised as follows:

| | |
|---|---|
| Leasehold land | 50 years or over the remaining period of the lease, whichever is shorter |
| Building on leasehold land | 50 years or over the remaining period of the lease, whichever is shorter |
| Office equipment, furniture and fittings: | |
| - office equipment | 3-10 years |
| - furniture and fixtures | 5-10 years |
| Renovations to rented premises | 5 -10 years or over the period of the tenancy, whichever is shorter |
| Computer equipment and software | 3 - 15 years |
| Motor vehicles | 5 years |

## K Property, plant and equipment (Continued)

Depreciation on capital work-in-progress commences when the assets are ready for their intended use. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Property, plant and equipment are reviewed for impairment at the end of each reporting period and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are included in non-interest income.

## L Investment properties

Investment properties, comprising principally land and office buildings, are held for long term rental yields or for capital appreciation or both, and are not occupied by the Group and the Bank.

Investment properties of the Bank are stated at cost less accumulated depreciation and accumulated impairment loss. Costs of the investment property are net of the amount of GST, except where the amount of GST incurred is not recoverable from the government. When the amount of GST incurred is not recoverable from the government, the GST is recognised as part of the cost of acquisition of the investment property. The leasehold land is not depreciated. The buildings on leasehold land are depreciated on a straight line bases over their estimated useful lives of 50 years.

On disposal of an investment property, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal, it shall be derecognised (eliminated from the statements of financial position). The difference between the net disposal proceeds and the carrying amount is recognised in statement of income in the period of the retirement or disposal.

## M Goodwill

Goodwill arising from business combination represents the excess of the cost of acquisition and the fair value of the Group's share of the net identifiable assets of the acquired subsidiary. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is not amortised but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that might be impaired, and carried at cost less accumulated impairment losses.

## M Goodwill (Continued)

For the purpose of impairment testing goodwill acquired in a business combination is allocated to cash-generating units ("CGU") or groups of CGUs that is expected to benefit from the business combination in which goodwill arose, identified according to operating segment.

The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Goodwill on acquisitions of associates are included in investments in associates. Such goodwill is tested for impairment as part of the overall balance.

## N Assets purchased under lease

### (a) Finance lease

Assets purchased under lease which in substance transfers the risks and reward of ownership of the assets to the Group or the Bank are capitalised under property, plant and equipment. The assets and the corresponding lease obligations are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased assets at the beginning of the lease term. Such leased assets are subject to depreciation on the same basis as other property, plant and equipment.

Leases which do not meet such criteria are classified as operating lease and the related rentals are charged to statement of income.

### (b) Operating lease

*Leasehold land*

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

*Others*

Leases of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease

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

## O Derivative financial instruments

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

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

## P Currency translations

### (a) Functional and presentation currency

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated Financial Statements are presented in Ringgit Malaysia ("RM"), which is the Group's and the Bank's functional and presentation currency.

### (b) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

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

Translation differences on non-monetary financial assets and liabilities, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as financial investments available-for-sale are included in the revaluation reserve-financial investments available-for-sale in equity.

## Q Income and deferred taxes

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

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group operates and includes all taxes based upon the taxable profits.

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

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

Deferred income tax is recognised on temporary differences arising on investments in subsidiaries and associates except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax related to fair value re-measurement of financial investments available-for-sale, which is charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statement of income together with the deferred gain or loss.

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

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

# Summary of Significant Accounting Policies for the financial year ended 31 December 2017 (Continued)

## R Share capital

### (a) Classification

Ordinary shares and non-redeemable preference shares with discretionary dividends are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument. Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

### (b) Share issue costs

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

### (c) Dividends

Dividends on ordinary shares and redeemable preference shares with discretionary dividends are recognised as a liability when the shareholders' right to receive the dividend is established.

## S Employee benefits

### (a) Short term employee benefits

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

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

### (b) Post employment benefits

The Group and the Bank have a defined contribution plan for its employees.

A defined contribution plan is a pension plan under which the Group and the Bank pay fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

The Group's and the Bank's contributions to defined contribution plans are charged to the statement of income. Once the contributions have been paid, the Group and the Bank have no further payment obligations. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

## S Employee benefits (Continued)

### (c) Bonus plans

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Bank's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

### (d) Share-based compensation benefits

*Employee Ownership Plan ("EOP")*

CIMB Group operates an equity-settled, share-based compensation plan, where ordinary shares of CIMB Group are purchased from the market at market value and awarded to the eligible executive employees.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the award is fully released to relevant employees ('the final release date'). The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense in statement of income over the period of release, based on the best available estimate of the number of shares expected to be released at each of the relevant release date. On the final release date, the estimate will be revised to equal the actual number of shares that are ultimately released to the employees.

## T Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating units"). Non financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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

## U Provisions

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

(i) the Group and the Bank have a present legal or constructive obligation as a result of past events;
(ii) it is probable that an outflow of resources to settle the obligation will be required; and
(iii) a reliable estimate of the amount of obligation can be made.

Provisions are not recognised for future operating losses.

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

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

## V Financial guarantee contracts

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

Financial guarantees are initially recognised in the Financial Statements at fair value on the date the guarantee was given. The guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the amount determined in accordance with MFRS 137 – "Provision, Contingent Liabilities and Contingent Assets", and the amount initially recognised less, when appropriate, accumulative amortisation recognised in accordance with MFRS 118 – "Revenue". These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee.

Any increase in the liability relating to guarantees is reported in the statement of income within overheads.

# Summary of Significant Accounting Policies for the financial year ended 31 December 2017 (Continued)

## W Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, bank balances and deposit placements maturing within one month.

## X Segment reporting

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

Intra-segment revenue and costs are eliminated at head office. Income and expenses directly associated with each segment are included in determining business segment performance.

## Y Contingent assets and contingent liabilities

Contingent assets arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Group and the Bank. As this may result in the recognition of income that may never be realised, contingent assets are not recognised in the Group's and the Bank's Financial Statements.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured.

Contingent liabilities are not recognised in the Financial Statements but are disclosed unless the probability of settlement is remote.

## Z Trust activities

The Group acts as trustees and in other fiduciary capacities that result in holding or placing of assets on behalf of individuals, trust and other institutions. These assets and income arising thereon are excluded from the financial statements, as they are not assets of the Group.

# Notes to the Financial Statements for the financial year ended 31 December 2017

## 1 General information

The principal activities of the Bank are investment banking and the provision of related financial services. The principal activities of its subsidiaries, as set out in Note 11 to the Financial Statements, consist of futures broking and the provision of nominees services. There was no significant change in the nature of these activities during the financial year.

The immediate holding company is CIMB Group Sdn. Bhd. ("CIMBG") and the Directors regard CIMB Group Holdings Berhad ("CIMB Group"), a company listed on the Main Board of the Bursa Malaysia Securities Berhad, as the Bank's ultimate holding company. Both companies are incorporated in Malaysia.

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

The address of the registered office and the principal place of business of the Bank is Level 13, Menara CIMB, Jalan Stesen Sentral 2, Kuala Lumpur Sentral, 50470 Kuala Lumpur.

## 2 Cash and short term funds

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **31 December 2017 RM'000** | 31 December 2016 RM'000 | **31 December 2017 RM'000** | 31 December 2016 RM'000 |
| Cash and balances with banks and other financial institutions | **76,410** | 104,023 | **75,817** | 103,491 |
| Money at call and deposit placements maturing within one month | **1,149,977** | 1,315,015 | **1,101,920** | 1,270,961 |
| | **1,226,387** | 1,419,038 | **1,177,737** | 1,374,452 |

Included in cash and short term funds of the Group and the Bank are accounts maintained in trust for remisiers amounting to RM25,861,000 (31 December 2016: RM27,832,000) for the Group and the Bank respectively.

## 3 Deposits and placements with banks and other financial institutions

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 31 December 2017 RM'000 | 31 December 2016 RM'000 | 31 December 2017 RM'000 | 31 December 2016 RM'000 |
| Licensed banks | 29 | 2,033 | - | 2,004 |

## 4 Financial assets held for trading

| | The Group and the Bank | |
|---|---|---|
| | 31 December 2017 RM'000 | 31 December 2016 RM'000 |
| **Quoted securities:** | | |
| **In Malaysia** | | |
| Shares | 686 | 217 |
| **Outside Malaysia** | | |
| Shares | 71 | 50 |
| **Unquoted securities:** | | |
| **In Malaysia** | | |
| Bonds | 1,767 | - |
| | 2,524 | 267 |

## 5 Derivative financial instruments

The following tables summarise the contractual underlying principal amounts of trading derivatives. The principal or contractual amounts of these instruments reflect the volume of transactions outstanding at the date of statement of financial position, and do not represent amounts at risk.

Trading derivative financial instruments are revalued on a gross position basis and the unrealised gains or losses are reflected in "Derivative Financial Instruments" Assets and Liabilities respectively.

| | | Fair values | |
|---|---|---|---|
| **The Group and the Bank** | **Principal amount** | **Assets** | **Liabilities** |
| **At 31 December 2017** | **RM'000** | **RM'000** | **RM'000** |
| **Trading derivatives** | | | |
| Interest rate derivatives | | | |
| Interest rate swaps | 138,550 | 4,519 | - |
| Equity derivatives | | | |
| Equity options | 281,108 | - | - |
| Credit related derivatives | | | |
| Total return swap | 277,100 | 4,552 | (5,169) |
| **Total derivative assets/(liabilities)** | 696,758 | 9,071 | (5,169) |
| **At 31 December 2016** | | | |
| **Trading derivatives** | | | |
| Foreign exchange derivatives | | | |
| Currency forward | 17,944 | - | (90) |
| Interest rate derivatives | | | |
| Interest rate swaps | 141,050 | 6,936 | - |
| Equity derivatives | | | |
| Equity options | 316,883 | - | - |
| Credit related derivatives | | | |
| Total return swap | 282,100 | 5,983 | (6,794) |
| **Total derivative assets/(liabilities)** | 757,977 | 12,919 | (6,884) |

## 6 Financial investments available-for-sale

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 31 December 2017 RM'000 | 31 December 2016 RM'000 | 31 December 2017 RM'000 | 31 December 2016 RM'000 |
| **Unquoted securities:** | | | | |
| **Outside Malaysia** | | | | |
| Shares | 7,152 | 7,768 | 6,331 | 7,076 |
| **Allowance for impairment losses:** | | | | |
| Unquoted shares outside Malaysia | (6,331) | (6,465) | (6,331) | (6,465) |
| | 821 | 1,303 | - | 611 |

The table below shows the movements in allowance for impairment losses during the financial year for the Group and the Bank:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| At 1 January | 6,465 | 6,331 | 6,465 | 6,331 |
| Allowance made during the financial year | - | 134 | - | 134 |
| Disposal of securities | (134) | - | (134) | - |
| At 31 December | 6,331 | 6,465 | 6,331 | 6,465 |

## 7 Loans, advances and financing

| | The Group and the Bank | |
|---|---|---|
| | 31 December 2017 RM'000 | 31 December 2016 RM'000 |
| **(i) By type** | | |
| Staff loans * | 169,731 | 183,565 |
| Other loans | 1,905 | 2,075 |
| Gross loans, advances and financing | 171,636 | 185,640 |
| Less: allowance for impairment losses | | |
| - Individual impairment allowance | (1,905) | (2,075) |
| - Portfolio impairment allowance | (85) | (99) |
| Total net loans, advances and financing | 169,646 | 183.466 |

All loans, advances and financing are measured at amortised cost using the effective interest method.

* There were no loans to directors included in staff loans of the Group and the Bank as at 31 December 2017 and 31 December 2016.

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 7 Loans, advances and financing (Continued)

| | The Group and the Bank | |
|---|---|---|
| | 31 December 2017 RM'000 | 31 December 2016 RM'000 |
| **(ii) By type of customers** | | |
| Individuals | 171,636 | 185,640 |
| **(iii) By interest rate sensitivity** | | |
| Fixed rate | | |
| - Other fixed rate loan | 16,838 | 22,009 |
| Variable rate | | |
| - Other variable rates | 154,798 | 163,631 |
| | 171,636 | 185,640 |
| **(iv) By economic purpose:** | | |
| Personal use | 2,162 | 2,250 |
| Purchase of residential property (housing) | 166,404 | 177,685 |
| Purchase of transport vehicles | 3,070 | 5,705 |
| | 171,636 | 185,640 |
| **(v) By geographical distribution** | | |
| Malaysia | 171,636 | 185,640 |
| **(vi) By residual contractual maturity** | | |
| Within one year | 270 | 376 |
| One year to less than three years | 1,914 | 2,357 |
| Three years to less than five years | 2,058 | 3,561 |
| Five years and above | 167,394 | 179,346 |
| | 171,636 | 185,640 |
| **(vii) Impaired loans, advances and financing by economic purpose** | | |
| Purchase of residential property (housing) | 1,401 | 1,741 |
| Purchase of transport vehicles | 504 | 334 |
| Gross impaired loans, advances and financing | 1,905 | 2,075 |
| **(viii) Impaired loans, advances and financing by geographical distribution** | | |
| Malaysia | 1,905 | 2,075 |

## 7 Loans, advances and financing (Continued)

| | The Group and the Bank | |
|---|---|---|
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| **(ix) Movements in the impaired loans, advances and financing are as follows:** | | |
| At 1 January | 2,075 | 1,228 |
| Impaired during the financial year | 2,034 | 1,132 |
| Amounts written back in respect of recoveries | (2,204) | (285) |
| At 31 December | 1,905 | 2,075 |
| Ratio of gross impaired loans to total loans, advances and financing | 1.1% | 1.1% |
| **(x) Movements in the allowance for impaired loans are as follows:** | | |
| Individual impairment allowance | | |
| At 1 January | 2,075 | 1,228 |
| Allowance made during the financial year | 2,034 | 1,132 |
| Amounts written back during the financial year | (2,204) | (285) |
| At 31 December | 1,905 | 2,075 |
| Portfolio impairment allowance | | |
| At 1 January | 99 | 159 |
| Net amount written back | (14) | (60) |
| At 31 December | 85 | 99 |
| Portfolio impairment allowance (inclusive of regulatory reserve) as % of gross loans, advances and financing less individual impairment allowance | 1.2% | 1.2% |

## 8 Other assets

| | | The Group | | The Bank | |
|---|---|---|---|---|---|
| | | 31 December 2017 | 31 December 2016 | 31 December 2017 | 31 December 2016 |
| | Note | RM'000 | RM'000 | RM'000 | RM'000 |
| Due from brokers and clients, net of allowance for impairment loss | (a) | 1,194,813 | 785,557 | 1,193,066 | 783,772 |
| Collateral pledged for derivative transactions | | 139,353 | 141,853 | 139,353 | 141,853 |
| Other debtors, deposits and prepayments, net of allowance for doubtful debts | (b) | 696,425 | 64,628 | 695,491 | 63,783 |
| | | 2,030,591 | 992,038 | 2,027,910 | 989,408 |

(a) The movement of allowances for impairment losses on amount due from brokers and clients is as follows:-

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| At 1 January | 6,658 | 7,570 | 6,658 | 7,570 |
| Net amount written back | (327) | (912) | (327) | (912) |
| At 31 December | 6,331 | 6,658 | 6,331 | 6,658 |

Allowance for impairment losses on amount due from brokers and clients are all of portfolio impairment allowances.

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 8 Other assets (Continued)

(b) The movement of allowances for doubtful debts on other debtors is as follows:

| | The Group and the Bank | | |
|---|---|---|---|
| | Individual impairment allowance | Portfolio impairment allowance | Total |
| | RM'000 | RM'000 | RM'000 |
| At 1 January 2017 | 11,343 | (202) | 11,141 |
| Net allowance made during the financial year | 487 | 249 | 736 |
| At 31 December 2017 | 11,830 | 47 | 11,877 |

| | The Group and the Bank | | |
|---|---|---|---|
| | Individual impairment allowance | Portfolio impairment allowance | Total |
| | RM'000 | RM'000 | RM'000 |
| At 1 January 2016 | 17,339 | 719 | 18,058 |
| Net amount written back during the financial year | (5,996) | (921) | (6,917) |
| At 31 December 2016 | 11,343 | (202) | 11,141 |

## 9 Deferred taxation

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

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 31 December 2017 | 31 December 2016 | 31 December 2017 | 31 December 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Deferred tax asset (net) | 21,344 | 15,891 | 21,217 | 15,771 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 9 Deferred taxation (Continued)

The gross movement on the deferred taxation account are as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **31 December 2017 RM'000** | 31 December 2016 RM'000 | **31 December 2017 RM'000** | 31 December 2016 RM'000 |
| **Deferred tax assets (before offsetting)** | | | | |
| Provision for expenses | **18,858** | 14,504 | **18,842** | 14,489 |
| Post employment benefit obligations | **984** | 761 | **984** | 761 |
| Other temporary differences | **1,852** | 1,748 | **1,729** | 1,631 |
| | **21,694** | 17,013 | **21,555** | 16,881 |
| Offsetting | **(350)** | (1,122) | **(338)** | (1,110) |
| **Deferred tax assets (after offsetting)** | **21,344** | 15,891 | **21,217** | 15,771 |
| **Deferred tax liabilities (before offsetting)** | | | | |
| Property, plant and equipment | **(350)** | (1,122) | **(338)** | (1,110) |
| Offsetting | **350** | 1,122 | **338** | 1,110 |
| **Deferred tax liabilities (after offsetting)** | **-** | - | **-** | - |

# CIMB Investment Bank Berhad

(Incorporated in Malaysia)

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 9 Deferred taxation (Continued)

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

| The Group | Note | Portfolio impairment allowance RM'000 | Accelerated tax depreciation RM'000 | Other temporary differences RM'000 | Provision for expenses RM'000 | Post employment benefit obligations RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| Deferred tax assets/(liabilities) | | | | | | | |
| At 1 January 2017 | | - | (1,122) | 1,748 | 14,504 | 761 | 15,891 |
| Credited/(charged) to statements of income | 35 | - | 810 | 101 | 4,199 | 223 | 5,333 |
| (Under)/over provision in prior year | | - | (38) | 3 | 155 | - | 120 |
| At 31 December 2017 | | - | (350) | 1,852 | 18,858 | 984 | 21,344 |

| The Group | Note | Portfolio impairment allowance RM'000 | Accelerated tax depreciation RM'000 | Other temporary differences RM'000 | Provision for expenses RM'000 | Post employment benefit obligations RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| Deferred tax assets/(liabilities) | | | | | | | |
| At 1 January 2016 | | 38 | (1,348) | 1,240 | 12,448 | 2,900 | 15,278 |
| Credited/(charged) to statements of income | 35 | - | 241 | 518 | 2,083 | (2,139) | 703 |
| (Under)/over provision in prior year | | (38) | (15) | (4) | 11 | - | (46) |
| Transferred to related company | | - | - | (6) | (38) | - | (44) |
| At 31 December 2016 | | - | (1,122) | 1,748 | 14,504 | 761 | 15,891 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 9 Deferred taxation (Continued)

The movements in deferred tax assets and liabilities during the financial year comprise the following: (Continued)

| The Bank | Note | Portfolio impairment allowance RM'000 | Accelerated tax depreciation RM'000 | Other temporary differences RM'000 | Provision for expenses RM'000 | Post employment benefit obligations RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **Deferred tax assets/(liabilities)** | | | | | | | |
| At 1 January 2017 | | - | (1,110) | 1,631 | 14,489 | 761 | 15,771 |
| Credited/(charged) to statements of income | 35 | - | 810 | 101 | 4,199 | 223 | 5,333 |
| (Under)/over provision in prior year | | - | (38) | (3) | 154 | - | 113 |
| At 31 December 2017 | | - | (338) | 1,729 | 18,842 | 984 | 21,217 |

| The Bank | Note | Portfolio impairment allowance RM'000 | Accelerated tax depreciation RM'000 | Other temporary differences RM'000 | Provision for expenses RM'000 | Post employment benefit obligations RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **Deferred tax assets/(liabilities)** | | | | | | | |
| At 1 January 2016 | | 38 | (1,336) | 1,120 | 12,433 | 2,900 | 15,155 |
| Credited/(charged) to statements of income | 35 | - | 241 | 518 | 2,083 | (2,139) | 703 |
| (Under)/over provision in prior year | | (38) | (15) | (1) | 11 | - | (43) |
| Transferred to related company | | - | - | (6) | (38) | - | (44) |
| At 31 December 2016 | | - | (1,110) | 1,631 | 14,489 | 761 | 15,771 |

## 10 Statutory deposits with Bank Negara Malaysia

The non-interest 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 amounts of which are determined at set percentages of total eligible liabilities.

## 11 Investment in subsidiaries

| | The Bank | |
|---|---|---|
| | **31 December 2017** | 31 December 2016 |
| | **RM'000** | RM'000 |
| Unquoted shares, at cost | **9,050** | 9,050 |

The subsidiaries of the Bank, all of which are incorporated in Malaysia, are as follows:

| | | Percentage of equity held directly by the Bank | |
|---|---|---|---|
| **Name of subsidiaries** | **Principal activities** | **31 December 2017** | 31 December 2016 |
| | | % | % |
| CIMB Holdings Sdn. Bhd. | Investment holding | **100** | 100 |
| CIMSEC Nominees (Tempatan) Sdn. Bhd. | Nominee services | **100** | 100 |
| CIMSEC Nominees (Asing) Sdn. Bhd. | Nominee services | **100** | 100 |
| CIMB EOP Management Sdn. Bhd. | Nominee services | **100** | 100 |
| CIMB Futures Sdn. Bhd. | Futures broking | **100** | 100 |
| CIMB Nominees (Tempatan) Sdn. Bhd. | Nominee services | **100** | 100 |
| CIMB Nominees (Asing) Sdn. Bhd. | Nominee services | **100** | 100 |

## 12 Investment in associates

| | The Group | |
|---|---|---|
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| At 1 January | 7,202 | 6,734 |
| Share of profit for the financial year | 551 | 468 |
| At 31 December | 7,753 | 7,202 |

| | The Bank | |
|---|---|---|
| | 31 December 2017 | 31 December 2016 |
| | RM'000 | RM'000 |
| Unquoted shares | - | - |

(a) Information about associates :

The principal place of business and country of incorporation of the associates is in Malaysia. All associates are measured using the equity method. There are no available quoted market prices of the investment in associates.

The associates held through CIMB Holdings Sdn. Bhd. are:

| | | Percentage of equity held through the Bank's subsidiary company | |
|---|---|---|---|
| Name of associates | Principal activities | 31 December 2017 | 31 December 2016 |
| | | % | % |
| CIMB Islamic Trustee Berhad | Trustee services | 20 | 20 |
| CIMB Commerce Trustee Berhad | Trustee services | 20 | 20 |

## 12 Investment in associates (Continued)

(b) The summarised financial information below represents amounts shown in the associate's Financial Statements prepared in accordance with MFRS (adjusted by the Group for equity accounting purposes).

| | CIMB Islamic Trustee Berhad | |
|---|---|---|
| | As at 31 December | |
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| Non-current assets | 57 | 192 |
| Current assets | 8,485 | 7,586 |
| Current liabilities | (1,482) | (1,588) |
| Net assets | 7,060 | 6,190 |

| | Year ended 31 December | |
|---|---|---|
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| Income | 4,048 | 3,866 |
| Expenses | (2,678) | (2,486) |
| Profit before taxation | 1,370 | 1,380 |
| Taxation | (500) | (589) |
| Profit for the financial year | 870 | 791 |

| | CIMB Commerce Trustee Berhad | |
|---|---|---|
| | As at 31 December | |
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| Non-current assets | 205 | 515 |
| Current assets | 21,064 | 18,711 |
| Current liabilities | (3,577) | (3,419) |
| Net assets | 17,692 | 15,807 |

| | Year ended 31 December | |
|---|---|---|
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| Income | 9,376 | 8,539 |
| Expenses | (6,771) | (5,901) |
| Profit before taxation | 2,605 | 2,638 |
| Taxation | (720) | (1,086) |
| Profit for the financial year | 1,885 | 1,552 |

## 12 Investment in associates (Continued)

(c) Reconciliation of the summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements :

| | CIMB Islamic Trustee Berhad | | CIMB Commerce Trustee Berhad | | Total | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Net assets | | | | | | |
| As at 1 January | 6,190 | 5,399 | 15,807 | 14,255 | 21,997 | 19,654 |
| Profit for the financial year | 870 | 791 | 1,885 | 1,552 | 2,755 | 2,343 |
| As at 31 December | 7,060 | 6,190 | 17,692 | 15,807 | 24,752 | 21,997 |
| Interest in associates (%) | 20 | 20 | 20 | 20 | 20 | 20 |
| Interest in associates (RM '000) | 1,412 | 1,238 | 3,538 | 3,161 | 4,950 | 4,399 |
| Goodwill (RM '000) | 2,803 | 2,803 | - | - | 2,803 | 2,803 |
| Carrying value (RM '000) | 4,215 | 4,041 | 3,538 | 3,161 | 7,753 | 7,202 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 13 Property, plant and equipment

| The Group | Office equipment and furniture and fittings RM'000 | Computer equipment and software* RM'000 | Motor vehicles RM'000 | Renovation RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2017 | 24,730 | 70,773 | 15,512 | 52,053 | 163,068 |
| Additions | 141 | 3,283 | 458 | 561 | 4,443 |
| Disposals/written off | (4,082) | (14,115) | (5,464) | (2,719) | (26,380) |
| At 31 December 2017 | 20,789 | 59,941 | 10,506 | 49,895 | 141,131 |
| **Accumulated depreciation** | | | | | |
| At 1 January 2017 | 16,025 | 51,492 | 8,589 | 21,869 | 97,975 |
| Charge for the financial year | 2,107 | 9,731 | 4,018 | 4,362 | 20,218 |
| Disposals/written off | (3,958) | (14,601) | (5,194) | (1,668) | (25,421) |
| At 31 December 2017 | 14,174 | 46,622 | 7,413 | 24,563 | 92,772 |
| **Net book value as at 31 December 2017** | 6,615 | 13,319 | 3,093 | 25,332 | 48,359 |
| **Cost** | | | | | |
| At 1 January 2016 | 11,772 | 66,262 | 19,531 | 62,428 | 159,993 |
| Additions | 294 | 1,179 | 300 | 3,876 | 5,649 |
| Disposals/written off | (493) | (1,060) | (4,319) | (810) | (6,682) |
| Reclass to Investment property | 13,157 | 4,392 | - | (13,441) | 4,108 |
| At 31 December 2016 | 24,730 | 70,773 | 15,512 | 52,053 | 163,068 |
| **Accumulated depreciation** | | | | | |
| At 1 January 2016 | 11,125 | 40,369 | 10,047 | 19,021 | 80,562 |
| Charge for the financial year | 5,317 | 12,010 | 2,095 | 3,658 | 23,080 |
| Disposals/written off | (417) | (887) | (3,553) | (810) | (5,667) |
| At 31 December 2016 | 16,025 | 51,492 | 8,589 | 21,869 | 97,975 |
| Net book value as at 31 December 2016 | 8,705 | 19,281 | 6,923 | 30,184 | 65,093 |

*Computer software is mostly integral to the systems of the Bank and the Group and accordingly has not been reclassified as intangibles under MFRS 138: "Intangible Assets".

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 13 Property, plant and equipment (Continued)

| The Bank | Office equipment and furniture and fittings RM'000 | Computer equipment and software* RM'000 | Motor vehicles RM'000 | Renovation RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2017 | 24,490 | 70,426 | 15,204 | 51,806 | 161,926 |
| Additions | 82 | 3,283 | 458 | 378 | 4,201 |
| Disposals/written off | (4,083) | (14,115) | (5,311) | (2,719) | (26,228) |
| At 31 December 2017 | 20,489 | 59,594 | 10,351 | 49,465 | 139,899 |
| **Accumulated depreciation** | | | | | |
| At 1 January 2017 | 15,794 | 51,222 | 7,185 | 21,698 | 95,899 |
| Charge for the financial year | 2,077 | 9,688 | 3,912 | 4,361 | 20,038 |
| Disposals/written off | (3,958) | (14,601) | (5,040) | (1,668) | (25,267) |
| At 31 December 2017 | 13,913 | 46,309 | 6,057 | 24,391 | 90,670 |
| **Net book value as at 31 December 2017** | 6,576 | 13,285 | 4,294 | 25,074 | 49,229 |
| **Cost** | | | | | |
| At 1 January 2016 | 11,536 | 65,990 | 19,224 | 62,181 | 158,931 |
| Additions | 290 | 1,104 | 299 | 3,876 | 5,569 |
| Disposals/written off | (493) | (1,060) | (4,319) | (810) | (6,682) |
| Reclass to Investment property | 13,157 | 4,392 | - | (13,441) | 4,108 |
| At 31 December 2016 | 24,490 | 70,426 | 15,204 | 51,806 | 161,926 |
| **Accumulated depreciation** | | | | | |
| At 1 January 2016 | 10,897 | 40,143 | 8,680 | 18,907 | 78,627 |
| Charge for the financial year | 5,314 | 11,966 | 2,058 | 3,601 | 22,939 |
| Disposals/written off | (417) | (887) | (3,553) | (810) | (5,667) |
| Reclass to Investment property | - | - | - | - | - |
| At 31 December 2016 | 15,794 | 51,222 | 7,185 | 21,698 | 95,899 |
| Net book value as at 31 December 2016 | 8,696 | 19,204 | 8,019 | 30,108 | 66.027 |

*Computer software is mostly integral to the systems of the Bank and the Group and accordingly has not been reclassified as intangibles under MFRS 138: "Intangible Assets".

## 14 Investment property

| | Leasehold land - 50 years or more RM'000 | Building on leasehold land- 50 years or more RM'000 | Total RM'000 |
|---|---|---|---|
| **The Group and the Bank** | | | |
| **Cost** | | | |
| At 1 January/31 December 2017 | 18,609 | 7,135 | 25,744 |
| | | | |
| **Accumulated depreciation** | | | |
| At 1 January | 5,334 | 2,046 | 7,380 |
| Charge for the financial year | 372 | 143 | 515 |
| At 31 December 2017 | 5,706 | 2,189 | 7,895 |
| | | | |
| **Net book value as at 31 December 2017** | 12,903 | 4,946 | 17,849 |
| | | | |
| **The Group and the Bank** | | | |
| **Cost** | | | |
| At 1 January/31 December 2016 | 18,609 | 7,135 | 25,744 |
| | | | |
| **Accumulated depreciation** | | | |
| At 1 January 2016 | 4,962 | 1,903 | 6,865 |
| Charge for the financial year | 372 | 143 | 515 |
| At 31 December 2016 | 5,334 | 2,046 | 7,380 |
| | | | |
| Net book value as at 31 December 2016 | 13,275 | 5,089 | 18,364 |

The investment property is valued annually at fair value based on market value determined by independent qualified valuer. The fair value is within Level 2 of the fair value hierarchy. The fair value has been derived using the sales comparison approach. Sales prices of comparable land and buildings in close proximity are adjusted for differences in key attributes such as property size.

## 14 Investment property (Continued)

The fair value as at 31 December 2017 is RM44,000,000 (31 December 2016: RM44,000,000).

The following amounts have been reflected in the statements of income :

| | The Group and the Bank | |
|---|---|---|
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| Rental income | 3,641 | 3,435 |
| Operating expenses arising from investment properties that generated the rental income | 1,379 | 1,634 |

## 15 Goodwill

| | The Group | |
|---|---|---|
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| At 1 January/31 December | 964 | 964 |

**Allocation of goodwill to cash-generating units**

Goodwill has been allocated to the following cash-generating-unit ("CGU"). This CGU does not carry any intangible asset with indefinite useful life.

| | The Group | |
|---|---|---|
| | 31 December 2017 | 31 December 2016 |
| CGU | RM'000 | RM'000 |
| Stock-broking | 964 | 964 |

**Impairment test for goodwill**

Value-in-use

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on the 2018 financial budgets approved by the Board of Directors, projected for five years based on the average historical Gross Domestic Product ("GDP") growth of the country covering a five year period, revised for current economic conditions. Cash flows beyond the five year period are extrapolated using an estimated terminal growth rate of 2.0% (31 December 2016: 2.0%). The cash flow projections are derived based on a number of key factors including the past performance and management's expectation of market developments. The discount rate used in determining the recoverable

## 15 Goodwill (Continued)

**Impairment test for goodwill (Continued)**

Value-in-use (Continued)

amount of the CGU is 8.19% (31 December 2016: 9.11%). The discount rate is pre-tax and reflects the specific risks relating to the CGU.

Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of any CGU to exceed its recoverable amount.

**Impairment charge**

There is no impairment charge for the financial year ended 31 December 2017 (31 December 2016: RM Nil).

## 16 Deposits from customers

| | The Group and the Bank | |
|---|---|---|
| | **31 December 2017 RM'000** | 31 December 2016 RM'000 |
| **(i) By type of deposits** | | |
| - Short term money market deposits | **38,637** | 76,073 |
| | **38,637** | 76,073 |
| **(ii) By type of customers** | | |
| - Local government and statutory bodies | **-** | 60,053 |
| - Business enterprises | **38,637** | 16,020 |
| | **38,637** | 76,073 |

## 17 Deposits and placements of banks and other financial institutions

| | The Group and the Bank | |
|---|---|---|
| | 31 December 2017 RM'000 | 31 December 2016 RM'000 |
| Licensed banks | 250,705 | 648,203 |
| Other financial institutions | 450,291 | 331,954 |
| | 700,996 | 980,157 |

**The maturity structure of deposits is as follows:**

| | | |
|---|---|---|
| Due within six months | 700,996 | 980,157 |

## 18 Other liabilities

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 31 December 2017 RM'000 | 31 December 2016 RM'000 | 31 December 2017 RM'000 | 31 December 2016 RM'000 |
| Due to brokers and clients | 1,136,062 | 746,011 | 1,136,062 | 746,011 |
| Structured deposits | 138,550 | 141,050 | 138,550 | 141,050 |
| Others | 803,778 | 136,388 | 801,674 | 134,077 |
| | 2,078,390 | 1,023,449 | 2,076,286 | 1,021,138 |

## 19 Provision for taxation

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 31 December 2017 RM'000 | 31 December 2016 RM'000 | 31 December 2017 RM'000 | 31 December 2016 RM'000 |
| Taxation | 6,298 | 100 | 6,242 | - |

## 20 Subordinated loan

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **31 December 2017** | 31 December 2016 | **31 December 2017** | 31 December 2016 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Subordinated loan | **10,000** | 10,000 | **-** | - |

On 6 May 2013 and 30 August 2016, CIMB Futures Sdn. Bhd. had issued RM5,000,000 each in principal amounts of unsecured subordinated loan to the Bank's immediate holding company, CIMB Group Sdn. Bhd. The debt bears interest at the rate of 5% per annum. The subordinated loan will mature on 14 November 2019 and 16 May 2020 respectively.

## 21 Ordinary share capital

| | The Group and the Bank | |
|---|---|---|
| | **31 December 2017** | 31 December 2016 |
| | **RM'000** | RM'000 |
| **Ordinary shares** | | |
| At 1 January/31 December | **-** | 100,000 |
| **Issued and fully paid shares** | | |
| At 1 January/31 December | **100,000** | 100,000 |

### Transition to no-par value regime on 31 January 2017

The new Companies Act, 2016, which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

## 22 Redeemable preference shares

| | The Group and the Bank | |
|---|---|---|
| | **31 December 2017 RM'000** | 31 December 2016 RM'000 |
| **Issued and fully paid redeemable preference shares** | | |
| At 1 January/31 December | 10 | 10 |

On 30 January 2008, the Bank had allotted and issued 1,000,000 Redeemable Preference Shares ("RPS") of RM0.01 each to its ultimate holding company, CIMB Group Holdings Berhad.

The main features of the RPS are as follows:

(i) The RPS do not carry any fixed dividends;

(ii) The RPS will rank superior to ordinary shares in the event of winding up or liquidation of the Bank;

(iii) The RPS rank pari passu in all aspects among themselves;

(iv) The RPS carry no right to vote at any general meeting of the ordinary shareholders of the Bank;

(v) The RPS are not convertible to ordinary shares of the Bank; and

(vi) The RPS may only be redeemed subject to BNM's approval at the option of the Bank (but not the holder) at anytime from the issue date.

## 23 Reserves

(i) The statutory reserves of the Bank are maintained in compliance with BNM guidelines (31 December 2016: RM155,805,000). Effective 3 May 2017, there is no requirement to maintain statutory reserves for banking entities in Malaysia, in accordance with BNM Guideline – Capital Funds.

(ii) Revaluation reserve – financial investments available-for-sale

Movement of the revaluation reserve of financial investments available-for-sale is shown in the statements of comprehensive income.

## 23 Reserves (Continued)

(iii) Share-based payment reserve

Share-based payment reserve represents the Group's and the Bank's commitments for Employee Ownership Plan under share-based compensation benefits.

(iv) Regulatory reserve is maintained as an additional credit risk absorbent to ensure robustness on the loan impairment assessment methodology with the adoption of MFRS 139 beginning 1 January 2010.

(v) Capital reserve, which is non-distributable, relates to the retained earnings of CIMB Discount House Berhad and CIMBS Sdn. Bhd. from 1 January 2006 to 30 June 2006 and 1 January 2006 to 31 December 2006 respectively, which were transferred to the Bank, arising from the business combinations under common control using the predecessor method of accounting in financial year 2006.

(vi) Merger reserve, which is non-distributable, relates to the difference between the cost of the merger between the Bank and the business of CIMB Discount House Berhad and CIMBS Sdn. Bhd. in 2006 and the value of the net assets and reserves transferred to the Bank and the Group.

## 24 Interest income

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Loans, advances and financing | 5,471 | 5,867 | 5,471 | 5,867 |
| Money at call and deposits placements with banks and other financial institutions | 31,858 | 35,291 | 25,672 | 28,414 |
| Financial assets held for trading | 59 | 90 | 59 | 90 |
| Others | 1,738 | 961 | 1,738 | 961 |
| | 39,126 | 42,209 | 32,940 | 35,332 |
| Net amortisation of premium less accretion of discounts | 5 | 8 | 5 | 8 |
| | 39,131 | 42,217 | 32,945 | 35,340 |

## 25 Interest expense

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Deposits and placements of banks and other financial institutions | 27,692 | 33,509 | 27,692 | 33,509 |
| Deposits from customers | 2,976 | 4,566 | 2,976 | 4,566 |
| Subordinated loan | 515 | 384 | - | - |
| | 31,183 | 38,459 | 30,668 | 38,075 |

## 26 (Writeback of)/allowance for impairment losses on loans, advances and financing

| | The Group and the Bank | |
|---|---|---|
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| Net allowance made during the financial year | | |
| - Individual impairment allowance | 2,034 | 1,132 |
| - Portfolio impairment allowance | (14) | (60) |
| Impaired loans and financing | | |
| - Recovered | (2,204) | (285) |
| | (184) | 787 |

## 27 Allowance for other impairment losses

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Financial investments available-for-sale | | | | |
| - made during the financial year | - | 134 | - | 134 |
| | - | 134 | - | 134 |

## 28 Fee and commission income

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Commission | 3,523 | 1,123 | 3,523 | 1,123 |
| Portfolio management fees | - | 3,507 | - | 3,507 |
| Advisory and arrangement fees | 76,316 | 66,221 | 76,316 | 66,221 |
| Underwriting commissions | 5,030 | 1,894 | 5,030 | 1,894 |
| Placement fees | 9,306 | 10,879 | 9,306 | 10,879 |
| Other fee income | 11,628 | 14,316 | 11,628 | 14,316 |
| | 105,803 | 97,940 | 105,803 | 97,940 |

## 29 Dividend income

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Financial assets held for trading | 2 | 2 | 2 | 2 |

## 30 Net trading (expense)/income

| | The Group and the Bank | |
|---|---|---|
| | 2017 | 2016. |
| | RM'000 | RM'000 |
| Net gain/(loss) arising from trading in financial assets held for trading | | |
| - realised gain | 7,236 | 3,174 |
| - unrealised gain/(loss) | 37 | (27) |
| Net (loss)/gain arising from trading in derivative financial instruments | | |
| - realised loss | (16,093) | (912) |
| - unrealised gain/(loss) | 90 | (46) |
| | (8,730) | 2,189 |

## 31 Loss arising from sale of financial investments available-for-sale

| | The Group and the Bank | |
|---|---|---|
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| Net loss from sale of financial investments available-for-sale | (37) | - |

## 32 Other non-interest income

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Foreign exchange gain | 23,889 | 7,569 | 23,857 | 7,583 |
| Gain on disposal of property, plant and equipment | 1,631 | 1,011 | 1,597 | 1,011 |
| Other non-operating income | 4,753 | 8,576 | 4,723 | 8,576 |
| | 30,273 | 17,156 | 30,177 | 17,170 |

## 33 Overheads

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **Personnel costs** | | | | |
| - Salaries, allowances and bonuses | 153,036 | 139,554 | 150,928 | 137,623 |
| - Pension cost (defined contribution plan) | 15,232 | 14,637 | 15,001 | 14,423 |
| - Training fees | 1,709 | 844 | 1,695 | 841 |
| - Overtime, meal and transport claims | 406 | 402 | 406 | 402 |
| - Others | 6,892 | 8,290 | 6,779 | 8,133 |
| | 177,275 | 163,727 | 174,809 | 161,422 |
| **Establishment costs** | | | | |
| - Depreciation of property, plant and equipment | 20,218 | 23,080 | 20,038 | 22,939 |
| - Depreciation of investment property | 515 | 515 | 515 | 515 |
| - Rental | 26,575 | 23,815 | 24,700 | 22,081 |
| - Others | 10,337 | 11,954 | 10,261 | 11,852 |
| | 57,645 | 59,364 | 55,514 | 57,387 |
| **Marketing expenses** | | | | |
| - Advertisement | 3,171 | 1,723 | 3,138 | 1,722 |
| - Entertainment expenses | 6,996 | 4,874 | 6,871 | 4,772 |
| - Others | 1,787 | 1,627 | 1,728 | 1,509 |
| | 11,954 | 8,224 | 11,737 | 8,003 |

## 33 Overheads (Continued)

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **Administration and general expenses** | | | | |
| - Legal and professional fees | 3,868 | 2,057 | 3,429 | 1,544 |
| - Communication | 862 | 1,012 | 852 | 1,002 |
| - Printing and stationery | 1,447 | 1,138 | 1,447 | 1,138 |
| - Administrative vehicle, travelling and insurance expenses | 3,904 | 3,910 | 3,852 | 3,868 |
| - Others | 14,351 | 9,415 | 13,764 | 8,785 |
| | 24,432 | 17,532 | 23,344 | 16,337 |
| **Shared services cost #** | | | | |
| -Personnel cost | (37,581) | (20,067) | (37,581) | (20,067) |
| -Establishment cost | (8,602) | (7,815) | (8,602) | (7,815) |
| -Marketing expenses | (872) | (172) | (872) | (172) |
| -Administration and general expenses | 3,571 | (412) | 3,571 | (412) |
| | (43,484) | (28,466) | (43,484) | (28,466) |
| Total overhead expenses | 227,822 | 220,381 | 221,920 | 214,683 |

# *The allocation basis of support unit cost and shared services cost was reviewed and refined on regular basis.*

The expenditure includes the following statutory disclosures :

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Directors' remuneration (Note 34) | 7,654 * | 5,913 * | 7,654 * | 5,913 |
| Rental of premises | 9,995 | 10,179 | 9,744 | 10,079 |
| Hire of equipment | 16,580 | 11,370 | 14,956 | 9,736 |
| Auditors' remuneration | | | | |
| - Statutory audit (PwC Malaysia) | 323 | 288 | 278 | 252 |
| - Half year review | 52 | 49 | 52 | 49 |
| - Non-audit services | 58 | 37 | 33 | 32 |
| Property, plant and equipment written off | 12 | 1 | 12 | 1 |

* include fees and allowances paid and borne by CIMB Bank Berhad and CIMB Islamic Bank Berhad of RM115,000 and RM21,000 respectively (31 December 2016: RM61,323 and RM19,000 respectively).

Included in the overhead expenses are support costs amounting to RM43 million (31 December 2016: RM28 million), which were incurred on behalf of CIMB Bank Berhad ("CIMB Bank") and recovered therefrom during the financial year based on certain agreed methods such as Capital-at-Risk, head count, actual costs, revenue and time incurred by the relevant personnel.

## 34 Directors' remuneration

The Directors of the Bank in office during the financial year were as follows:

Non-Executive Directors
Dato' Robert Cheim Dau Meng
Puan Nadzirah binti Abd Rashid
Encik Didi Syafruddin Yahya
Mr. Manu Bhaskaran

Executive Director
Dato' Kong Sooi Lin

The Directors of the Bank and their total remuneration during the financial year are analysed below:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Executive Director and Group CEO | | | | |
| - Salary and other remuneration | 6,311 | 5,111 | 6,311 | 5,111 |
| - Benefits-in-kind | 14 | 13 | 14 | 13 |
| Non-executive Directors | | | | |
| - Fees and other remuneration | 1,329 | 789 | 1,329 | 789 |
| | 7,654 | 5,913 | 7,654 | 5,913 |

In 2016, the functions and responsibilities of the Chief Executive Officer ("CEO") were carried out by Dato' Kong Sooi Lin.

The Directors' cash bonus for the financial year 2017 will be paid in tranches, spread over financial year 2018, while for financial year 2016, it was similarly paid in tranches, spread over financial year 2017. A similar condition is also imposed on the bonus for certain key personnel.

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 34 Directors' remuneration (Continued)

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fees | Salary and/or other remuneration | Benefits-in-kind | Total | Fees | Salary and/or other remuneration | Benefits-in-kind | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **Executive Directors** | | | | | | | | |
| Dato' Kong Sooi Lin | - | 6,311 | 14 | 6,325 | - | 5,111 | 13 | 5,124 |
| | - | 6,311 | 14 | 6,325 | - | 5,111 | 13 | 5,124 |
| **Non-Executive Directors** | | | | | | | | |
| Dato' Robert Cheim Dau Meng | 118 | 294 | 31 | 443 | 96 | 165 | 31 | 292 |
| Puan Nadzirah binti Abd Rashid | 121 | 322 | - | 443 * | 148 | 134 | - | 282 |
| Mr. Manu Bhaskaran | 109 | 115 | - | 224 | 75 | 64 | - | 139 |
| Encik Didi Syafruddin Yahya | 104 | 114 | - | 218 | - | - | - | - |
| Dato' David Chua Ming Huat | 1 | - | - | 1 | 68 | 8 | - | 76 |
| | 453 | 845 | 31 | 1,329 | 387 | 371 | 31 | 789 |
| | 453 | 7,156 | 45 | 7,654 | 387 | 5,482 | 44 | 5,913 |

* include fees and allowances paid and borne by CIMB Bank Berhad and CIMB Islamic Bank Berhad of RM115,000 and RM21,000 respectively (31 December 2016: RM61,323 and RM19,000 respectively).

Note: The Directors and officers of the Group and of the Bank are covered by Directors and Officers liability insurance for any liability incurred in the discharge of their duties, provided that they have not acted fraudulently or dishonestly or derived any personal profit or advantage. The insurance premium paid during the financial year for the Group and the Bank amounted to RM7,813.

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 35 Taxation

(i) Tax expense for the financial year

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Current tax | | | | |
| - Malaysian income tax | **44,825** | 31,469 | **43,464** | 30,095 |
| - Foreign tax | **1,038** | 345 | **1,038** | 345 |
| Deferred tax (Note 9) | **(5,333)** | (703) | **(5,333)** | (703) |
| Under/(over) provision in prior years | **24** | 239 | **(111)** | 231 |
| Tax refund from a subsidiary | **-** | (1,288) | **-** | (1,288) |
| | **40,554** | 30,062 | **39,058** | 28,680 |

(ii) Numerical reconciliation of income tax expense

The explanation on the relationship between tax expense and profit before taxation is as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Profit before taxation | **137,320** | 92,753 | **131,103** | 86,617 |
| Less : Share of results of associates | **(551)** | (468) | **-** | - |
| | **136,769** | 92,285 | **131,103** | 86,617 |
| Tax calculated at a tax rate of 24% | **32,825** | 22,148 | **31,465** | 20,788 |
| Income not subject to tax | **(297)** | - | **(297)** | - |
| Expenses not deductible for tax purposes | **6,964** | 8,618 | **6,963** | 8,604 |
| Under/(over) provision in prior years | **24** | 239 | **(111)** | 231 |
| Foreign witholding tax | **1,038** | 345 | **1,038** | 345 |
| Tax refund from a subsidiary | **-** | (1,288) | **-** | (1,288) |
| Tax expense | **40,554** | 30,062 | **39,058** | 28,680 |

## 36 Earnings per share

(a) Basic earnings per share

Basic earnings per share of the Group and the Bank are calculated by dividing the net profit attributable to owners of the Group and the Bank by the weighted average number of ordinary shares in issue during the financial year.

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Net profit for the financial year (RM' 000) | **96,766** | 62,691 | **92,045** | 57,937 |
| Weighted average number of ordinary shares in issue ('000) | **100,000** | 100,000 | **100,000** | 100,000 |
| Basic earnings per share (expressed in sen per share | **96.77** | 62.69 | **92.05** | 57.94 |

(b) Diluted earnings per share

The Group and the Bank has no dilution in its earnings per ordinary share in the current and previous financial year as there are no dilutive potential ordinary shares.

## 37 Dividends

The Directors have proposed an interim single tier dividend comprising of 92 sen per ordinary share, amounting to RM92,000,000 in respect of financial year ended 31 December 2017, which was approved by the Board of Directors in a resolution dated 26 January 2018.

A single tier interim dividend of 57 sen per ordinary share, amounting to RM57,000,000 in respect of the financial year ended 31 December 2016, which was approved by the Board of Directors on 25 January 2017, was paid on 4 April 2017.

## 38 Amounts due from/(to) related companies

The amounts due from/(to) related companies are unsecured, interest free and recallable on demand.

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 31 December 2017 RM'000 | 31 December 2016 RM'000 | 31 December 2017 RM'000 | 31 December 2016 RM'000 |
| Amounts due from: | | | | |
| - subsidiaries | - | - | 312 | 46 |
| - related companies | 4,201 | 17,834 | 4,200 | 17,831 |
| - ultimate holding company | 276 | 241 | 276 | 241 |
| | 4,477 | 18,075 | 4,788 | 18,118 |
| Amounts due to: | | | | |
| - related companies | (17,090) | (3,530) | (17,090) | (3,530) |

## 39 Significant related party transactions and balances

### (a) Related parties and relationship

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.

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

| Related parties | Relationship |
|---|---|
| CIMB Group Holdings Berhad ("CIMB Group") | Ultimate holding company |
| CIMB Group Sdn. Bhd. ("CIMBG") | Immediate holding company |
| CIMB Berhad ("CIMBB") | Subsidiary of ultimate holding company |
| Subsidiaries of CIMB Group and CIMBG as disclosed in their Financial Statements | Subsidiaries of ultimate holding and immediate holding companies |
| Subsidiaries of the Bank as disclosed in Note 11 | Subsidiaries |
| Touch 'N Go Sdn. Bhd. | Subsidiary of ultimate holding company |
| Key management personnel | Refer to below |

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group and the Bank either directly or indirectly. The key management personnel of the Group and the Bank include all the Directors of the Bank and employees of the Bank who make certain critical decisions in relation to the strategic direction of the Bank.

## 39 Significant related party transactions and balances (Continued)

### (b) Related party transactions

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, derivative transactions and other financial instruments. These transactions were carried out on normal commercial rates.

In addition to related party disclosures mentioned elsewhere in the Financial Statements, set out below are other significant related party transactions.

| The Group and the Bank | Other related companies RM'000 | Key management personnel RM'000 |
|---|---|---|
| **2017** | | |
| **Income:** | | |
| Fee income | 29,466 | - |
| Interest income | 1,763 | - |
| Brokerage income | 10,554 | 28 |
| Rental income | 3,641 | - |
| Income from asset management and securities services | 1,993 | - |
| Income from Islamic Banking operations | 10,455 | - |
| | 57,872 | 28 |
| **Expenditure:** | | |
| Interest expense | 13,774 | - |
| Brokerage expense | 1,315 | - |
| Rental expense | 6,091 | - |
| Establishment - others | 50 | - |
| Administration and general expenses - others | 4,948 | - |
| Shared service cost | (43,484) | - |
| Dividend paid | 57,000 | - |
| | 39,694 | - |
| **The Group and the Bank** | | |
| **2016** | | |
| **Income:** | | |
| Fee income | 36,213 | - |
| Interest income | 4,955 | - |
| Brokerage income | 1,690 | 3 |
| Rental income | 3,435 | - |
| Income from asset management and securities services | 1,636 | - |
| Income from Islamic Banking operations | 11,361 | - |
| | 59,290 | 3 |
| **Expenditure:** | | |
| Interest expense | 19,815 | - |
| Brokerage expense | 1,818 | - |
| Rental expense | 11,576 | - |
| Establishment - others | 124 | - |
| Administration and general expenses - others | 4,816 | - |
| Shared service cost | (28,466) | - |
| Dividend paid | 66,000 | - |
| | 75,683 | - |

## 39 Significant related party transactions and balances (Continued)

### (c) Key management personnel

Key management compensation

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Salaries and other employee benefits # | 106,500 | 83,990 | 42,710 | 27,227 |
| | Unit | Unit | Unit | Unit |
| Shares of ultimate holding company | 4,125,374 | 4,182,357 | 1,133,654 | 1,054,155 |

*# includes compensation paid by other related companies*

### (d) Related party balances

Other related party balances, other than those carried out in the ordinary course of banking transactions, represent advances to and from related parties as well as expenses paid on behalf for and by related parties. These balances are unsecured, carry no interest rate and are repayable on demand.

In addition to related party disclosures mentioned elsewhere in the Financial Statements, set out below are other significant related party balances.

| The Group and the Bank | Other related companies RM'000 | Key management personnel RM'000 |
|---|---|---|
| **31 December 2017** | | |
| **Amount due from:** | | |
| Cash and balances with banks and other financial institutions | 53,359 | - |
| Money at call and deposit placements maturing within one month | 10,803 | - |
| Financial assets held for trading | 1,767 | - |
| Other assets | 776,934 | - |
| Amounts due from brokers | 28,101 | - |
| | 870,964 | - |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 39 Significant related party transactions and balances (Continued)

### (d) Related party balances (Continued)

In addition to related party disclosures mentioned elsewhere in the Financial Statements, set out below are other significant related party balances. (Continued)

| **The Group and the Bank<br>31 December 2017** | **Other related companies<br>RM'000** | **Key management personnel<br>RM'000** |
|---|---|---|
| **Amount due to:** | | |
| Deposits and placements of banks and other financial institutions | 100,549 | - |
| Amounts due to brokers | 41,513 | - |
| Other liabilities | 631,474 | - |
| | 773,536 | - |
| **Principal** | | |
| **Equity related contracts:** | | |
| Equity options | 140,554 | - |
| | 140,554 | - |

| **The Group and the Bank<br>31 December 2016** | **Other related companies<br>RM'000** | **Key management personnel<br>RM'000** |
|---|---|---|
| **Amount due from:** | | |
| Cash and balances with banks and other financial institutions | 55,661 | - |
| Money at call and deposit placements maturing within one month | 45,760 | - |
| Deposits and placements with banks and other financial institutions | 2,004 | - |
| Other assets | 148,408 | - |
| Amounts due from brokers | 10,904 | - |
| | 262,737 | - |

## 39 Significant related party transactions and balances (Continued)

### (d) Related party balances (Continued)

In addition to related party disclosures mentioned elsewhere in the Financial Statements, set out below are other significant related party balances. (Continued)

| **The Group and the Bank**<br>**31 December 2016** | **Other related companies**<br>**RM'000** | **Key management personnel**<br>**RM'000** |
|---|---|---|
| **Amount due to:** | | |
| Deposits and placements of banks and other financial institutions | 648,203 | - |
| Derivative financial instruments | 90 | - |
| Amounts due to brokers | 9,403 | - |
| | 657,696 | - |
| **Principal** | | |
| **Foreign exchange derivatives** | | |
| Currency forward | 17,944 | - |
| **Equity related contracts:** | | |
| Equity options | 158,441 | - |
| | 176,385 | - |

## 39 Significant related party transactions and balances (Continued)

### (e) Credit transactions and exposures with connected parties

Credit exposures with connected parties as per Bank Negara Malaysia's revised "Guidelines on Credit Transactions and Exposures with Connected Parties" which became effective in 2008 are as follows:

| | The Group | |
|---|---|---|
| | 31 December 2017 RM'000 | 31 December 2016 RM'000 |
| Outstanding credit exposures with connected parties | 23,554 | 27,652 |
| Percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures | 1.1% | 1.3% |
| Percentage of outstanding credit exposures with connected parties which is impaired or in default | 0.0% | 0.0% |

### (f) Transactions with shareholders and Government

Khazanah Nasional Berhad ("KNB"), the major shareholder of the ultimate holding company, owns 27.3% of the issued capital of the ultimate holding company (2016: 29.3%). KNB is an entity controlled by the Malaysian Government. The Group and the Bank consider that, for the purpose of MFRS 124 – "Related Party Disclosures", KNB and the Malaysian Government is in the position to exercise significant influence over it. As a result, the Malaysian Government and Malaysian Government controlled bodies (collectively referred to as "government-related entities") are related parties of the Group and the Bank.

Apart from the individually significant transactions as disclosed in Note 39 (b) to the Financial Statements, the Group and the Bank have collectively, but not individually entered into, significant transactions with other government-related entities which include but not limited to the following:
- Purchase of securities issued by government-related entities
- Lending to government-related entities
- Deposit taking from government-related entities

These transactions are conducted in the ordinary course of the Group's business on commercial rates and consistently applied in accordance with the Group's internal policies and processes. These rates do not depend on whether the counterparties are government-related entities or not.

## 40 Employee benefits

**Equity Ownership Plan ("EOP")**

The EOP was introduced on 1 April 2011 by CIMB Group where CIMB Group will grant ordinary shares of CIMB Group to selected employees in the Group. Under the EOP, earmarked portions of variable remuneration of selected employees of the Group will be utilised to purchase ordinary shares of CIMB Group from the open market. The purchased shares will be released progressively to the eligible employees at various dates subsequent to the purchase date, subject to continued employment. A related company will act on behalf of CIMB Group to administer the EOP and to hold the shares in trust up to the pre-determined transfer dates. The eligibility of participation in the EOP shall be at the discretion of the Group Compensation Review Committee of CIMB Group.

Upon termination of employment other than retirement, disability or death, any unreleased shares will cease to be transferable to the employee and will be disposed accordingly. In the event of retirement, disability or death of the eligible employee, the release of shares will be accelerated to the date of termination of employment and the shares will be assigned to the designated beneficiary.

The total share-based payment expense recognised in statement of income for the Group and the Bank during the financial year amounted to RM4,013,000 (31 December 2016: RM 6,715,000).

The weighted average fair value of shares awarded under EOP which were purchased over a period of 10 trading days was RM5.48 per ordinary share (31 December 2016: RM4.17 per ordinary share), based on observable market price.

Movements in the number of the ultimate holding company's ordinary shares awarded are as follows:

| | The Group and the Bank | |
|---|---|---|
| | 2017 | 2016 |
| | Unit | Unit |
| | '000 | '000 |
| Shares | | |
| At 1 January | 1,333 | 1,302 |
| Awarded | 1,209 | 1,061 |
| Released | (736) | (1,030) |
| At 31 December | 1,806 | 1,333 |

## 41 Capital commitments

Capital expenditure approved by Directors but not provided for in the Financial Statements are as follows:

| | The Group and the Bank | |
|---|---|---|
| | 31 December 2017 RM'000 | 31 December 2016 RM'000 |
| Authorised and contracted for | 251 | 2,415 |
| Authorised but not contracted for | 15,252 | 3,749 |
| | 15,503 | 6,164 |
| The capital commitments are attributed to: | | |
| - property, plant and equipment | 15,503 | 6,164 |
| | 15,503 | 6,164 |

## 42 Lease commitments

The lease commitments are in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the non-cancellable long-term commitments is as follows:

| | The Group and the Bank | |
|---|---|---|
| | 31 December 2017 RM'000 | 31 December 2016 RM'000 |
| Not later than one year | 9,849 | 9,720 |
| Later than one year and not later than five years | 4,248 | 10,710 |
| | 14,097 | 20,430 |

## 43 Commitments and contingencies

In the normal course of business, the Group and the Bank enter into various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions and hence, they are not provided for in the Financial Statements.

These commitments and contingencies are not secured over the assets of the Group and the Bank.

Treasury related derivative financial instruments are revalued on a gross position basis and the unrealised gains or losses are reflected in "Derivative Financial Instruments" Assets and Liabilities respectively.

The notional or principal amount of the commitments and contingencies constitute the following:

| | The Group and the Bank | |
|---|---|---|
| | **31 December 2017** | 31 December 2016 |
| | **Principal** | Principal |
| | **RM'000** | RM'000 |
| **Credit-related** | | |
| Obligations under underwriting agreement | - | 13,500 |
| Irrevocable commitments to extend credit: | | |
| - Maturity exceeding one year | 1,354 | 7,008 |
| | 1,354 | 20,508 |
| **Treasury-related** | | |
| Foreign exchange related contracts: | | |
| - Less than 1 year | - | 17,944 |
| Interest rate related contracts: | | |
| - Five years and above | 138,550 | 141,050 |
| Equity related contracts: | | |
| - One year to less than five years | 281,108 | 316,883 |
| Credit related contracts: | | |
| - Five years and above | 277,100 | 282,100 |
| | 696,758 | 757,977 |
| | 698,112 | 778,485 |

## 44 Segment reporting

**Business segment reporting**

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

Segment information is presented in respect of the Group's business segment.

The business segment results are prepared based on the Group's internal management reporting, which reflect the organisation's management reporting structure.

Definition of segments

For management purposes, the Group is divided into five major business lines - Financial advisory, underwriting and other fees, Debt financing related, Equity related, Investments and securities services and Support and others. The business lines are the basis on which the Group reports its segment information.

*Financial advisory, underwriting and other fees* mainly comprise fees derived from structured financial solutions, origination of capital market products, mergers and acquisitions, secondary offerings, asset backed securities, debt restructurings, corporate advisory and Islamic capital market products. In addition, this segment also includes underwriting of primary equities and debt products.

*Debt/financing related* mainly comprises proprietary trading and market making, debt related derivatives and structured products. It also invests in proprietary capital.

*Equity related* mainly comprises institutional and retail broking business for securities listed on the Exchange. It also includes income from trading and investing in domestic and regional equities market.

*Investments and securities services* mainly comprise annuity income derived from fund management, unit trust, agency and securities services.

*Support and others* mainly comprise all middle and back-office processes and other related services which are non-core operations.

## 44 Segment reporting (Continued)

The following table presents an analysis of the Group's results and statements of financial position by business segments:

| The Group | Financial advisory, underwriting and other fees RM'000 | Debt / financing related RM'000 | Equity related RM'000 | Investments and securities services RM'000 | Support and others RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| 2017 | | | | | | |
| External net interest income | - | 2,597 | - | - | 5,351 | 7,948 |
| Non interest income | 70,021 | 36,071 | 140,727 | 42,872 | 4,990 | 294,681 |
| Income from Islamic Banking operations | 9,808 | 41,458 | 5,807 | 5,060 | - | 62,133 |
| | 79,829 | 80,126 | 146,534 | 47,932 | 10,341 | 364,762 |
| Overheads | (37,643) | (19,256) | (132,499) | (36,761) | (1,663) | (227,822) |
| *of which :* | | | | | | |
| *Depreciation of property, plant and equipment* | *(2,964)* | *(263)* | *(7,050)* | *(9,925)* | *(16)* | *(20,218)* |
| *Depreciation of investment property* | - | - | - | *(515)* | - | *(515)* |
| Profit before allowances | 42,186 | 60,870 | 14,035 | 11,171 | 8,678 | 136,940 |
| Writeback of impairment losses on loans, advances and financing | - | - | - | - | 184 | 184 |
| (Allowance for)/ writeback of impairment losses on other receivables | (312) | (561) | 355 | 31 | 132 | (355) |
| Segment results | 41,874 | 60,309 | 14,390 | 11,202 | 8,994 | 136,769 |
| Share of results of associates | | | | | | 551 |
| Profit before taxation | | | | | | 137,320 |
| Taxation | | | | | | (40,554) |
| **Net profit for the financial year** | | | | | | 96,766 |
| Segment assets | 37,667 | 1,884,751 | 1,363,978 | 35,414 | 190,499 | 3,512,309 |
| Unallocated assets | | | | | | 27,598 |
| **Total assets** | | | | | | 3,539,907 |
| Segment liabilities | 4,953 | 1,514,390 | 1,232,768 | 70,510 | 10,569 | 2,833,190 |
| Unallocated liabilities | | | | | | 23,390 |
| **Total liabilities** | | | | | | 2,856,580 |
| **Other segment items** | | | | | | |
| Incurred capital expenditure: | | | | | | |
| - addition of property, plant and equipment | 3,413 | - | 830 | 40 | 160 | 4,443 |
| Amortisation of premium less accretion of discount | - | 5 | - | - | - | 5 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 44 Segment reporting (Continued)

The following table presents an analysis of the Group's results and statements of financial position by business segments: (Continued)

| The Group | Financial advisory, underwriting and other fees RM'000 | Debt / financing related RM'000 | Equity related RM'000 | Investments and securities services RM'000 | Support and others RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| External net interest (expense)/income | - | (1,890) | - | - | 5,648 | 3,758 |
| Non interest income | 53,399 | 27,673 | 112,073 | 45,051 | 3,152 | 241,348 |
| Income from Islamic Banking operations | 12,294 | 44,102 | 3,133 | 3,763 | 1,188 | 64,480 |
| | 65,693 | 69,885 | 115,206 | 48,814 | 9,988 | 309,586 |
| Overheads | (43,540) | (17,751) | (117,177) | (39,988) | (1,925) | (220,381) |
| *of which :* | | | | | | |
| *Depreciation of property, plant and equipment* | *(3,493)* | *(159)* | *(11,358)* | *(8,066)* | *(4)* | *(23,080)* |
| *Depreciation of investment property* | - | - | - | *(515)* | - | *(515)* |
| Profit/(loss) before allowances | 22,153 | 52,134 | (1,971) | 8,826 | 8,063 | 89,205 |
| Allowance for impairment losses on loans, advances and financing | - | - | - | - | (787) | (787) |
| Writeback of impairment losses on other receivables | 806 | 2,008 | 1,039 | 97 | 51 | 4,001 |
| Allowance for other impairment losses | - | - | - | (134) | - | (134) |
| Segment results | 22,959 | 54,142 | (932) | 8,789 | 7,327 | 92,285 |
| Share of results of associates | | | | | | 468 |
| Profit before taxation | | | | | | 92,753 |
| Taxation | | | | | | (30,062) |
| **Net profit for the financial year** | | | | | | 62,691 |
| | | | | | | |
| Segment assets | 18,824 | 1,488,053 | 950,238 | 41,096 | 202,813 | 2,701,024 |
| Unallocated assets | | | | | | 41,670 |
| **Total assets** | | | | | | 2,742,694 |
| | | | | | | |
| Segment liabilities | 5,294 | 1,209,102 | 813,733 | 48,942 | 19,490 | 2,096,561 |
| Unallocated liabilities | | | | | | 3,632 |
| **Total liabilities** | | | | | | 2,100,193 |
| | | | | | | |
| **Other segment items** | | | | | | |
| Incurred capital expenditure: | | | | | | |
| - addition of property, plant and equipment | 813 | 37 | 2,687 | 2,111 | 1 | 5,649 |
| Amortisation of premium less accretion of discount | - | 8 | - | - | - | 8 |

The Group's activities are predominantly carried out in Malaysia, with the Malaysian market contributing approximately 100% of the gross operating income and the total segment assets in Malaysia approximately 100% of total assets of the Group. Accordingly, no information on the Group's operations by geographical segments has been provided.

## 45 Capital adequacy

The key driving principles of the Group's and the Bank's capital management policies are to diversify its sources of capital to allocate capital efficiently, achieve and maintain an optimal and efficient capital structure of the Group and the Bank, with the objective of balancing the need to meet the requirements of all key constituencies, including regulators, shareholders and rating agencies.

This is supported by the Capital Management Plan which is centrally supervised by the CIMB Group Strategic Oversight Committee who periodically assesses and reviews the capital requirements and source of capital across the Group, taking into account all on-going and future activities that consume or create capital, and ensuring that the minimum target for capital adequacy is met. Quarterly updates on capital position of the Group and the Bank are also provided to the Board of Directors.

The components of eligible regulatory capital are based on the Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework for Islamic Banks ("CAFIB") (Capital Components). The risk-weighted assets of the Group and Bank are computed in accordance with the Capital Adequacy Framework (Basel II - Risk-Weighted Assets) and CAFIB (Basel II – Risk Weighted Assets). The Standardised Approach is applied for Credit Risk and Market Risk while Operational Risk is based on Basic Indicator Approach.

## 45 Capital adequacy (Continued)

The capital adequacy framework applicable is based on the Bank Negara Malaysia ("BNM") Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework for Islamic Banks ("CAFIB") (Capital Components) issued on 28 November 2012, which was revised on 13 October 2015 and then subsequently on 4 August 2017, the revised guidelines took effect for all banking institutions on 1 January 2016 and 4 August 2017 respectively and will take effect for all financial holding companies on 1 January 2019. The revised guidelines sets out the regulatory capital requirements concerning capital adequacy ratios and components of eligible regulatory capital in compliance with Basel III.

The risk-weighted assets of the Group and Bank are computed in accordance with the Capital Adequacy Framework (Basel II – Risk-Weighted Assets) and CAFIB (Basel II – Risk Weighted Assets) issued on 28 November 2012 and was subsequently updated on 1 August 2016 and 2 March 2017. The Standardised Approach is applied for Credit Risk and Market Risk while Operational Risk is based on Basic Indicator Approach.

(a) The capital adequacy ratios of the Group and the Bank are as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **31 December 2017** | 31 December 2016 | **31 December 2017** | 31 December 2016 |
| **Before deducting proposed dividend** | | | | |
| Common Equity Tier 1 ratio | **35.950%** | 35.635% | **39.596%** | 39.553% |
| Tier 1 ratio | **35.950%** | 35.635% | **39.596%** | 39.553% |
| Total capital ratio | **35.950%** | 35.635% | **39.596%** | 39.553% |
| **After deducting proposed dividend** | | | | |
| Common Equity Tier 1 ratio | **30.867%** | 32.344% | **33.651%** | 35.689% |
| Tier 1 ratio | **30.867%** | 32.344% | **33.651%** | 35.689% |
| Total capital ratio | **30.867%** | 32.344% | **33.651%** | 35.689% |

## 45 Capital adequacy (Continued)

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

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 31 December 2017 | 31 December 2016 | 31 December 2017 | 31 December 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Credit risk | 1,110,035 | 1,080,354 | 869,393 | 842,875 |
| Market risk | 56,342 | 53,653 | 55,924 | 53,119 |
| Operational risk | 643,358 | 597,796 | 622,356 | 579,052 |
| Total risk-weighted assets | 1,809,735 | 1,731,803 | 1,547,673 | 1,475,046 |

(c) Components of Common Equity Tier I and Tier II capitals are as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 31 December 2017 | 31 December 2016 | 31 December 2017 | 31 December 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Common Equity Tier 1 capital | | | | |
| Ordinary shares | 100,000 | 100,000 | 100,000 | 100,000 |
| Other reserves | 583,317 | 542,491 | 544,682 | 508,706 |
| Less : Proposed dividends | (92,000) | (57,000) | (92,000) | (57,000) |
| Common Equity Tier 1 capital before regulatory adjustments | 591,317 | 585,491 | 552,682 | 551,706 |
| Less : Regulatory adjustments | | | | |
| Goodwill | (964) | (964) | - | - |
| Deferred tax assets | (21,344) | (15,891) | (21,217) | (15,771) |
| Deduction in excess of Tier 2 Capital | (1,417) | (1,193) | (1,503) | (1,636) N1 |
| Investments in capital instruments of unconsolidated financial and insurance/ takaful entities | (6,859) | (5,102) | (7,200) | (5,767) |
| Others | (2,126) | (2,207) | (1,952) | (2,104) |
| Common Equity Tier 1 capital after regulatory adjustments/ total Tier 1 capital | 558,607 | 560,134 | 520,810 | 526,428 |
| Tier II Capital | | | | |
| Redeemable Preference Shares | 5 | 6 | 5 | 6 |
| Portfolio impairment allowance | 2,037 | 2,203 | 2,037 | 2,203 |
| Tier II capital before regulatory adjustments | 2,042 | 2,209 | 2,042 | 2,209 |
| Less : Regulatory adjustments | | | | |
| Investments in capital instruments of unconsolidated financial and insurance/ takaful entities | (3,459) | (3,402) | (3,545) | (3,845) |
| **Total Tier II capital** | - | - | - | - |
| **Total capital base** | 558,607 | 560,134 | 520,810 | 526,428 |

*N1 The excess of Tier II capital was deducted under Common Equity Tier I capital*

## 46 Critical accounting estimates and judgements in applying accounting policies

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

*(a) Impairment of available-for-sale equity investments*

The Group and the Bank determine that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its costs. This determination of what is significant or prolonged requires judgement. The Group and the Bank evaluate, among other factors, the duration and extent to which the fair value of the investment is less than cost; and the financial health and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financial cash flow.

*(b) Impairment losses on loans, advances and financing*

The Group and the Bank make allowance for losses on loans, advances and financing based on assessment of recoverability. Whilst management is guided by the accounting standards, management makes judgement on the future and other key factors in respect of the estimation of the amount and timing of the cash flows in assessing allowance for impairment of loans, advances and financing. Among the factors considered are the Group's aggregate exposure to the borrowers, the net realisable value of the underlying collateral value, the viability of the customer's business model, the capacity to generate sufficient cash flow to service debt obligations and the aggregate amount and ranking of all other creditor claims.

*(c) Fair value of financial instruments*

The majority of the Group's and the Bank's financial instruments reported at fair value are based on quoted and observable market prices. Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more detail in Note 48.4.

## 46 Critical accounting estimates and judgements in applying accounting policies (Continued)

(d) *Goodwill impairment*

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note M of the Summary of Significant Accounting Policies.

The first step of the impairment review process requires the identification of independent operating units, dividing the Group's business into the various cash-generating-units ("CGU"). The goodwill is then allocated to these various CGU. The first element of this allocation is based on the areas of the business expected to benefit from the synergies derived from the acquisition. The second element reflects the allocation of the net assets acquired and the difference between the consideration paid for those net assets and their fair value. This allocation is reviewed following business reorganisation.

The carrying value of the CGU, including the allocated goodwill, is compared to the higher of fair value less cost to sell and value in use to determine whether any impairment exists. Detailed calculations may need to be carried out taking into consideration changes in market in which a business operates. In the absence of readily available market price data, this calculation is usually based upon discounting expected pre-tax cash flows at the individual CGU's pre-tax discount rate, which reflect the specific risks relating to the CGU. This requires exercise of judgement. Refer to Note 15 for details of these assumptions and the potential impact of changes to the assumptions. Changes to the assumptions used by management, particularly the discount rate and the terminal growth rate, may significantly affect the results of the impairment.

Value-in-use does not reflect future cash outflows or related cost savings (for example reductions in staff costs) or benefits that are expected to arise from a future restructuring to which an entity is not yet committed.

## 47 Comparatives

(a) Adoption of Bank Negara Malaysia's Policy Document on Classification and Regulatory Treatment for Structured Products under the Financial Services Act 2013 and Islamic Financial Services Act 2013.

The following comparatives were restated to conform to the above Policy Document:

Impact on the Bank's and the Group's Statements of Financial Position as at 31 December 2016:

| The Group | As previously reported RM'000 | Reclassification/ Restatement RM000 | As restated RM'000 |
|---|---|---|---|
| Statement of Financial Position | | | |
| **Liabilities** | | | |
| Deposits from customers | 217,123 | (141,050) | 76,073 |
| Other liabilities | 882,399 | 141,050 | 1,023,449 |

| **The Bank** | | | |
|---|---|---|---|
| Statement of Financial Position | | | |
| **Liabilities** | | | |
| Deposits from customers | 217,123 | (141,050) | 76,073 |
| Other liabilities | 880,088 | 141,050 | 1,021,138 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management

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

The Group embraces risk management as an integral component of the Group's business, operations and decision-making process. In ensuring that the Group achieves optimum returns whilst operating within a sound business environment, the risk management teams are involved at the early stage of the risk-taking process by providing independent inputs including relevant valuations, credit evaluations, new product assessments and quantification of capital requirements. These inputs enable the business units to assess the risk-vs-reward value of their propositions and thus enable risk to be priced appropriately in relation to the return.

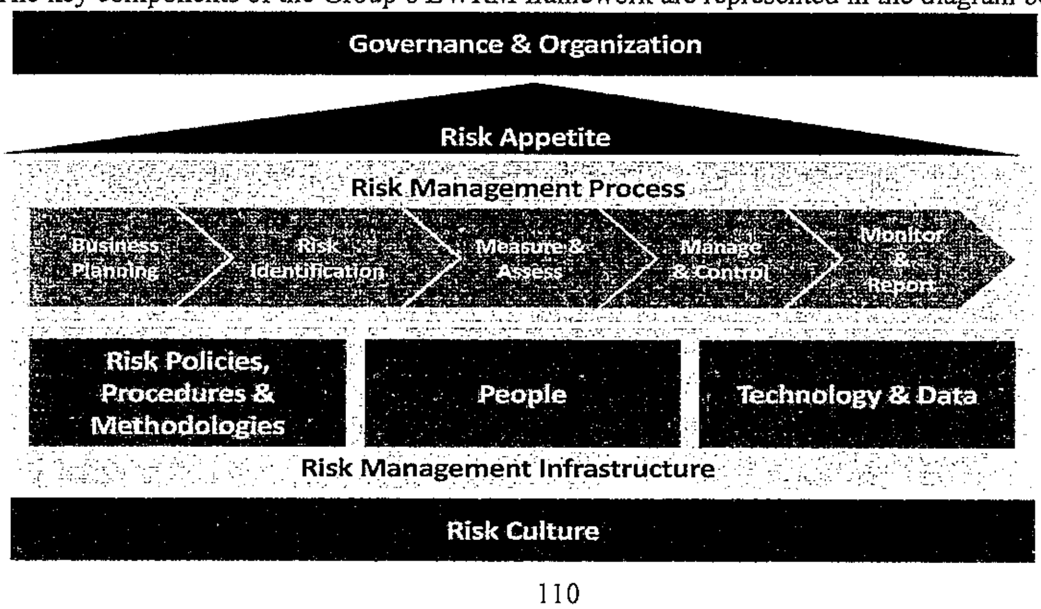
Generally, the objectives of the Group's risk management activities are to:

- Identify the various risk exposures and capital requirements;
- Ensure risk-taking activities are consistent with risk policies and the aggregated risk position are within the risk appetite approved by the Board; and
- Create shareholder's value through proper allocation of capital and facilitate development of new businesses.

### (b) Enterprise Wide Risk Management Framework ("EWRM")

The Group employs an EWRM framework as a standardised approach to effectively manage its risk and opportunities. The EWRM framework provides the Board and management with a tool to anticipate and manage both the existing and potential risks, taking into consideration changing risk profiles as dictated by changes in business strategies, external environment and/or regulatory environment.

The key components of the Group's EWRM framework are represented in the diagram below:



## 48 Financial Risk Management (Continued)

### (b) Enterprise Wide Risk Management Framework ("EWRM") (Continued)

The design of the EWRM framework involves a complementary 'top-down strategic' and 'bottom-up tactical' risk management approach with formal policies and procedures addressing all areas of significant risks for the Group.

The key features of the EWRM framework include:

i) Governance & Organisation:

A strong governance structure is important to ensure an effective and consistent implementation of the Group's EWRM framework. The Board is ultimately responsible for the Group's strategic directions, which is supported by the risk appetite and risk management frameworks, policies and procedures. The Board is assisted by various risk committees and control functions in ensuring that the Group's risk management framework is effectively maintained.

ii) Risk Appetite:

It is defined as the amount and type of risks that the Group is able and willing to accept in pursuit of its strategic and business objectives. Risk appetite is set in conjunction with the annual strategy and business planning process to ensure appropriate alignment between strategy, growth aspirations, operating plans, capital and risk.

The Group has a dedicated team that facilitates the risk appetite setting process including reviewing, monitoring and reporting. Board Risk Committee ("BRC") and Group Risk Committee ("GRC") receive monthly reports on compliance with the risk appetite.

## 48 Financial Risk Management (Continued)

### (b) Enterprise Wide Risk Management Framework ("EWRM") (Continued)

iii) **Risk Management Process**:

- Business Planning: Risk management is central to the business planning process, including setting framework for risk appetite, risk posture and new product/new business activities
- Risk Identification: Risks are systematically identified through the robust application of the Group's risk frameworks, policies and procedures
- Measure and Assess: Risks are measured and aggregated using Group wide methodologies across each of the risk types, including stress testing.
- Manage and Control: Controls and limits are used to manage risk exposures within the risk appetite set by the Board. Controls and limits are regularly monitored and reviewed in the face of evolving business needs, market conditions and regulatory changes. Corrective actions are taken to mitigate risks.
- Monitor and Report: Risks on an individual as well as a portfolio basis are regularly monitored and reported to ensure they remain within the Group's risk appetite.

iv) **Risk Management Infrastructure**

- Risk Policies, Methodologies and Procedures: Well-defined risk policies by risk type provide the principles by which the Group manages its risks. Methodologies provide specific requirements, rules or criteria that must be met to comply with the policy. Procedures provide guidance for day-to-day risk taking activities.
- People: Attracting the right talent and skillset are keys to ensuring a well-functioning EWRM Framework. The organization continuously evolves and proactively responds to the increasing complexity of the Group as well as the economic and regulatory environment.
- Technology and Data: Appropriate technology and sound data management support risk management activities.

## 48 Financial Risk Management (Continued)

### (b) Enterprise Wide Risk Management Framework ("EWRM") (Continued)

v) **Risk Culture:**

The Group embraces risk management as an integral part of its culture and decision-making processes. The Group's risk management philosophy is embodied in the Three Lines of Defence approach, whereby risks are managed at the point of risk-taking activity. There is clear accountability of risk ownership across the Group.

### (c) Risk Governance

At the apex of the governance structure are the respective Boards, which decides on the entity's risk appetite corresponding to its business strategies. Both BRC reports directly into the respective boards and assumes responsibility on behalf of the Board for the supervision of risk management and control activities. Each BRC determines the Group's risk strategies and policies, keeping them aligned with the principles within the Risk Appetite. The BRC also oversees the implementation of the EWRM framework, provides strategic guidance and reviews the decisions of the GRC.

To facilitate the effective implementation of the EWRM framework, the BRC has established various specialised/sub-risk committees within the Group, each with distinct lines of responsibilities and functions, which are clearly defined in the terms of reference.

## 48 Financial Risk Management (Continued)

### c) Risk Governance (Continued)

The responsibility of the supervision of the risk management functions is delegated to the GRC comprised of senior management of the Group and reports directly to the BRC. The GRC performs the oversight function on overall risks undertaken by the Group in delivering its business plan vis-à-vis the stated risk appetite of the Group. The GRC is supported by specialised risk committees, namely Group Credit Committee ("GCC"), Group Market Risk Committee ("GMRC"), Group Operational Risk Committee, Group Asset Liability Management Committee ("GALMC") and Group Asset Quality Committee ("GAQC"), each addressing one or more of the following:

(i) Market risk, arising from fluctuations in the market value of the trading; or investment exposure arising from changes to market risk factors such as interest rates, currency exchange rates, credit spreads, equity prices, commodities prices and their associated volatility;

(ii) Credit risk, arising from the possibility of losses due to an obligor or market counterparty or issuer of securities or other instruments held, having failed to perform its contractual obligations to our Group;

(iii) Liquidity risk, arising from a bank's inability to efficiently meet its present and future funding needs or regulatory obligations, when they come due, which may adversely affect its daily operations and incur unacceptable losses;

(iv) Operational risk, arising from risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events;

(v) Interest rate risk in the banking book, which is the current and potential risk to the Group's earning and economic value arising from movement in interest rates;

(vi) Capital risk, arising from the failure to meet minimum regulatory and internal requirements which could incur regulatory sanction of the Group, resulting in a potential capital charge; and

(vii) Shariah Non-Compliance ("SNC") risk, arising from possible failure to comply with the Shariah requirements as determined by Shariah Advisory Committee ("SAC") of BNM and SC, the Board Shariah Committee ("BSC") of the Group and other Shariah regulatory authorities of the jurisdictions in which the Group operates.

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# CIMB Investment Bank Berhad

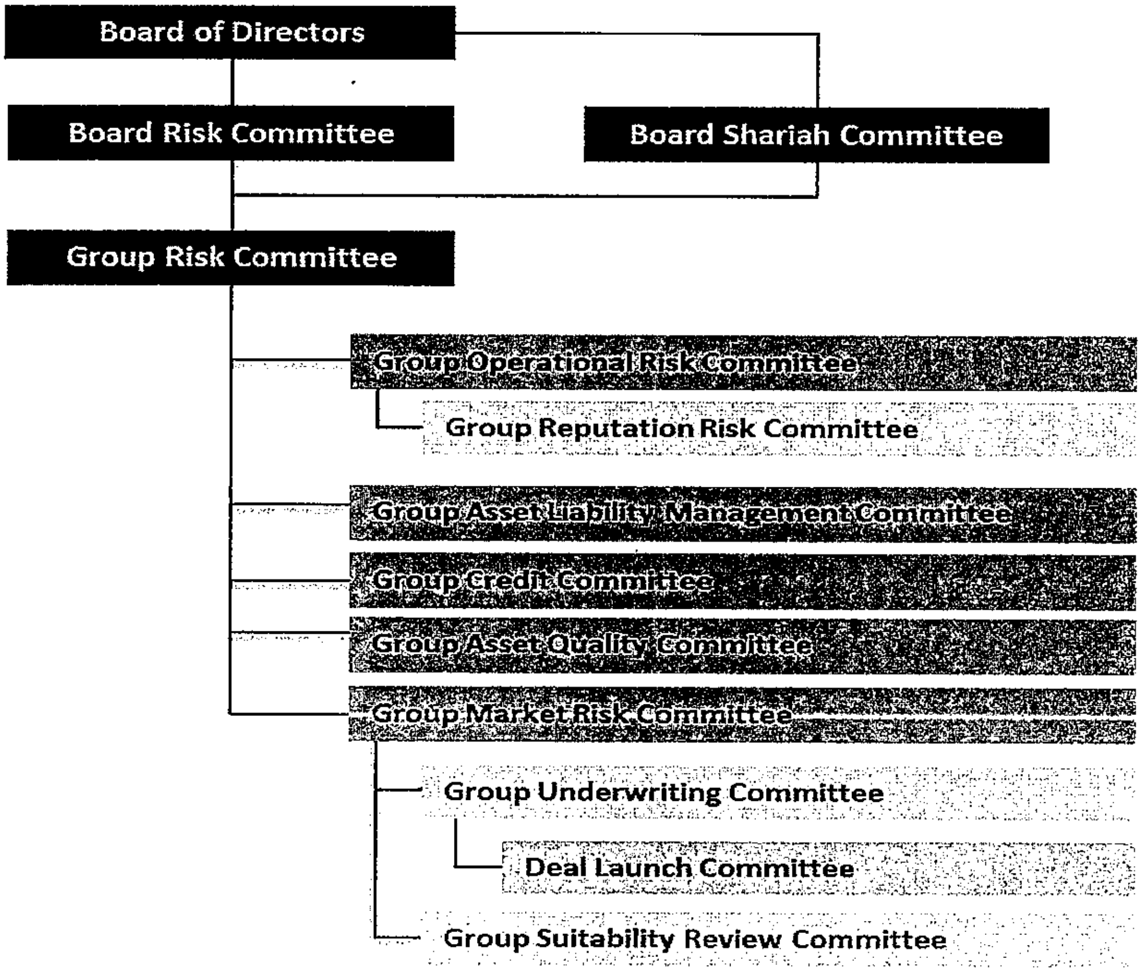
(Incorporated in Malaysia)

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### (c) Risk Governance (Continued)

The structure of CIMB Group Risk Committees is depicted in the following chart:




Similar risk committees are set-up in each of the Group's overseas subsidiaries in their respective jurisdictions. Whilst recognising the autonomy of the local jurisdiction and compliance to local requirements, the Group also strives to ensure a consistent and standardised approach in its risk governance process. As such, the relevant Group and Regional committees have consultative and advisory responsibilities on regional matters across the Group. This structure increases regional communication, regarding of technical knowledge. It further enhances support towards managing and responding to risk management issues, thus allowing the Board with a comprehensive view of the activities within the Group.

## 48 Financial Risk Management (Continued)

### (c) Risk Governance (Continued)

*Three-Lines of Defence*

The Group's risk management approach is based on the three-lines of defence concept whereby risks are managed from the point of risk-taking activities. This is to ensure clear accountability of risks across the Group and risk management as an enabler of the business units. Line management (including all business units and units which undertake client facing activities) provides the first line of defence. It is primarily responsible for risk management on a day-to-day basis by taking appropriate actions to mitigate risks through effective controls. The second line of defence provides oversight functions, performs independent monitoring of business activities and reporting to management to ensure that the Group is conducting business and operating within the approved appetite and is also in compliance to regulations. The third line of defence is Group Internal Audit Division which provides independent assurance on the adequacy and effectiveness of the internal controls and risk management activities process.

*The Roles of Group Chief Risk Officer ("CRO") and Group Risk Division ("GRD")*

Within the second line of defence is GRD, a function independent of business units that assists the Group's management and stakeholders in the monitoring and controlling of the Group's risk exposures within the board approved risk appetite statement.

The organisational structure of GRD is made of two major components, namely the Chief Risk Officers and the Risk Centres of Excellence ("CoE"). GRD is headed by the CRO who is appointed by the Board to lead the Group-wide risk management functions including the implementation of the EWRM. The CRO:

a) Actively engages the Board and senior management on risk management issues and initiatives.
b) Maintains an oversight on risk management functions across all entities within the Group. In each key country of operations, there is a local Chief Risk Officer or a Country Risk Lead Officer, whose main function is to assess and manage the enterprise risk and regulators in the respective country.

## 48 Financial Risk Management (Continued)

### (c) Risk Governance (Continued)

***The Roles of Group Chief Risk Officer ("CRO") and Group Risk Division ("GRD") (Continued)***

The GRD teams are organised into several Risk CoE in order to facilitate the implementation of the Group's EWRM framework. The Risk CoEs consisting of Risk Analytics & Infrastructure, Market Risk, Operational Risk, Asset Liability Management, Credit Risk and Shariah Risk Management CoEs are specialised teams of risk officers responsible for the active oversight of group-wide functional risk management.

a) Risk Analytics & Infrastructure CoE

Risk Analytics & Infrastructure CoE designs framework, develops risk models and tools and implements standardised infrastructure for risk management across the Group.

b) Market Risk Centre of Excellence

The Market Risk CoE recommends the framework and policies for the independent assessment, measurement and monitoring of market risk. This is operationalised through the review of treasury positions versus limits, performing mark-to-market valuation, calculating Value at Risk and market risk capital as well as performing stress testing.

c) Operational Risk CoE

The Operational Risk CoE ensures the first line of defence manages their operational risk by providing an operational risk framework that enables them to identify, assess, manage and report their operational risks. The team also provides constructive challenge and assessment to the first line of defence's execution of the operational risk framework.

## 48 Financial Risk Management (Continued)

### (c) Risk Governance (Continued)

***The Roles of Group Chief Risk Officer ("CRO") and Group Risk Division ("GRD") (Continued)***

d) Asset Liability Management CoE

The Asset Liability Management recommends the framework and policies for the independent assessment, measurement and monitoring of liquidity risk and interest rate risk/rate of return risk in the banking book. It conducts regular stress testing on the Group's liquidity and interest rate risk profile, by leveraging on the standardised infrastructure it has designed, built and implemented across the region. It provides the framework and tools for maintenance of the early warning system indicators and contingency funding plan by business owners across the Group.

e) Credit Risk CoE

The Credit Risk CoE is dedicated to the assessment, measurement, management and monitoring of credit risk of the Group. It ensures a homogenous and consistent approach to credit risk policies, methodologies and procedures, credit risk models; underwriting and portfolio analytics.

f) Shariah Risk Management CoE ("SRM CoE")

The SRM CoE facilitates the process of identifying, measuring, controlling and monitoring SNC risks inherent in the Group's Islamic banking businesses and services. SRM CoE formulates, recommends and implements appropriate Shariah Risk Management ("SRM") policies & guidelines; and develops and implements processes for SNC risk awareness.

## 48 Financial Risk Management (Continued)

### (c) Risk Governance (Continued)

*The Roles of Group Chief Risk Officer ("CRO") and Group Risk Division ("GRD") (Continued)*

In addition to the above Risk CoE, there are also specialised teams within Group Risk.

The Regional Risk & CRO International Offices teams oversees the risk management functions of the regional offices, the Group's unit trust and securities businesses and also houses the validation team.

In ensuring a standardised approach to risk management across the Group, all risk management teams within the Group are required to conform to the Group's EWRM framework, subject to necessary adjustments required for local regulations. For branches and subsidiaries without any risk management department, all risk management activities are centralised at relevant Risk CoEs. Otherwise, the risk management activities will be performed by the local risk management team with matrix reporting line to relevant Risk CoEs.

**Strategies and Processes for Various Risk Management**

These information are available in later sections for each Credit Risk, Market Risk and Liquidity Risk.

### 48.1 Credit risk

Credit risk is defined as the possibility of losses due to an obligor or market counterparty or an issuer of securities or other instruments held, failing to perform its contractual obligations to the Group.

Credit risk is inherent in banking activities and arises from traditional financing activities through conventional loans, financing facilities, trade finance as well as commitments to support customer's obligation to third parties, e.g. guarantees.

## 48 Financial Risk Management (Continued)

### 48.1 Credit risk (Continued)

In sales and trading activities, credit risk arises from the possibility that the Group's counterparties are unable or unwilling to fulfil their obligation on transactions on or before settlement date. In derivative activities, credit risk arises when counterparties to derivative contracts are unable or unwilling to fulfil their obligation to pay the positive fair value or receivable resulting from the execution of contract terms. Credit risk may also arise where the downgrading of an entity's rating causes the fair value of the Group's investment in that entity's financial instruments to fall.

**Credit Risk Management**

Without effective credit risk management, the impact of the potential losses can be overwhelming. The purpose of credit risk management is to keep credit risk exposure to an acceptable level vis-à-vis the capital, and to ensure the returns commensurate with risks.

Consistent with the three-lines of defence model on risk management where risks are managed from the point of risk-taking activities, the Group implemented the risk-based delegated authority framework. This framework promotes clarity of risk accountability whereby the business unit, being the first line of defence, manages risk in a proactive manner with GRD as a function independent from the business units as the second line of defence. This enhances the collaboration between GRD and the business units.

The risk-based delegated authority framework encompass joint delegated authority, enhanced credit approval process and a clear set of policies and procedures that defines the limits and types of authority designated to the specific individuals.

The Group adopts a multi-tiered credit approving authority spanning from the delegated authorities at business level, joint delegated authorities holders between business units and GRD, to the various credit committees. The credit approving committees are set up to enhance the efficiency and effectiveness of the credit oversight as well as the credit approval process for all credit applications originating from the business units.

The GRC with the support of GCC, GAQC, other relevant credit committees as well as GRD is responsible for ensuring adherence to the Board's approved risk appetite and risk posture. This amongst others includes the reviewing and analysing of portfolio trends, asset quality, watch-list reporting and reviewing policy. It is also responsible for articulating key credit risks and mitigating controls.

## 48 Financial Risk Management (Continued)

### 48.1 Credit risk (Continued)

**Credit Risk Management (Continued)**

Adherence to and compliance with single customer, country and global counterparty limits as well as the assessment of the quality of collateral are approaches adopted to address concentration risk to any large sector or industry, or to a particular counterparty group or individual.

Adherence to the above established credit limits is monitored daily by GRD, which combines all exposures for each counterparty or group, including off balance sheet items and potential exposures. Limits are also monitored based on rating classification of the obligor and/or counterparty. The portfolio limits are monitored monthly by GRD.

It is the Group policy that all exposures must be rated or scored based on the appropriate internal rating models, where available. Retail exposures are managed on a portfolio basis and the risk rating models are designed to assess the credit worthiness and the likelihood of the obligors to repay their debts, performed by way of statistical analysis from credit bureau and demographic information of the obligors. The risk rating models for non-retail exposures are designed to assess the credit worthiness of the corporations or entities in paying their obligations, derived from both quantitative and qualitative risk factors such as financial history and demographics or company profile. These rating models are developed and implemented to standardise and enhance the credit underwriting and decision-making process for the Group's retail and non-retail exposures.

Credit reviews and rating are conducted on the credit exposures on at minimum on an annual basis and more frequently when material information on the obligor or other external factors come to light.

The exposures are actively monitored, reviewed on a regular basis and reported regularly to GRC and BRC so that deteriorating exposures are identified, analysed and discussed with the relevant business units for appropriate remedial actions including recovery actions, if required.

In addition to the above, the Group also employs VaR to measure credit concentration risk. The Group adopted the Monte Carlo simulation approach in the generation of possible portfolio scenarios to obtain the standalone and portfolio VaR. This approach takes into account the credit concentration risk and the correlation between obligors/counterparties and industries.

## 48 Financial Risk Management (Continued)

### 48.1 Credit risk (Continued)

**Credit Risk Mitigation**

The employment of various credit risk mitigation techniques such as appropriate credit structuring, and posting of collateral and/or third party support form an integral part of the credit risk management process. Credit risk mitigants are taken where possible and is considered secondary recourse to the obligor for the credit risk underwritten.

i) Collaterals/Securities

All extension of secured credit facilities as deemed prudent, must be appropriately and adequately collateralised. A credit proposal is considered secured only when the entire proposal is fully covered by approved collateral/securities within their approved margins as set out in the relevant credit policy guides. GCC is empowered to approve any inclusion of new acceptable collaterals/securities.

Recognised collaterals include both financial and physical assets. Financial collaterals consist of mainly cash deposits, shares, unit trusts and debt securities, while physical collateral includes land and buildings and vehicles. Guarantors accepted are in line with BNM's CAF (Basel II – Risk-Weighted Assets) guidelines. Eligible credit protection is also used to mitigate credit losses in the event that the obligor/counterparty defaults.

ii) Collateral Valuation and Management

The Group has in place policies which govern the determination of eligibility of various collaterals including credit protection, to be considered for credit risk mitigation which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigants.

The collateral is valued periodically ranging from daily to annually, depending on the type of collateral. Specifically for real estate properties, a framework for valuation of real estate properties is established to ensure adequate policies and procedures are in place for efficient and proper conduct of valuation of real estate properties and other related activities in relation to the interpretation, monitoring and management of valuation of real estate properties.

iii) Netting

In mitigating the credit risks in swaps and derivative transactions, the Group enters into master agreements that provide for closeout and settlement netting arrangements with counterparties, whenever possible. A master agreement that governs all transactions between two parties, creates the greatest legal certainty that credit exposure will be netted. In effect, it enables the netting of outstanding obligations upon termination of outstanding transactions if an event of default occurs.

## 48 Financial Risk Management (Continued)

### 48.1 Credit risk (Continued)

**Off-Balance Sheet Exposures and Counterparty Credit Risk ("CCR")**

Off-Balance Sheet exposures are exposures such as derivatives, trade facilities and undrawn commitments. The Group adopts the Current Exposure method to compute the capital requirement for CCR under BNM's guidelines on CAF (Basel II - Risk-Weighted Assets).

i) Credit Risk Mitigation
For credit derivatives and swaps transactions, the Group enters into master agreement with counterparties, whenever possible. Further, the Group may also enter into Credit Support Annex ("CSA") with counterparties. The net credit exposure with each counterparty is monitored based on the threshold agreed in the master agreement and the Group may request for additional margin for any exposures above the agreed threshold, in accordance with the terms specified in the relevant CSA or the master agreement. The eligibility of collaterals and frequency calls are negotiated with the counterparty and endorsed by GCC.

ii) Treatment of Rating Downgrade
In the event of a one-notch downgrade of rating, based on the terms of the existing CSA and exposure as at 31 December 2017, there was no requirement for additional collateral to be posted.

On the other hand, counterparty rating is being monitored and in the event of a rating downgrade, remedial actions such as revision of the counterparty credit limit, suspension of the limit or the request for additional collateral may be taken.

## 48 Financial Risk Management (Continued)

### 48.1 Credit Risk (Continued)

#### 48.1.1 Maximum exposure to credit risk (without taking into account any collateral held or other credit enhancements)

For financial assets reflected in the statement of financial position, the exposure to credit risk equals their carrying amount. For credit related commitments and contingents that are irrevocable over the life of the respective facilities, it is generally the full amount of the committed facilities.

| 31 December 2017 | The Group<br>RM'000 | The Bank<br>RM'000 |
|---|---|---|
| Credit related commitments and contingencies | 1,354 | 1,354 |

| 31 December 2016 | The Group<br>RM'000 | The Bank<br>RM'000 |
|---|---|---|
| Credit related commitments and contingencies | 20,508 | 20,508 |

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements that mitigate credit risk) held for net loans, advances and financing for the Group and the Bank is 100% (31 December 2016: 100%). The financial effects of collateral held for the remaining on balance sheet financial assets are insignificant.

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.1 Credit Risk (Continued)

### 48.1.2 Offsetting financial assets and financial liabilities

**(a) Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements – by type**

| | The Group and the Bank | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the Statements of Financial Position | | |
| | Gross amounts of recognised financial assets in the Statements of Financial Position | Gross amounts of recognised financial liabilities set off in the Statements of Financial Position | Net amounts of financial assets presented in the Statements of Financial Position | Financial instruments | Financial collateral | Net amount |
| 31 December 2017 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Financial assets | | | | | | |
| Derivative financial instruments | 9,071 | - | 9,071 | (5,169) | (4,552) | (650) |
| Total | 9,071 | - | 9,071 | (5,169) | (4,552) | (650) |
| 31 December 2016 | | | | | | |
| Financial assets | | | | | | |
| Derivative financial instruments | 12,919 | - | 12,919 | (6,936) | (5,983) | - |
| Total | 12,919 | - | 12,919 | (6,936) | (5,983) | - |

## 48 Financial Risk Management (Continued)

### 48.1 Credit Risk (Continued)

### 48.1.2 Offsetting financial assets and financial liabilities (Continued)

**(b) Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements – by type**

| The Group and the Bank | | | | Related amounts not set off in the Statements of Financial Position | | |
|---|---|---|---|---|---|---|
| | Gross amounts of recognised financial liabilities in the Statements of Financial Position | Gross amounts of recognised financial assets set off in the Statements of Financial Position | Net amounts of financial liabilities presented in the Statements of Financial Position | Financial instruments | Financial collateral | Net amount |
| 31 December 2017 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Financial liabilities | | | | | | |
| Derivative financial instruments | 5,169 | - | 5,169 | (4,297) | - | 872 |
| Total | 5,169 | - | 5,169 | (4,297) | - | 872 |
| 31 December 2016 | | | | | | |
| Financial liabilities | | | | | | |
| Derivative financial instruments | 6,884 | - | 6,884 | (6,223) | - | 661 |
| Total | 6,884 | - | 6,884 | (6,223) | - | 661 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.1 Credit Risk (Continued)

### 48.1.3 Concentration of risks of financial assets with credit risk exposure

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

### (a) Geographical sectors

The analysis of credit risk concentrations (without taking into account any collateral held or other credit enhancements) based on the location of the counterparty for the Group as at 31 December 2017 and 31 December 2016 are as follows:

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| 31 December 2017 | Malaysia RM'000 | Indonesia RM'000 | Thailand RM'000 | Singapore RM'000 | Other countries RM'000 | Total RM'000 |
| Cash and short term funds | 1,208,529 | - | - | 9,622 | 8,215 | 1,226,366 |
| Deposits and placements with banks and other financial institutions | 29 | - | - | - | - | 29 |
| Financial assets held for trading | 1,767 | - | - | - | - | 1,767 |
| Derivative financial instruments | 9,071 | - | - | - | - | 9,071 |
| Loans, advances and financing | 169,646 | - | - | - | - | 169,646 |
| Other assets | 1,852,740 | 127 | 1,620 | 53,669 | 113,549 | 2,021,705 |
| Amounts due from related companies | 1,883 | 897 | 30 | 325 | 1,342 | 4,477 |
| Credit related commitments and contingencies | 1,354 | - | - | - | - | 1,354 |
| Total credit exposures | 3,245,019 | 1,024 | 1,650 | 63,616 | 123,106 | 3,434,415 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.1 Credit Risk (Continued)

### 48.1.3 Concentration of risks of financial assets with credit risk exposure (Continued)

### (a) Geographical sectors (Continued)

The analysis of credit risk concentrations (without taking into account any collateral held or other credit enhancements) based on the location of the counterparty for the Group as at 31 December 2017 and 31 December 2016 are as follows: (Continued)

| The Group | | | | | | |
|---|---|---|---|---|---|---|
| 31 December 2016 | Malaysia RM'000 | Indonesia RM'000 | Thailand RM'000 | Singapore RM'000 | Other countries RM'000 | Total RM'000 |
| Cash and short term funds | 1,406,338 | - | - | 9,857 | 2,668 | 1,418,863 |
| Deposits and placements with banks and other financial institutions | 2,033 | - | - | - | - | 2,033 |
| Derivative financial instruments | 12,919 | - | - | - | - | 12,919 |
| Loans, advances and financing | 183,466 | - | - | - | - | 183,466 |
| Other assets | 860,665 | 4,452 | 42 | 18,128 | 99,353 | 982,640 |
| Amounts due from related companies | 16,264 | 1,200 | 341 | 77 | 193 | 18,075 |
| Credit related commitments and contingencies | 20,508 | - | - | - | - | 20,508 |
| **Total credit exposures** | 2,502,193 | 5,652 | 383 | 28,062 | 102,214 | 2,638,504 |

## 48 Financial Risk Management (Continued)

### 48.1 Credit Risk (Continued)

### 48.1.3 Concentration of risks of financial assets with credit risk exposure (Continued)

### (a) Geographical sectors (Continued)

The analysis of credit risk concentrations (without taking into account any collateral held or other credit enhancements) based on the location of the counterparty for the Bank as at 31 December 2017 and 31 December 2016 are as follows:

| | The Bank | | | | | |
|---|---|---|---|---|---|---|
| 31 December 2017 | Malaysia | Indonesia | Thailand | Singapore | Other countries | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Cash and short term funds | 1,160,095 | - | - | 9,407 | 8,214 | 1,177,716 |
| Financial assets held for trading | 1,767 | - | - | - | - | 1,767 |
| Derivative financial instruments | 9,071 | - | - | - | - | 9,071 |
| Loans, advances and financing | 169,646 | - | - | - | - | 169,646 |
| Other assets | 1,850,571 | 127 | 1,620 | 53,237 | 113,549 | 2,019,104 |
| Amounts due from related companies | 2,194 | 897 | 30 | 325 | 1,342 | 4,788 |
| Credit related commitments and contingencies | 1,354 | - | - | - | - | 1,354 |
| Total credit exposures | 3,194,698 | 1,024 | 1,650 | 62,969 | 123,105 | 3,383,446 |

# CIMB Investment Bank Berhad
(Incorporated in Malaysia)

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.1 Credit Risk (Continued)

### 48.1.3 Concentration of risks of financial assets with credit risk exposure (Continued)

### (a) Geographical sectors (Continued)

The analysis of credit risk concentrations (without taking into account any collateral held or other credit enhancements) based on the location of the counterparty for the Bank as at 31 December 2017 and 31 December 2016 are as follows: (Continued)

| | The Bank | | | | | |
|---|---|---|---|---|---|---|
| 31 December 2016 | Malaysia RM'000 | Indonesia RM'000 | Thailand RM'000 | Singapore RM'000 | Other countries RM'000 | Total RM'000 |
| Cash and short term funds | 1,362,066 | - | - | 9,544 | 2,667 | 1,374,277 |
| Deposits and placements with banks and other financial institutions | 2,004 | - | - | - | - | 2,004 |
| Derivatives financial instruments | 12,919 | - | - | - | - | 12,919 |
| Loans, advances and financing | 183,466 | - | - | - | - | 183,466 |
| Other assets | 858,333 | 4,452 | 42 | 17,839 | 99,353 | 980,019 |
| Amounts due from related companies | 16,307 | 1,200 | 341 | 77 | 193 | 18,118 |
| Credit related commitments and contingencies | 20,508 | - | - | - | - | 20,508 |
| Total credit exposures | 2,455,603 | 5,652 | 383 | 27,460 | 102,213 | 2,591,311 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.1 Credit Risk (Continued)

### 48.1.3 Concentration of risks of financial assets with credit risk exposure (Continued)

(b) **Industry sectors**

The analysis of credit risk concentrations (without taking into account any collateral held or other credit enhancements) for items recognised in the statements of financial positions as at 31 December 2017 and 31 December 2016, based on the industry sectors of the counterparty are as follows:

**The Group**

| | Cash and short term funds | Deposits and placements with banks and other financial institutions | Financial assets held for trading | Derivative financial instruments | Loans, advances and financing | Other financial assets * | Credit related commitments and contigencies | Total credit exposures |
|---|---|---|---|---|---|---|---|---|
| | | | Unquoted securities | Trading derivatives | | | | |
| **31 December 2017** | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Primary agriculture | - | - | - | - | - | 114 | - | 114 |
| Manufacturing | - | - | - | - | - | 339 | - | 339 |
| Electricity, gas and water | - | - | - | - | - | 4,110 | - | 4,110 |
| Construction | - | - | - | - | - | 325 | - | 325 |
| Wholesale & Retail trade, and Restaurant & Hotels | - | - | - | - | - | 672 | - | 672 |
| Transport, storage and communications | - | - | - | - | - | 867 | - | 867 |
| Finance, insurance and business services | 159,631 | 29 | 1,767 | - | - | 1,358,986 | - | 1,520,413 |
| Government and government agencies | 1,066,732 | - | - | - | - | 30,933 | - | 1,097,665 |
| Household | - | - | - | - | 169,646 | 628,789 | 1,354 | 799,789 |
| Others | 3 | - | - | 9,071 | - | 1,047 | - | 10,121 |
| | 1,226,366 | 29 | 1,767 | 9,071 | 169,646 | 2,026,182 | 1,354 | 3,434,415 |

* Other financial assets include other assets and amounts due from related companies.

## 48 Financial Risk Management (Continued)

### 48.1 Credit Risk (Continued)

### 48.1.3 Concentration of risks of financial assets with credit risk exposure (Continued)

**(b) Industry sectors (Continued)**

The analysis of credit risk concentrations (without taking into account any collateral held or other credit enhancements) for items recognised in the statements of financial positions as at 31 December 2017 and 31 December 2016, based on the industry sectors of the counterparty are as follows: (Continued)

The Group

| 31 December 2016 | Cash and short term funds RM'000 | Deposits and placements with banks and other financial institutions RM'000 | Derivative financial instruments Trading derivatives RM'000 | Loans, advances and financing RM'000 | Other financial assets * RM'000 | Credit related commitments and contigencies RM'000 | Total credit exposures RM'000 |
|---|---|---|---|---|---|---|---|
| Primary agriculture | - | - | - | - | 1,973 | - | 1,973 |
| Manufacturing | - | - | - | - | 274 | - | 274 |
| Electricity, gas and water | - | - | - | - | 5,456 | - | 5,456 |
| Construction | - | - | - | - | 634 | - | 634 |
| Wholesale & Retail trade, and Restaurant & Hotels | - | - | - | - | 380 | - | 380 |
| Transport, storage and communications | - | - | - | - | 2,617 | - | 2,617 |
| Finance, insurance and business services | 192,254 | 2,033 | - | - | 767,737 | - | 962,024 |
| Education, health & others | - | - | - | - | 713 | - | 713 |
| Government and government agencies | 1,226,607 | - | - | - | 110,223 | - | 1,336,830 |
| Household | - | - | - | 183,466 | 81,029 | 7,008 | 271,503 |
| Others | 2 | - | 12,919 | - | 29,679 | 13,500 | 56,100 |
| | 1,418,863 | 2,033 | 12,919 | 183,466 | 1,000,715 | 20,508 | 2,638,504 |

* Other financial assets include other assets and amounts due from related companies.

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.1 Credit Risk (Continued)

### 48.1.3 Concentration of risks of financial assets with credit risk exposure (Continued)

**(b) Industry sectors (Continued)**

The analysis of credit risk concentrations (without taking into account any collateral held or other credit enhancements) for items recognised in the statements of financial positions as at 31 December 2017 and 31 December 2016, based on the industry sectors of the counterparty are as follows: (Continued)

**The Bank**

| | Cash and short term funds | Financial assets held for trading Unquoted securities | Derivative financial instruments Trading derivatives | Loans, advances and financing | Other financial assets * | Credit related commitments and contigencies | Total credit exposures |
|---|---|---|---|---|---|---|---|
| **31 December 2017** | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Primary agriculture | - | - | - | - | 114 | - | 114 |
| Manufacturing | - | - | - | - | 339 | - | 339 |
| Electricity, gas and water | - | - | - | - | 4,110 | - | 4,110 |
| Construction | - | - | - | - | 325 | - | 325 |
| Wholesale & Retail trade, and Restaurant & Hotels | - | - | - | - | 672 | - | 672 |
| Transport, storage and communications | - | - | - | - | 867 | - | 867 |
| Finance, insurance and business services | 112,367 | 1,767 | - | - | 1,357,526 | - | 1,471,660 |
| Government and government agencies | 1,065,349 | - | - | - | 30,915 | - | 1,096,264 |
| Household | - | - | - | 169,646 | 628,789 | 1,354 | 799,789 |
| Others | - | - | 9,071 | - | 235 | - | 9,306 |
| | 1,177,716 | 1,767 | 9,071 | 169,646 | 2,023,892 | 1,354 | 3,383,446 |

* Other financial assets include other assets and amounts due from related companies.

## 48 Financial Risk Management (Continued)

### 48.1 Credit Risk (Continued)

### 48.1.3 Concentration of risks of financial assets with credit risk exposure (Continued)

**(b) Industry sectors (Continued)**

The analysis of credit risk concentrations (without taking into account any collateral held or other credit enhancements) for items recognised in the statements of financial positions as at 31 December 2017 and 31 December 2016, based on the industry sectors of the counterparty are as follows: (Continued)

| The Bank | Cash and short term funds | Deposits and placements with banks and other financial institutions | Derivative financial instruments Trading derivatives | Loans, advances and financing | Other financial assets * | Credit related commitments and contigencies | Total credit exposures |
|---|---|---|---|---|---|---|---|
| 31 December 2016 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Primary agriculture | - | - | - | - | 1,973 | - | 1,973 |
| Manufacturing | - | - | - | - | 274 | - | 274 |
| Electricity, gas and water | - | - | - | - | 5,456 | - | 5,456 |
| Construction | - | - | - | - | 634 | - | 634 |
| Wholesale & Retail trade, and Restaurant & Hotels | - | - | - | - | 380 | - | 380 |
| Transport, storage and communications | - | - | - | - | 2,617 | - | 2,617 |
| Finance, insurance and business services | 148,905 | 2,004 | - | - | 765,987 | - | 916,896 |
| Education, health & others | - | - | - | - | 713 | - | 713 |
| Government and government agencies | 1,225,372 | - | - | - | 110,206 | - | 1,335,578 |
| Household | - | - | - | 183,466 | 81,029 | 7,008 | 271,503 |
| Others | - | - | 12,919 | - | 28,868 | 13,500 | 55,287 |
| | 1,374,277 | 2,004 | 12,919 | 183,466 | 998,137 | 20,508 | 2,591,311 |

* Other financial assets include other assets and amounts due from related companies.

## 48 Financial Risk Management (Continued)

### 48.1 Credit Risk (Continued)

### 48.1.4 Credit quality of financial assets

Financial assets are required under MFRS 7, to be categorised into "neither past due nor impaired", "past due but not impaired" or "impaired".

### (a) Loans, advances and financing

Loans, advances and financing of the Group and the Bank are summarised as follows:

| | The Group and the Bank 31 December 2017 | | |
|---|---|---|---|
| | Neither past due nor impaired (i) RM'000 | Impaired (ii) RM'000 | Total RM'000 |
| Staff loans | 169,731 | - | 169,731 |
| Other loans | - | 1,905 | 1,905 |
| **Total** | 169,731 | 1,905 | 171,636 |
| Less: Impairment allowances | | | (1,990) * |
| **Total net amount** | | | 169,646 |

| | The Group and the Bank 31 December 2016 | | |
|---|---|---|---|
| | Neither past due nor impaired (i) RM'000 | Impaired (ii) RM'000 | Total RM'000 |
| Staff loans | 183,565 | - | 183,565 |
| Other loans | - | 2,075 | 2,075 |
| **Total** | 183,565 | 2,075 | 185,640 |
| Less: Impairment allowances | | | (2,174) * |
| **Total net amount** | | | 183,466 |

* Impairment allowances include allowances against financial assets that have been impaired and those subject to portfolio impairment.

There were no loans, advances and financing that are "past due but not impaired" as at 31 December 2017 and 31 December 2016.

## 48 Financial Risk Management (Continued)

### 48.1 Credit Risk (Continued)

### 48.1.4 Credit quality of financial assets (Continued)

#### (a) Loans, advances and financing (Continued)

#### (i) Loans, advances and financing that are "neither past due nor impaired"

The credit quality of loans, advances and financing that are "neither past due nor impaired" can be assessed by reference to the internal rating system adopted by the Group and the Bank.

| | The Group and the Bank<br>31 December 2017<br>No rating<br>RM'000 |
|---|---|
| Staff loans | 169,731 |
| **Total** | 169,731 |

| | The Group and the Bank<br>31 December 2016<br>No rating<br>RM'000 |
|---|---|
| Staff loans | 183,565 |
| **Total** | 183,565 |

**Credit quality descriptions can be summarised as follows:**

**No rating** – Refers to counterparties that do not satisfy the criteria to be rated internally. These include sovereigns, individuals, schools, non-government organisations, corporations and others.

#### (ii) "Impaired" loans, advances and financing

Refer to Note 7 for analysis of impaired loans, advances and financing by economic purpose and geographical distribution.

## 48 Financial Risk Management (Continued)

### 48.1 Credit Risk (Continued)

#### 48.1.4 Credit quality of financial assets (Continued)

**(b) Financial assets held for trading**

Financial assets held for trading of the Group and the Bank are summarised as follows:

| | The Group and the Bank<br>Neither past due nor impaired | |
|---|---|---|
| | 31 December 2017<br>RM'000 | 31 December 2016<br>RM'000 |
| Financial assets held for trading | 1,767 | - |
| Total | 1,767 | - |

There were no financial assets held for trading that are "past due but not impaired" and "impaired" as at 31 December 2017 and 31 December 2016.

**(i) Financial assets held for trading that are "neither past due nor impaired"**

The table below presents an analysis of financial assets held for trading that are "neither past due nor impaired", based on ratings by major credit rating agencies:

| | The Group and the Bank | |
|---|---|---|
| | 31 December 2017<br>Investment grade<br>(AAA to BBB-)<br>RM'000 | 31 December 2016<br>Investment grade<br>(AAA to BBB-)<br>RM'000 |
| Financial assets held for trading | 1,767 | - |
| Total | 1,767 | - |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.1 Credit Risk (Continued)

### 48.1.4 Credit quality of financial assets (Continued)

### (c) Credit risk of other financial assets

Other financial assets of the Group as at 31 December 2017 and 31 December 2016 are summarised as follows :

| | The Group | | | |
|---|---|---|---|---|
| 31 December 2017 | Neither past due nor impaired RM'000 | Past due but not impaired RM'000 | Impaired RM'000 | Total RM'000 |
| Cash and short term funds | 1,226,366 | - | - | 1,226,366 |
| Deposits and placements with banks and other financial institutions | 29 | - | - | 29 |
| Derivative financial instruments | 9,071 | - | - | 9,071 |
| Other financial assets | 2,018,723 | 4,377 | 21,290 | 2,044,390 |
| **Total** | 3,254,189 | 4,377 | 21,290 | 3,279,856 |
| Less: Impairment allowances * | | | | (18,208) |
| **Total net amount** | | | | 3,261,648 |

| 31 December 2016 | Neither past due nor impaired RM'000 | Past due but not impaired RM'000 | Impaired RM'000 | Total RM'000 |
|---|---|---|---|---|
| Cash and short term funds | 1,418,863 | - | - | 1,418,863 |
| Deposits and placements with banks and other financial institutions | 2,033 | - | - | 2,033 |
| Derivative financial instruments | 12,919 | - | - | 12,919 |
| Other financial assets | 990,744 | 6,969 | 20,801 | 1,018,514 |
| **Total** | 2,424,559 | 6,969 | 20,801 | 2,452,329 |
| Less: Impairment allowances * | | | | (17,799) |
| **Total net amount** | | | | 2,434,530 |

* Impairment allowance represents allowance made against financial assets that have been impaired and those subject to portfolio impairment.

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.1 Credit Risk (Continued)

### 48.1.4 Credit quality of financial assets (Continued)

#### (c) Credit risk of other financial assets (Continued)

Other financial assets of the Bank as at 31 December 2017 and 31 December 2016 are summarised as follows:

| The Bank | | | | |
|---|---|---|---|---|
| **31 December 2017** | **Neither past due nor impaired RM'000** | **Past due but not impaired RM'000** | **Impaired RM'000** | **Total gross amount RM'000** |
| Cash and short term funds | 1,177,716 | - | - | 1,177,716 |
| Derivative financial instruments | 9,071 | - | - | 9,071 |
| Other financial assets | 2,016,433 | 4,377 | 21,290 | 2,042,100 |
| **Total** | 3,203,220 | 4,377 | 21,290 | 3,228,887 |
| Less: Impairment allowances * | | | | (18,208) |
| **Total net amount** | | | | 3,210,679 |

| **31 December 2016** | **Neither past due nor impaired RM'000** | **Past due but not impaired RM'000** | **Impaired RM'000** | **Total gross amount RM'000** |
|---|---|---|---|---|
| Cash and short term funds | 1,374,277 | - | - | 1,374,277 |
| Deposits and placements with banks and other financial institutions | 2,004 | - | - | 2,004 |
| Derivative financial instruments | 12,919 | - | - | 12,919 |
| Other financial assets | 988,166 | 6,969 | 20,801 | 1,015,936 |
| **Total** | 2,377,366 | 6,969 | 20,801 | 2,405,136 |
| Less: Impairment allowances * | | | | (17,799) |
| **Total net amount** | | | | 2,387,337 |

* Impairment allowance represents allowance made against financial assets that have been impaired and those subject to portfolio impairment.

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.1 Credit Risk (Continued)

### 48.1.4 Credit quality of financial assets (Continued)

### (c) Credit risk of other financial assets (Continued)

(i) The table below presents an analysis of other financial assets that are "neither past due nor impaired", based on rating by major credit rating agencies as at 31 December 2017 and 31 December 2016:

| The Group | 31 December 2017 Sovereign (no rating) RM'000 | 31 December 2017 Investment grade (AAA to BBB-) RM'000 | 31 December 2017 Others (no rating) RM'000 | 31 December 2017 Total RM'000 | 31 December 2016 Sovereign (no rating) RM'000 | 31 December 2016 Investment grade (AAA to BBB-) RM'000 | 31 December 2016 Others (no rating) RM'000 | 31 December 2016 Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| Cash and short term funds | 1,066,732 | 159,634 | - | 1,226,366 | 1,226,606 | 192,257 | - | 1,418,863 |
| Deposits and placements with banks and other financial institutions | - | 29 | - | 29 | - | 2,033 | - | 2,033 |
| Derivative financial instruments | - | - | 9,071 | 9,071 | - | - | 12,919 | 12,919 |
| Other financial assets | - | 10,011 | 2,008,712 | 2,018,723 | - | 42,218 | 948,526 | 990,744 |
| Total | 1,066,732 | 169,674 | 2,017,783 | 3,254,189 | 1,226,606 | 236,508 | 961,445 | 2,424,559 |

There were no collateral repossessed by the Group as at 31 December 2017 and 31 December 2016.

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.1 Credit Risk (Continued)

### 48.1.4 Credit quality of financial assets (Continued)

### (c) Credit risk of other financial assets (Continued)

(i) The table below presents an analysis of other financial assets that are "neither past due nor impaired", based on rating by major credit rating agencies as at 31 December 2017 and 31 December 2016: (Continued)

| The Bank | 31 December 2017 Sovereign (no rating) RM'000 | 31 December 2017 Investment grade (AAA to BBB-) RM'000 | 31 December 2017 Others (no rating) RM'000 | 31 December 2017 Total RM'000 | 31 December 2016 Sovereign (no rating) RM'000 | 31 December 2016 Investment grade (AAA to BBB-) RM'000 | 31 December 2016 Others (no rating) RM'000 | 31 December 2016 Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| Cash and short term funds | 1,065,349 | 112,367 | - | 1,177,716 | 1,225,372 | 148,905 | - | 1,374,277 |
| Deposits and placements with banks and other financial institutions | - | - | - | - | - | 2,004 | - | 2,004 |
| Derivative financial instruments | - | - | 9,071 | 9,071 | - | - | 12,919 | 12,919 |
| Other financial assets | - | 10,007 | 2,006,426 | 2,016,433 | - | 42,215 | 945,951 | 988,166 |
| Total | 1,065,349 | 122,374 | 2,015,497 | 3,203,220 | 1,225,372 | 193,124 | 958,870 | 2,377,366 |

There were no collateral repossessed by the Bank as at 31 December 2017 and 31 December 2016.

## 48 Financial Risk Management (Continued)

### 48.1 Credit Risk (Continued)

### 48.1.4 Credit quality of financial assets (Continued)

### (c) Credit risk of other financial assets (Continued)

(ii) An ageing analysis of other financial assets of the Group and the Bank that are "past due but not impaired" as at 31 December 2017 and 31 December 2016 are set out as below:

| | The Group and the Bank 31 December 2017 Past due but not impaired | | |
|---|---|---|---|
| | Up to 1 month RM'000 | >1 to 3 months RM'000 | Total RM'000 |
| Other financial assets | 2,194 | 2,183 | 4,377 |

| | The Group and the Bank 31 December 2016 Past due but not impaired | | |
|---|---|---|---|
| | Up to 1 month RM'000 | >1 to 3 months RM'000 | Total RM'000 |
| Other financial assets | 2,779 | 4,190 | 6,969 |

## 48 Financial Risk Management (Continued)

### 48.2 Market Risk

Market risk is defined as any fluctuation in the market value of a trading or investment position arising from changes to market risk factors such as interest rates, currency exchange rates, credit spreads, equity prices, commodities prices and their associated volatility.

**Market Risk Management ("MRM")**

The Group adopts various measures as part of risk management process to mitigate market risk. An accurate and timely valuation of a position is critical in ensuring current market exposure is not mismatched. The GRC with the assistance of GMRC and Group Underwriting Committee ("GUC") ensure that the risk exposures undertaken by the Group is within the risk appetite approved by the Board. GRC, GMRC and GUC, are responsible for measuring and controlling the Group's market risk through robust measurement and market risk limit monitoring while facilitating business growth within a controlled and transparent risk management framework.

Market Risk CoE evaluates the market exposures using the applicable market price and pricing model. The valuation process is carried out on held for trading and available-for-sale positions on a daily basis in compliance with the independent price verification requirements. This valuation methodology is applied to restate the security value to its current value for the purpose of calculating the profits and losses or to confirm that margins requirements are being met.

Treasury products approval processes shall be coordinated by the Market Risk CoE to ensure operational readiness before launching. The proposed new products are assessed to ensure financial risks are accurately identified, monitored and effectively managed.

The valuation methods and models used are validated by the quantitative analysts to assess their applicability relative to market conditions. The process includes verification of the inputs, assumptions used, programming codes and model reporting capability. Existing valuation models are reviewed periodically to ensure that they remain relevant to changing market conditions.

## 48 Financial Risk Management (Continued)

### 48.2 Market Risk (Continued)

**Market Risk Management ("MRM") (Continued)**

The Group adopts the VaR methodology as an approach in the measurement of market risk. Backtesting is performed to validate and reassess the accuracy of the existing VaR model. VaR is a statistical measure of the potential losses that could occur as a result of movements in market rates and prices over a specified time horizon within a given confidence level. Back-testing involves the comparison of the daily model-generated VaR against the actual or hypothetical profit or loss data over the corresponding period.

Stress testing is conducted to complement VaR to capture the potential market risk exposures from an unexpected market movement. In formulating stress scenarios, consideration is given to various aspects of the market; for example, identification of areas where unexpected losses can occur and areas where historical correlation may no longer hold true.

Market Risk CoE undertakes the monitoring and oversight process on treasury activities, which include monitoring limits utilisation, reviewing and analysing treasury trading activities vis-à-vis changes in the financial markets, assessing limits adequacy and verifying transaction prices. All approved market risk limits are monitored on daily basis. Any excess in limit will be escalated to management in accordance with the exception management procedures.

*Capital Treatment for Market Risk*

At present, the Group adopts the Standardised Approach to compute market risk capital requirement under BNM's guidelines on Capital Adequacy Framework ("CAF") (Basel II – Risk-Weighted Assets) and Capital Adequacy Framework for Islamic Banks ("CAFIB") (Risk Weighted Assets).

## 48 Financial Risk Management (Continued)

### 48.2 Market Risk (Continued)

#### 48.2.1 VaR

The usage of market VaR by risk type based on 1-day holding period of the Group's and the Bank's trading exposures as at 31 December 2017 and 31 December 2016 are as follows:

| | The Group | |
|---|---|---|
| | 31 December 2017 | 31 December 2016 |
| | RM'000 | RM'000 |
| **VaR** | | |
| Foreign exchange risk | 428 | 267 |
| Interest rate risk | 3 | 37 |
| Equity risk | 21 | 3 |
| **Total** | 452 | 307 |
| | | |
| **Total shareholders fund (RM '000)** | 683,327 | 642,501 |
| **Percentage of shareholders funds** | 0.07% | 0.05% |

| | The Bank | |
|---|---|---|
| | 31 December 2017 | 31 December 2016 |
| **VaR** | RM'000 | RM'000 |
| Foreign exchange risk | | |
| Interest rate risk | 423 | 259 |
| Equity risk | 3 | 37 |
| **Total** | 21 | 3 |
| | 447 | 299 |
| | | |
| **Total shareholders fund (RM '000)** | 644,692 | 608,716 |
| **Percentage of shareholders funds** | 0.07% | 0.05% |

# 48 Financial Risk Management (Continued)

## 48.2 Market Risk (Continued)

### 48.2.2 Interest rate risk

Interest rate risk relates to the potential adverse impact on the net interest income arising from the changes in market rates. One of the primary sources of interest rate risk is the repricing mismatches between interest earning assets and interest bearing liabilities. Interest rate risk is measured and reported at various levels through various techniques including Earnings-at-Risk ("EaR").

(a) **Financial assets and financial liabilities analysed by the earlier of contractual repricing or maturity dates**

The table below summarise the Group's financial assets and financial liabilities at their full carrying amounts, analysed by the earlier of contractual repricing or maturity dates.

| The Group | Non-trading book | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 31 December 2017 | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | Non-interest sensitive RM'000 | Trading book RM'000 | Total RM'000 |
| **Financial assets** | | | | | | | | | |
| Cash and short term funds | 1,150,027 | - | - | - | - | - | 76,360 | - | 1,226,387 |
| Deposits and placements with banks and other financial institutions | - | 29 | - | - | - | - | - | - | 29 |
| Financial assets held for trading | - | - | - | - | - | - | - | 2,524 | 2,524 |
| Derivative financial instruments | - | - | - | - | - | - | - | 9,071 | 9,071 |
| Financial investments available-for-sale | - | - | - | - | - | - | 821 | - | 821 |
| Loans, advances and financing | 8 | 4 | 18 | 143 | 3,542 | 165,931 | - | - | 169,646 |
| Other assets | - | - | - | - | - | - | 2,021,705 | - | 2,021,705 |
| Amounts due from related companies | - | - | - | - | - | - | 4,477 | - | 4,477 |
| **Total financial assets** | 1,150,035 | 33 | 18 | 143 | 3,542 | 165,931 | 2,103,363 | 13,362 | 3,436,427 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

## 48.2 Market Risk (Continued)

### 48.2.2 Interest rate risk (Continued)

**(a) Financial assets and financial liabilities analysed by the earlier of contractual repricing or maturity dates (Continued)**

The table below summarise the Group's financial assets and financial liabilities at their full carrying amounts, analysed by the earlier of contractual repricing or maturity dates. (Continued)

| | The Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Non-trading book | | | | | | | | |
| 31 December 2017 | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | Non-interest sensitive RM'000 | Trading book RM'000 | Total RM'000 |
| **Financial liabilities** | | | | | | | | | |
| Deposits from customers | 38,620 | - | - | - | - | - | 17 | - | 38,637 |
| Deposits and placements of banks and other financial institutions | 560,525 | 138,284 | - | - | - | - | 2,187 | - | 700,996 |
| Derivative financial instruments | - | - | - | - | - | - | - | 5,169 | 5,169 |
| Other liabilities | - | - | - | - | - | 138,550 | 1,905,913 | - | 2,044,463 |
| Amounts due to related companies | - | - | - | - | - | - | 17,090 | - | 17,090 |
| Subordinated loan | - | - | - | - | 10,000 | - | - | - | 10,000 |
| **Total financial liabilities** | 599,145 | 138,284 | - | - | 10,000 | 138,550 | 1,925,207 | 5,169 | 2,816,355 |
| **Net interest rate sensitivity gap** | 550,890 | (138,251) | 18 | 143 | (6,458) | 27,381 | | 8,193 | |
| Credit related commitments and contingencies | - | - | - | - | - | - | 1,354 | | |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

## 48.2 Market Risk (Continued)

### 48.2.2 Interest rate risk (Continued)

**(a) Financial assets and financial liabilities analysed by the earlier of contractual repricing or maturity dates (Continued)**

The table below summarise the Group's financial assets and financial liabilities at their full carrying amounts, analysed by the earlier of contractual repricing or maturity dates. (Continued)

| | The Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Non-trading book | | | | | | | | |
| 31 December 2016 | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | Non-interest sensitive RM'000 | Trading book RM'000 | Total RM'000 |
| **Financial assets** | | | | | | | | | |
| Cash and short term funds | 1,314,852 | - | - | - | - | - | 104,186 | - | 1,419,038 |
| Deposits and placements with banks and other financial institutions | - | 29 | 2,000 | - | - | - | 4 | - | 2,033 |
| Financial assets held for trading | - | - | - | - | - | - | - | 267 | 267 |
| Derivative financial instruments | - | - | - | - | - | - | - | 12,919 | 12,919 |
| Financial investments available-for-sale | - | - | - | - | - | - | 1,303 | - | 1,303 |
| Loans, advances and financing | 34 | 7 | 62 | 228 | 5,649 | 177,486 | - | - | 183,466 |
| Other assets | - | - | - | - | - | - | 982,640 | - | 982,640 |
| Amounts due from related companies | - | - | - | - | - | - | 18,075 | - | 18,075 |
| **Total financial assets** | 1,314,886 | 36 | 2,062 | 228 | 5,649 | 177,486 | 1,106,208 | 13,186 | 2,619,741 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.2 Market Risk (Continued)

### 48.2.2 Interest rate risk (Continued)

**(a) Financial assets and financial liabilities analysed by the earlier of contractual repricing or maturity dates (Continued)**

The table below summarise the Group's financial assets and financial liabilities at their full carrying amounts, analysed by the earlier of contractual repricing or maturity dates. (Continued)

| | The Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Non-trading book | | | | | | | | |
| 31 December 2016 | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | Non-interest sensitive RM'000 | Trading book RM'000 | Total RM'000 |
| **Financial liabilities** | | | | | | | | | |
| Deposits from customers | 76,005 | - | - | - | - | - | 68 | - | 76,073 |
| Deposits and placements of banks and other financial institutions | 917,912 | 50,000 | 11,108 | - | - | - | 1,137 | - | 980,157 |
| Derivative financial instruments | - | - | - | - | - | - | - | 6,884 | 6,884 |
| Other liabilities | 151 | 203 | - | - | - | - | 1,007,161 | - | 1,007,515 |
| Amounts due to related companies | - | - | - | - | - | - | 3,530 | - | 3,530 |
| Subordinated loan | - | - | - | - | 10,000 | - | - | - | 10,000 |
| **Total financial liabilities** | 994,068 | 50,203 | 11,108 | - | 10,000 | - | 1,011,896 | 6,884 | 2,084,159 |
| **Net interest rate sensitivity gap** | 320,818 | (50,167) | (9,046) | 228 | (4,351) | 177,486 | | 6,302 | |
| Credit related commitments and contingencies | - | - | - | - | - | - | 20,508 | | |

## 48 Financial Risk Management (Continued)

### 48.2 Market Risk (Continued)

### 48.2.2 Interest rate risk (Continued)

#### (a) Financial assets and financial liabilities analysed by the earlier of contractual repricing or maturity dates (Continued)

The table below summarise the Bank's financial assets and financial liabilities at their full carrying amounts, analysed by the earlier of contractual repricing or maturity dates.

The Bank

| | Non-trading book | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 31 December 2017 | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | Non-interest sensitive RM'000 | Trading book RM'000 | Total RM'000 |
| Financial assets | | | | | | | | | |
| Cash and short term funds | 1,101,927 | - | - | - | - | - | 75,810 | - | 1,177,737 |
| Financial assets held for trading | - | - | - | - | - | - | - | 2,524 | 2,524 |
| Derivative financial instruments | - | - | - | - | - | - | - | 9,071 | 9,071 |
| Loans, advances and financing | 8 | 4 | 18 | 143 | 3,542 | 165,931 | - | - | 169,646 |
| Other assets | - | - | - | - | - | - | 2,019,104 | - | 2,019,104 |
| Amounts due from related companies | - | - | - | - | - | - | 4,788 | - | 4,788 |
| Total financial assets | 1,101,935 | 4 | 18 | 143 | 3,542 | 165,931 | 2,099,702 | 23,190 | 3,394,465 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.2 Market Risk (Continued)

### 48.2.2 Interest rate risk (Continued)

**(a) Financial assets and financial liabilities analysed by the earlier of contractual repricing or maturity dates (Continued)**

The table below summarise the Bank's financial assets and financial liabilities at their full carrying amounts, analysed by the earlier of contractual repricing or maturity dates. (Continued)

| The Bank | Non-trading book | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 31 December 2017 | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | Non-interest sensitive RM'000 | Trading book RM'000 | Total RM'000 |
| Financial liabilities | | | | | | | | | |
| Deposits from customers | 38,620 | - | - | - | - | - | 17 | - | 38,637 |
| Deposits and placements of banks and other financial institutions | 560,525 | 138,284 | - | - | - | - | 2,187 | - | 700,996 |
| Derivative financial instruments | - | - | - | - | - | - | - | 5,169 | 5,169 |
| Other liabilities | - | - | - | - | - | 138,550 | 1,903,809 | - | 2,042,359 |
| Amounts due to related companies | - | - | - | - | - | - | 17,090 | - | 17,090 |
| Total financial liabilities | 599,145 | 138,284 | - | - | - | 138,550 | 1,923,103 | 10,338 | 2,809,420 |
| Net interest rate sensitivity gap | 502,790 | (138,280) | 18 | 143 | 3,542 | 27,381 | | 12,852 | |
| Credit related commitments and contingencies | - | - | - | - | - | - | 1,354 | | |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.2 Market Risk (Continued)

### 48.2.2 Interest rate risk (Continued)

**(a) Financial assets and financial liabilities analysed by the earlier of contractual repricing or maturity dates (Continued)**

The table below summarise the Bank's financial assets and financial liabilities at their full carrying amounts, analysed by the earlier of contractual repricing or maturity dates. (Continued)

| | The Bank | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Non-trading book | | | | | | | | |
| 31 December 2016 | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | Non-interest sensitive RM'000 | Trading book RM'000 | Total RM'000 |
| **Financial assets** | | | | | | | | | |
| Cash and short term funds | 1,270,812 | - | - | - | - | - | 103,640 | - | 1,374,452 |
| Deposits and placements with banks and other financial institutions | - | - | 2,000 | - | - | - | 4 | - | 2,004 |
| Financial assets held for trading | - | - | - | - | - | - | - | 267 | 267 |
| Derivative financial instruments | - | - | - | - | - | - | - | 12,919 | 12,919 |
| Financial investments available-for-sale | - | - | - | - | - | - | 611 | - | 611 |
| Loans, advances and financing | 34 | 7 | 62 | 228 | 5,649 | 177,486 | - | - | 183,466 |
| Other assets | - | - | - | - | - | - | 980,019 | - | 980,019 |
| Amounts due from related companies | - | - | - | - | - | - | 18,118 | - | 18,118 |
| Total financial assets | 1,270,846 | 7 | 2,062 | 228 | 5,649 | 177,486 | 1,102,392 | 13,186 | 2,571,856 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.2 Market Risk (Continued)

### 48.2.2 Interest rate risk (Continued)

**(a) Financial assets and financial liabilities analysed by the earlier of contractual repricing or maturity dates (Continued)**

The table below summarise the Bank's financial assets and financial liabilities at their full carrying amounts, analysed by the earlier of contractual repricing or maturity dates. (Continued)

The Bank

| | Non-trading book | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 31 December 2016 | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | Non-interest sensitive RM'000 | Trading book RM'000 | Total RM'000 |
| **Financial liabilities** | | | | | | | | | |
| Deposits from customers | 76,005 | - | - | - | - | - | 68 | - | 76,073 |
| Deposits and placements of banks and other financial institutions | 917,912 | 50,000 | 11,108 | - | - | - | 1,137 | - | 980,157 |
| Derivative financial instruments | - | - | - | - | - | - | - | 6,884 | 6,884 |
| Other liabilities | - | - | - | - | - | - | 1,005,204 | - | 1,005,204 |
| Amounts due to related companies | - | - | - | - | - | - | 3,530 | - | 3,530 |
| Total financial liabilities | 993,917 | 50,000 | 11,108 | - | - | - | 1,009,939 | 6,884 | 2,071,848 |
| Net interest rate sensitivity gap | 276,929 | (49,993) | (9,046) | 228 | 5,649 | 177,486 | | 6,302 | |
| Credit related commitments and contingencies | - | - | - | - | - | - | 20,508 | | |

## 48 Financial Risk Management (Continued)

### 48.2 Market Risk (Continued)

### 48.2.2 Interest rate risk (Continued)

**(b) Sensitivity of profit**

The table below shows the sensitivity of the Group's and the Bank's profit/loss to movement in interest rates:

| | The Group | | | |
|---|---|---|---|---|
| | 31 December 2017 | | 31 December 2016 | |
| | Increase/(decrease) | | Increase/(decrease) | |
| | +100 basis point | -100 basis point | +100 basis point | -100 basis point |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Impact to profit (after tax) | 2,909 | (2,909) | 1,758 | (1,758) |

| | The Bank | | | |
|---|---|---|---|---|
| | 31 December 2017 | | 31 December 2016 | |
| | Increase/(decrease) | | Increase/(decrease) | |
| | +100 basis point | -100 basis point | +100 basis point | -100 basis point |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Impact to profit (after tax) | 2,574 | (2,574) | 1,459 | (1,459) |

Sensitivity is measured using the EaR methodology. The treatments and assumptions applied are based on the contractual repricing and remaining maturity of the products, whichever is earlier. Items with indefinite repricing maturity are treated based on the earliest possible repricing date. The actual dates may vary from the repricing profile allocated due to factors such as pre-mature withdrawals, prepayment and others.

A 100 bps parallel rate movement is applied to the yield curve to model the potential impact on profit in the next 12 months from policy rate change.

The projection assumes that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on profit of some rates changing while others remain unchanged. The projections also assume that all other variables are held constant and are based on a constant reporting date position and that all positions run to maturity.

### 48.2.3 Foreign exchange risk

The Group and Bank are exposed to transactional foreign exchange exposures which are exposures on assets and liabilities denominated in currencies other than the functional currency of the transacting entity.

The Group and the Bank take minimal exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group manages its exposure to foreign exchange currencies at each entity level.

## 48 Financial Risk Management (Continued)

### 48.2 Market Risk (Continued)

#### 48.2.3 Foreign exchange risk (Continued)

(a) The table below summarises the financial assets, financial liabilities, items not recognised in the statements of financial position and net open position by currency of the Group and the Bank.

| | The Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 31 December 2017 | MYR RM'000 | IDR RM'000 | THB RM'000 | SGD RM'000 | USD RM'000 | AUD RM'000 | Others RM'000 | Total non-MYR RM'000 | Grand total RM'000 |
| **Financial assets** | | | | | | | | | |
| Cash and short term funds | 1,180,489 | - | 507 | 17,615 | 12,207 | 2,283 | 13,286 | 45,898 | 1,226,387 |
| Deposits and placements with banks and other financial institutions | 29 | - | - | - | - | - | - | - | 29 |
| Financial assets held for trading | 2,453 | 12 | 8 | 6 | - | 45 | - | 71 | 2,524 |
| Derivative financial instruments | 9,071 | - | - | - | - | - | - | - | 9,071 |
| Financial investments available-for-sale | - | 821 | - | - | - | - | - | 821 | 821 |
| Loans, advances and financing | 169,646 | - | - | - | - | - | - | - | 169,646 |
| Other assets | 1,972,054 | 992 | 3,785 | 18,792 | 9,805 | 2,094 | 14,183 | 49,651 | 2,021,705 |
| Amounts due from related companies | 1,883 | 897 | 30 | 325 | 1,156 | - | 186 | 2,594 | 4,477 |
| | 3,335,625 | 2,722 | 4,330 | 36,738 | 23,168 | 4,422 | 27,655 | 99,035 | 3,434,660 |
| **Financial liabilities** | | | | | | | | | |
| Deposits from customers | 38,637 | - | - | - | - | - | - | - | 38,637 |
| Deposits and placements of banks and other financial institutions | 700,471 | - | - | - | - | - | 525 | 525 | 700,996 |
| Derivatives financial instruments | 5,169 | - | - | - | - | - | - | - | 5,169 |
| Subordinated loan | 10,000 | - | - | - | - | - | - | - | 10,000 |
| Other liabilities | 1,999,518 | 988 | 3,775 | 17,897 | 8,823 | 1,973 | 11,489 | 44,945 | 2,044,463 |
| Amounts due to related companies | 16,780 | - | - | 135 | - | - | 175 | 310 | 17,090 |
| | 2,770,575 | 988 | 3,775 | 18,032 | 8,823 | 1,973 | 12,189 | 45,780 | 2,816,355 |
| Credit related commitments and contingencies | 1,354 | - | - | - | - | - | - | - | 1,354 |
| | 1,354 | - | - | - | - | - | - | - | 1,354 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.2 Market Risk (Continued)

### 48.2.3 Foreign exchange risk (Continued)

(a) The table below summarises the financial assets, financial liabilities, items not recognised in the statements of financial position and net open position by currency of the Group and the Bank. (Continued)

| | The Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 31 December 2016 | MYR RM'000 | IDR RM'000 | THB RM'000 | SGD RM'000 | USD RM'000 | AUD RM'000 | Others RM'000 | Total non-MYR RM'000 | Grand total RM'000 |
| **Financial assets** | | | | | | | | | |
| Cash and short term funds | 1,385,702 | - | 319 | 12,760 | 4,276 | 1,889 | 14,092 | 33,336 | 1,419,038 |
| Deposits and placements with banks and other financial institutions | 2,033 | - | - | - | - | - | - | - | 2,033 |
| Financial assets held for trading | 216 | 9 | 6 | 5 | - | 31 | - | 51 | 267 |
| Derivative financial instruments | 12,919 | - | - | - | - | - | - | - | 12,919 |
| Financial investments available-for-sale | - | 692 | - | - | 611 | - | - | 1,303 | 1,303 |
| Loans, advances and financing | 183,466 | - | - | - | - | - | - | - | 183,466 |
| Other assets | 951,495 | 4,681 | 271 | 3,710 | 13,678 | 231 | 8,574 | 31,145 | 982,640 |
| Amounts due from related companies | 15,707 | 1,200 | 341 | 77 | 595 | - | 155 | 2,368 | 18,075 |
| | 2,551,538 | 6,582 | 937 | 16,552 | 19,160 | 2,151 | 22,821 | 68,203 | 2,619,741 |
| **Financial liabilities** | | | | | | | | | |
| Deposits from customers | 76,073 | - | - | - | - | - | - | - | 76,073 |
| Deposits and placements of banks and other financial institutions | 962,244 | - | - | - | 17,491 | - | 422 | 17,913 | 980,157 |
| Derivatives financial instruments | 6,884 | - | - | - | - | - | - | - | 6,884 |
| Subordinated loan | 10,000 | - | - | - | - | - | - | - | 10,000 |
| Other liabilities | 981,667 | 4,601 | 266 | 3,397 | 9,993 | 222 | 7,369 | 25,848 | 1,007,515 |
| Amounts due to related companies | 645 | - | - | 2,714 | - | - | 171 | 2,885 | 3,530 |
| | 2,037,513 | 4,601 | 266 | 6,111 | 27,484 | 222 | 7,962 | 46,646 | 2,084,159 |
| Credit related commitments and contingencies | 20,508 | - | - | - | - | - | - | - | 20,508 |
| | 20,508 | - | - | - | - | - | - | - | 20,508 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.2 Market Risk (Continued)

#### 48.2.3 Foreign exchange risk (Continued)

(a) The table below summarises the financial assets, financial liabilities, items not recognised in the statements of financial position and net open position by currency of the Group and the Bank. (Continued)

| | The Bank | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 31 December 2017 | MYR RM'000 | IDR RM'000 | THB RM'000 | SGD RM'000 | USD RM'000 | AUD RM'000 | Others RM'000 | Total non-MYR RM'000 | Grand total RM'000 |
| **Financial assets** | | | | | | | | | |
| Cash and short term funds | 1,132,256 | - | 507 | 17,612 | 11,801 | 2,283 | 13,278 | 45,481 | 1,177,737 |
| Financial assets held for trading | 2,453 | 12 | 8 | 6 | - | 45 | - | 71 | 2,524 |
| Derivative financial instruments | 9,071 | - | - | - | - | - | - | - | 9,071 |
| Financial investments available-for-sale | - | - | - | - | - | - | - | - | - |
| Loans, advances and financing | 169,646 | - | - | - | - | - | - | - | 169,646 |
| Other assets | 1,969,992 | 992 | 3,785 | 18,785 | 9,378 | 2,094 | 14,078 | 49,112 | 2,019,104 |
| Amounts due from related companies | 2,194 | 897 | 30 | 325 | 1,156 | - | 186 | 2,594 | 4,788 |
| | 3,285,612 | 1,901 | 4,330 | 36,728 | 22,335 | 4,422 | 27,542 | 97,258 | 3,382,870 |
| **Financial liabilities** | | | | | | | | | |
| Deposits from customers | 38,637 | - | - | - | - | - | - | - | 38,637 |
| Deposits and placements of banks and other financial institutions | 700,471 | - | - | - | - | - | 525 | 525 | 700,996 |
| Derivatives financial instruments | 5,169 | - | - | - | - | - | - | - | 5,169 |
| Other liabilities | 1,997,414 | 988 | 3,775 | 17,897 | 8,823 | 1,973 | 11,489 | 44,945 | 2,042,359 |
| Amounts due to related companies | 16,780 | - | - | 135 | - | - | 175 | 310 | 17,090 |
| | 2,758,471 | 988 | 3,775 | 18,032 | 8,823 | 1,973 | 12,189 | 45,780 | 2,804,251 |
| Credit related commitments and contingencies | 1,354 | - | - | - | - | - | - | - | 1,354 |
| | 1,354 | - | - | - | - | - | - | - | 1,354 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.2 Market Risk (Continued)

### 48.2.3 Foreign exchange risk (Continued)

(a) The table below summarises the financial assets, financial liabilities, items not recognised in the statements of financial position and net open position by currency of the Group and the Bank. (Continued)

| | The Bank | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 31 December 2016 | MYR RM'000 | IDR RM'000 | THB RM'000 | SGD RM'000 | USD RM'000 | AUD RM'000 | Others RM'000 | Total non-MYR RM'000 | Grand total RM'000 |
| **Financial assets** | | | | | | | | | |
| Cash and short term funds | 1,341,589 | - | 319 | 12,757 | 3,880 | 1,889 | 14,018 | 32,863 | 1,374,452 |
| Deposits and placements with banks and other financial institutions | 2,004 | - | - | - | - | - | - | - | 2,004 |
| Financial assets held for trading | 216 | 9 | 6 | 5 | - | 31 | - | 51 | 267 |
| Derivative financial instruments | 12,919 | - | - | - | - | - | - | - | 12,919 |
| Financial investments available-for-sale | - | - | - | - | 611 | - | - | 611 | 611 |
| Loans, advances and financing | 183,466 | - | - | - | - | - | - | - | 183,466 |
| Other assets | 949,257 | 4,681 | 271 | 3,709 | 13,312 | 231 | 8,558 | 30,762 | 980,019 |
| Amounts due from related companies | 15,750 | 1,200 | 341 | 77 | 595 | - | 155 | 2,368 | 18,118 |
| | 2,505,201 | 5,890 | 937 | 16,548 | 18,398 | 2,151 | 22,731 | 66,655 | 2,571,856 |
| **Financial liabilities** | | | | | | | | | |
| Deposits from customers | 76,073 | - | - | - | - | - | - | - | 76,073 |
| Deposits and placements of banks and other financial institutions | 962,244 | - | - | - | 17,491 | - | 422 | 17,913 | 980,157 |
| Derivatives financial instruments | 6,884 | - | - | - | - | - | - | - | 6,884 |
| Other liabilities | 979,356 | 4,601 | 266 | 3,397 | 9,993 | 222 | 7,369 | 25,848 | 1,005,204 |
| Amounts due to related companies | 645 | - | - | 2,714 | - | - | 171 | 2,885 | 3,530 |
| | 2,025,202 | 4,601 | 266 | 6,111 | 27,484 | 222 | 7,962 | 46,646 | 2,071,848 |
| Credit related commitments and contingencies | 20,508 | - | - | - | - | - | - | - | 20,508 |
| | 20,508 | - | - | - | - | - | - | - | 20,508 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.2 Market Risk (Continued)

### 48.2.3 Foreign exchange risk (Continued)

**(b) Sensitivity of profit**

The table below shows the sensitivity of the Group's and the Bank's profit/loss to movement in foreign exchange rates:

| | The Group and the Bank | | | |
|---|---|---|---|---|
| | 31 December 2017 Increase/(decrease) | | 31 December 2016 Increase/(decrease) | |
| | +1% appreciation in foreign currency RM'000 | -1% depreciation in foreign currency RM'000 | +1% appreciation in foreign currency RM'000 | -1% depreciation in foreign currency RM'000 |
| Impact to profit (after tax) | 303 | (303) | 110 | (110) |

The projection assumes that foreign exchange rates move by the same amount and, therefore, do not reflect the potential impact on profit of some rates changing while others remain unchanged. The projections also assume that all other variables are held constant and are based on a constant reporting date position and that all positions run to maturity.

### 48.3 Liquidity Risk

Liquidity risk is defined as the current and prospective risk to earnings, shareholders fund or reputation arising from the Group's inability to efficiently meet its present and future (both anticipated and unanticipated) funding needs or regulatory obligations when they come due, which may adversely affect its daily operations and incur unacceptable losses. Liquidity risk arises from mismatches in the timing of cash flows.

The objective of the Group's liquidity risk management is to ensure that the Group can meet its cash obligations in a timely and cost-effective manner. To this end, the Group's liquidity risk management policy is to maintain high quality and well diversified portfolios of liquid assets and sources of funds under both normal business and stress conditions. Due to its large distribution network and strategic marketing focus, the Group is able to maintain a diversified core deposit base comprising savings, demand and fixed deposits. This provides the Group a large stable funding base.

## 48 Financial Risk Management (Continued)

### 48.3 Liquidity Risk (Continued)

The day-to-day responsibility for liquidity risk management and control is delegated to the Group ALCO ("GALCO"). GALCO meets at least once a month to discuss the liquidity risk and funding profile of the Group. The Asset-Liability Management function, which is responsible for the independent monitoring of the Group liquidity risk profile, works closely with Treasury and Markets in its surveillance on market conditions. Business units are responsible for establishing and maintaining strong business relations with their respective depositors and key providers of funds. Group Treasury only acts as a global provider of funds on a need-to or contingency basis. Each entity has to prudently manage its liquidity position to meet its daily operating needs. To take account of the differences in market and regulatory environments, each entity measures and forecasts its respective cash flows arising from the maturity profiles of assets, liabilities, off balance sheet commitments and derivatives over a variety of time horizons under normal business and stress conditions on a regular basis.

Liquidity risk undertaken by the Group is governed by a set of established liquidity risk appetite and threshold. Limits and Management Action Triggers ("MATs") have been established to alert management to potential and emerging liquidity pressures. The Group Liquidity Risk Management Framework is subject to regular review; assumptions and the thresholds levels are regularly reviewed in response to regulatory changes and changing business needs and market conditions. Liquidity positions are monitored on a daily basis and compiled with internal risk thresholds and regulatory requirements for liquidity risk.

The Group's contingency funding plan is in place to alert and to enable the management to act effectively and efficiently during a liquidity crisis and under adverse market conditions. The plan consists of two key components: an early warning system and a funding crisis management team. The early warning system is designed to alert the Group's management whenever the Group's liquidity position may be at risk. It provides the Group with the analytical framework to detect a likely liquidity problem and to evaluate the Group's funding needs and strategies in advance of a liquidity crisis. The early warning system is made up of a set of indicators (monitored against pre-determined thresholds) that can reliably signal the financial strength and stability of the Group.

## 48 Financial Risk Management (Continued)

### 48.3 Liquidity Risk (Continued)

The Group is measuring, monitoring and managing its liquidity positions to comply with the regulatory Basel III "LCR" which took effect from June 2015 in Malaysia. The purpose of the LCR is to promote short term liquidity risk resilience by ensuring that the Group has sufficient unencumbered high quality liquid assets to meet its liquidity needs for a 30-day combined liquidity crisis scenario.

The Group also performs a consolidated stress test, including liquidity stress test, a semi-annual basis to identify vulnerable areas in its portfolio, gauge the financial impact and enable management to take pre-emptive actions. Two scenarios, namely bank specific crisis and combined crisis, are modelled. The assumptions used, including run-off rates on deposits, draw down rates on undrawn commitments and hair cuts for marketable securities are documented.

The LCR and stress test results are submitted to GALCOs, the GRC and the BRC/Board of Directors of the Group. The LCR and test results to date have indicated that the Group has sufficient liquidity capacity to meet the liquidity requirements under stated stress test conditions.

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.3 Liquidity risk (Continued)

### 48.3.1 Contractual maturity of assets and liabilities

(a) The table below analyses the assets and liabilities of the Group based on the remaining period to the contractual maturity date in accordance with BNM guidelines requirements:

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 31 December 2017 | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | No-specific maturity RM'000 | Total RM'000 |
| Assets | | | | | | | | |
| Cash and short term funds | 1,226,387 | - | - | - | - | - | - | 1,226,387 |
| Deposits and placements with banks and other financial institutions | - | 29 | - | - | - | - | - | 29 |
| Financial assets held for trading | - | - | - | - | 286 | 1,481 | 757 | 2,524 |
| Derivative financial instruments | - | - | - | - | - | 9,071 | - | 9,071 |
| Financial investments available-for-sale | - | - | - | - | - | - | 821 | 821 |
| Loans, advances and financing | 8 | 4 | 18 | 143 | 3,542 | 165,931 | - | 169,646 |
| Other assets | 2,030,590 | - | - | - | - | - | - | 2,030,591 |
| Deferred tax assets | - | - | - | - | - | - | 21,344 | 21,344 |
| Tax recoverable | 1 | - | - | - | - | - | - | 1 |
| Statutory deposits with Bank Negara Malaysia | - | - | - | - | - | - | 91 | 91 |
| Investment in associates | - | - | - | - | - | - | 7,753 | 7,753 |
| Property, plant and equipment | - | - | - | - | - | - | 48,359 | 48,359 |
| Goodwill on consolidation | - | - | - | - | - | - | 964 | 964 |
| Amounts due from related companies | 4,477 | - | - | - | - | - | - | 4,477 |
| Investment properties | - | - | - | - | - | - | 17,849 | 17,849 |
| Total assets | 3,261,463 | 33 | 18 | 143 | 3,828 | 176,483 | 97,938 | 3,539,907 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.3 Liquidity risk (Continued)

### 48.3.1 Contractual maturity of assets and liabilities (Continued)

(a) The table below analyses the assets and liabilities of the Group based on the remaining period to the contractual maturity date in accordance with BNM guidelines requirements: (Continued)

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 31 December 2017 | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | No-specific maturity RM'000 | Total RM'000 |
| Liabilities | | | | | | | | |
| Deposits from customers | 38,637 | - | - | - | - | - | - | 38,637 |
| Deposits and placements of banks and other financial institutions | 561,228 | 139,768 | - | - | - | - | - | 700,996 |
| Derivative financial instruments | - | - | - | - | - | 5,169 | - | 5,169 |
| Other liabilities | 1,939,840 | - | - | - | - | 138,550 | - | 2,078,390 |
| Provision for taxation | 6,298 | - | - | - | - | - | - | 6,298 |
| Subordinated loan | - | - | - | - | 10,000 | - | - | 10,000 |
| Amounts due to related companies | 17,090 | - | - | - | - | - | - | 17,090 |
| Total liabilities | 2,563,093 | 139,768 | - | - | 10,000 | 143,719 | - | 2,856,580 |
| Net liquidity gap | 698,370 | (139,735) | 18 | 143 | (6,172) | 32,764 | 97,938 | |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.3 Liquidity risk (Continued)

### 48.3.1 Contractual maturity of assets and liabilities (Continued)

(a) The table below analyses the assets and liabilities of the Group based on the remaining period to the contractual maturity date in accordance with BNM guidelines requirements: (Continued)

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **31 December 2016** | **Up to 1 month RM'000** | **> 1 – 3 months RM'000** | **> 3 – 6 months RM'000** | **> 6 – 12 months RM'000** | **> 1 – 5 years RM'000** | **Over 5 years RM'000** | **No-specific maturity RM'000** | **Total RM'000** |
| **Assets** | | | | | | | | |
| Cash and short term funds | 1,419,038 | - | - | - | - | - | - | 1,419,038 |
| Deposits and placements with banks and other financial institutions | 4 | 29 | 2,000 | - | - | - | - | 2,033 |
| Financial assets held for trading | - | - | - | - | - | - | 267 | 267 |
| Derivative financial instruments | - | - | - | - | - | 12,919 | - | 12,919 |
| Financial investments available-for-sale | - | - | - | - | - | - | 1,303 | 1,303 |
| Loans, advances and financing | 34 | 7 | 62 | 228 | 5,649 | 177,486 | - | 183,466 |
| Other assets | 992,038 | - | - | - | - | - | - | 992,038 |
| Deferred tax assets | - | - | - | - | - | - | 15,891 | 15,891 |
| Tax recoverable | 5,895 | - | - | - | - | - | - | 5,895 |
| Statutory deposits with Bank Negara Malaysia | - | - | - | - | - | - | 146 | 146 |
| Investment in associates | - | - | - | - | - | - | 7,202 | 7,202 |
| Property, plant and equipment | - | - | - | - | - | - | 65,093 | 65,093 |
| Goodwill on consolidation | - | - | - | - | - | - | 964 | 964 |
| Amounts due from related companies | 18,075 | - | - | - | - | - | - | 18,075 |
| Investment properties | - | - | - | - | - | - | 18,364 | 18,364 |
| **Total assets** | 2,435,084 | 36 | 2,062 | 228 | 5,649 | 190,405 | 109,230 | 2,742,694 |

# CIMB Investment Bank Berhad
(Incorporated in Malaysia)

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.3 Liquidity risk (Continued)

### 48.3.1 Contractual maturity of assets and liabilities (Continued)

(a) The table below analyses the assets and liabilities of the Group based on the remaining period to the contractual maturity date in accordance with BNM guidelines requirements: (Continued)

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 31 December 2016 | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | No-specific maturity RM'000 | Total RM'000 |
| **Liabilities** | | | | | | | | |
| Deposits from customers | 76,073 | - | - | - | - | - | - | 76,073 |
| Deposits and placements of banks and other financial institutions | 919,049 | 50,000 | 11,108 | - | - | - | - | 980,157 |
| Derivative financial instruments | - | - | - | - | - | 6,884 | - | 6,884 |
| Other liabilities | 882,196 | 203 | - | - | - | 141,050 | - | 1,023,449 |
| Provision for taxation | 100 | - | - | - | - | - | - | 100 |
| Subordinated loans | - | - | - | - | 10,000 | - | - | 10,000 |
| Amounts due to related companies | 3,530 | - | - | - | - | - | - | 3,530 |
| **Total liabilities** | 1,880.948 | 50,203 | 11,108 | - | 10,000 | 147,934 | - | 2,100,193 |
| **Net liquidity gap** | 554,136 | (50,167) | (9,046) | 228 | (4,351) | 42,471 | 109,230 | |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.3 Liquidity risk (Continued)

### 48.3.1 Contractual maturity of assets and liabilities (Continued)

(b) The table below analyses the assets and liabilities of the Bank based on the remaining period to the contractual maturity date in accordance with BNM guidelines requirements:

| | The Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 31 December 2017 | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | No-specific maturity RM'000 | Total RM'000 |
| **Assets** | | | | | | | | |
| Cash and short term funds | 1,177,737 | - | - | - | - | - | - | 1,177,737 |
| Financial assets held for trading | - | - | - | - | 286 | 1,481 | 757 | 2,524 |
| Derivative financial instruments | - | - | - | - | - | 9,071 | - | 9,071 |
| Loans, advances and financing | 8 | 4 | 18 | 143 | 3,542 | 165,931 | - | 169,646 |
| Other assets | 2,027,910 | - | - | - | - | - | - | 2,027,910 |
| Deferred tax assets | - | - | - | - | - | - | 21,217 | 21,217 |
| Statutory deposits with Bank Negara Malaysia | - | - | - | - | - | - | 91 | 91 |
| Investment in subsidiaries | - | - | - | - | - | - | 9,050 | 9,050 |
| Property, plant and equipment | - | - | - | - | - | - | 49,229 | 49,229 |
| Amounts due from related companies | 4,788 | - | - | - | - | - | - | 4,788 |
| Investment properties | - | - | - | - | - | - | 17,849 | 17,849 |
| Total assets | 3,210,443 | 4 | 18 | 143 | 3,828 | 176,483 | 98,193 | 3,489,112 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.3 Liquidity risk (Continued)

### 48.3.1 Contractual maturity of assets and liabilities (Continued)

(b) The table below analyses the assets and liabilities of the Bank based on the remaining period to the contractual maturity date in accordance with BNM guidelines requirements: (Continued)

| | The Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 31 December 2017 | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | No-specific maturity RM'000 | Total RM'000 |
| **Liabilities** | | | | | | | | |
| Deposits from customers | 38,637 | - | - | - | - | - | - | 38,637 |
| Deposits and placements of banks and other financial institutions | 561,228 | 139,768 | - | - | - | - | - | 700,996 |
| Derivative financial instruments | - | - | - | - | - | 5,169 | - | 5,169 |
| Other liabilities | 1,937,736 | - | - | - | - | 138,550 | - | 2,076,286 |
| Provision for taxation and Zakat | 6,242 | - | - | - | - | - | - | 6,242 |
| Amounts due to related companies | 17,090 | - | - | - | - | - | - | 17,090 |
| **Total liabilities** | 2,560,933 | 139,768 | - | - | - | 143,719 | - | 2,844,420 |
| | | | | | | | | |
| Net liquidity gap | 649,510 | (139,764) | 18 | 143 | 3,828 | 32,764 | 98,193 | |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.3 Liquidity risk (Continued)

### 48.3.1 Contractual maturity of assets and liabilities (Continued)

(b) The table below analyses the assets and liabilities of the Bank based on the remaining period to the contractual maturity date in accordance with BNM guidelines requirements: (Continued)

| | The Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 31 December 2016 | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | No-specific maturity RM'000 | Total RM'000 |
| Assets | | | | | | | | |
| Cash and short term funds | 1,374,452 | - | - | - | - | - | - | 1,374,452 |
| Deposits and placements with banks and other financial institutions | 4 | - | 2,000 | - | - | - | - | 2,004 |
| Financial assets held for trading | - | - | - | - | - | - | 267 | 267 |
| Financial investments available-for-sale | - | - | - | - | - | - | 611 | 611 |
| Derivative financial instruments | - | - | - | - | - | 12,919 | - | 12,919 |
| Loans, advances and financing | 34 | 7 | 62 | 228 | 5,649 | 177,486 | - | 183,466 |
| Other assets | 989,408 | - | - | - | - | - | - | 989,408 |
| Deferred tax asset | - | - | - | - | - | - | 15,771 | 15,771 |
| Tax recoverable | 5,895 | - | - | - | - | - | - | 5,895 |
| Statutory deposits with Bank Negara Malaysia | - | - | - | - | - | - | 146 | 146 |
| Investment in subsidiaries | - | - | - | - | - | - | 9,050 | 9,050 |
| Amounts due from related companies | 18,118 | - | - | - | - | - | - | 18,118 |
| Property, plant and equipment | - | - | - | - | - | - | 66,027 | 66,027 |
| Investment properties | - | - | - | - | - | - | 18,364 | 18,364 |
| Total assets | 2,387,911 | 7 | 2,062 | 228 | 5,649 | 190,405 | 110,236 | 2,696,498 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.3 Liquidity risk (Continued)

### 48.3.1 Contractual maturity of assets and liabilities (Continued)

(b) The table below analyses the assets and liabilities of the Bank based on the remaining period to the contractual maturity date in accordance with BNM guidelines requirements: (Continued)

| | The Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 31 December 2016 | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | No-specific maturity RM'000 | Total RM'000 |
| **Liabilities** | | | | | | | | |
| Deposits from customers | 76,073 | - | - | - | - | - | - | 76,073 |
| Deposits and placements of banks and other financial institutions | 919,049 | 50,000 | 11,108 | - | - | - | - | 980,157 |
| Derivative financial instruments | - | - | - | - | - | 6,884 | - | 6,884 |
| Other liabilities | 880,088 | - | - | - | - | 141,050 | - | 1,021,138 |
| Amounts due to related companies | 3,530 | - | - | - | - | - | - | 3,530 |
| **Total liabilities** | 1,878,740 | 50,000 | 11,108 | - | - | 147,934 | - | 2,087,782 |
| **Net liquidity gap** | 509,171 | (49,993) | (9,046) | 228 | 5,649 | 42,471 | 110,236 | |

# CIMB Investment Bank Berhad
(Incorporated in Malaysia)

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.3 Liquidity risk (Continued)

### 48.3.2 Contractual maturity of financial liabilities on an undiscounted basis

Non-derivative financial liabilities

The tables below present the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flow.

| The Group | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | No-specific maturity RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| 31 December 2017 | | | | | | | | |
| Non-derivative financial liabilities | | | | | | | | |
| Deposits from customers | 38,667 | - | - | - | - | - | - | 38,667 |
| Deposits and placements of banks and other financial institutions | 561,720 | 140,820 | - | - | - | - | - | 702,540 |
| Other liabilities | 1,906,224 | - | - | - | - | 138,550 | - | 2,044,774 |
| Amounts due to related companies | 17,090 | - | - | - | - | - | - | 17,090 |
| Subordinated loans | - | - | - | 500 | 11,065 | - | - | 11,565 |
| | 2,523,701 | 140,820 | - | 500 | 11,065 | 138,550 | - | 2,814,636 |
| Commitments and contingencies | | | | | | | | |
| Credit related commitments and contingencies | - | - | - | - | - | 1,354 | - | 1,354 |
| | - | - | - | - | - | 1,354 | - | 1,354 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.3 Liquidity risk (Continued)

### 48.3.2 Contractual maturity of financial liabilities on an undiscounted basis (Continued)

Non-derivative financial liabilities (Continued)

The tables below present the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flow. (Continued)

| The Group | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | No-specific maturity RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **31 December 2016** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Deposits from customers | 76,192 | - | - | - | - | 11 | - | 76,203 |
| Deposits and placements of banks and other financial institutions | 919,582 | 50,236 | 11,234 | - | - | - | - | 981,052 |
| Other liabilities | 866,262 | 203 | - | - | - | 141,050 | - | 1,007,515 |
| Amounts due to related companies | 3,530 | - | - | - | - | - | - | 3,530 |
| Subordinated loans | - | - | - | 500 | 11,065 | - | - | 11,565 |
| | 1,865,566 | 50,439 | 11,234 | 500 | 11,065 | 141,061 | - | 2,079,865 |
| Commitments and contingencies | | | | | | | | |
| Credit related commitments and contingencies | - | 13,500 | - | - | 24 | 6,984 | - | 20,508 |
| | - | 13,500 | - | - | 24 | 6,984 | - | 20,508 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.3 Liquidity risk (Continued)

### 48.3.2 Contractual maturity of financial liabilities on an undiscounted basis (Continued)

Non-derivative financial liabilities (Continued)

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flow.

| | The Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 31 December 2017 | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | No-specific maturity RM'000 | Total RM'000 |
| Non-derivative financial liabilities | | | | | | | | |
| Deposits from customers | 38,667 | - | - | - | - | - | - | 38,667 |
| Deposits and placements of banks and other financial institutions | 561,720 | 140,820 | - | - | - | - | - | 702,540 |
| Other liabilities | 1,903,809 | - | - | - | - | 138,550 | - | 2,042,359 |
| Amounts due to related companies | 17,090 | - | - | - | - | - | - | 17,090 |
| | 2,521,286 | 140,820 | - | - | - | 138,550 | - | 2,800,656 |
| Commitments and contingencies | | | | | | | | |
| Credit related commitments and contingencies | - | - | - | - | - | 1,354 | - | 1,354 |
| | - | - | - | - | - | 1,354 | - | 1,354 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.3 Liquidity risk (Continued)

### 48.3.2 Contractual maturity of financial liabilities on an undiscounted basis (Continued)

Non-derivative financial liabilities (Continued)

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flow. (Continued)

| | The Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 31 December 2016 | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | No-specific maturity RM'000 | Total RM'000 |
| Non-derivative financial liabilities | | | | | | | | |
| Deposits from customers | 76,192 | - | - | - | - | 11 | - | 76,203 |
| Deposits and placements of banks and other financial institutions | 919,582 | 50,236 | 11,234 | - | - | - | - | 981,052 |
| Other liabilities | 864,154 | - | - | - | - | 141,050 | - | 1,005,204 |
| Amounts due to related companies | 3,530 | - | - | - | - | - | - | 3,530 |
| | 1,863,458 | 50,236 | 11,234 | - | - | 141,061 | - | 2,065,989 |
| Commitments and contingencies | | | | | | | | |
| Credit related commitments and contingencies | - | 13,500 | - | - | 24 | 6,984 | - | 20,508 |
| | - | 13,500 | - | - | 24 | 6,984 | - | 20,508 |

## 48 Financial Risk Management (Continued)

### 48.3 Liquidity risk (Continued)

### 48.3.2 Contractual maturity of financial liabilities on an undiscounted basis (Continued)

<u>Derivative financial liabilities</u>

The table below analyses the Group's and the Bank's trading derivative financial liabilities that will be settled on a net basis.

All net settled trading derivatives are analysed based on the expected maturity as the contractual maturity is not considered to be essential to the understanding of the timing of the cash flows. The amounts disclosed in respect of such contracts are the fair values.

| | The Group and the Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 31 December 2017 | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | No-specific maturity RM'000 | Total RM'000 |
| Derivative financial liabilities | | | | | | | | |
| Trading derivatives | | | | | | | | |
| - Credit related derivatives | (5,169) | - | - | - | - | - | - | (5,169) |
| | (5,169) | - | - | - | - | - | - | (5,169) |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.3 Liquidity risk (Continued)

### 48.3.2 Contractual maturity of financial liabilities on an undiscounted basis (Continued)

Derivative financial liabilities (Continued)

All net settled trading derivatives are analysed based on the expected maturity as the contractual maturity is not considered to be essential to the understanding of the timing of the cash flows. The amounts disclosed in respect of such contracts are the fair values. (Continued)

| | The Group and the Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 31 December 2016 | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 6 months RM'000 | > 6 – 12 months RM'000 | > 1 – 5 years RM'000 | Over 5 years RM'000 | No-specific maturity RM'000 | Total RM'000 |
| **Derivative financial liabilities** | | | | | | | | |
| Trading derivatives | | | | | | | | |
| - Foreign exchange derivatives | (90) | - | - | - | - | - | - | (90) |
| - Credit related derivatives | (6,794) | - | - | - | - | - | - | (6,794) |
| | (6,884) | - | - | - | - | - | - | (6,884) |

## 48 Financial Risk Management (Continued)

### 48.4 Fair value estimation

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.

### 48.4.1 Determination of fair value and fair value hierarchy

The fair value hierarchy has the following levels:

| | |
|---|---|
| Level 1 | Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. |
| Level 2 | Inputs to the valuation methodology include:<br>• Quoted prices for similar assets and liabilities in active markets; or<br>• Quoted prices for identical or similar assets and liabilities in non-active markets; or<br>• Inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. |
| Level 3 | One or more inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

Assets/liabilities are classified as Level 1 when the valuation is based on quoted prices for identical assets or liabilities in active markets.

Assets/liabilities are regarded as being quoted in an active market if the prices are readily available from a published and reliable source and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When fair value is determined using quoted prices of similar assets/liabilities in active markets or quoted prices of identical or similar assets and liabilities in non-active markets, such assets/liabilities are classified as Level 2. In cases where quoted prices are generally not available, the Group determines fair value based upon valuation techniques that use market parameters as inputs. Most valuation techniques employ observable market data, including but not limited to yield curves, equity prices, volatilities and foreign exchange rates.

Assets/liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data. Such inputs are determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

If prices or quotes are not available for an instrument or a similar instrument, fair value will be established by using valuation techniques or Mark-to-Model. Judgment may be required to assess the need for valuation adjustments to appropriately reflect unobservable parameters. The valuation models shall also consider relevant transaction data such as maturity. The inputs are then benchmarked and extrapolated to derive the fair value.



## 48 Financial Risk Management (Continued)

### 48.4 Fair value estimation (Continued)

### 48.4.1 Determination of fair value and fair value hierarchy (Continued)

**Valuation model review and approval**

- Fair valuation of financial instruments is determined either through Mark-to-Market or Mark-to-Model methodology, as appropriate;

- Market Risk Management is mandated to perform mark-to-market, mark-to-model and rate reasonableness verification. Market price and/or rate sources for Mark-to-Market are validated by Market Risk Management as part and parcel of rate reasonableness verification;

- Valuation methodologies for the purpose of determining Mark-to-Model prices will be verified by Group Risk Management Quantitative analysts before submitting to GMRC for approval;

- Mark-to-Model process shall be carried out by Market Risk Management within Group Risk. Group Risk Management Quantitative Analysts are responsible for independent evaluation and validation of the Group's financial models used for valuation;

- Group Risk Management Quantitative analysts are the guardian of the financial models and valuation methodologies. Market rate sources and model inputs for the purpose of Mark-to-Model must be verified by Group Risk Management Quantitative Analysts and approved by Regional Head, Market Risk Management and/or the Group Market Risk Committee;

- Model risk and unobservable parameter reserve must be considered to provide for the uncertainty of the model assumptions; and

- The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer; and

- Independent price verification process shall be carried out by Market Risk Management to ensure that financial assets/liabilities are recorded at fair value.

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.4 Fair value estimation (Continued)

### 48.4.1 Determination of fair value and fair value hierarchy (Continued)

The following table represents assets and liabilities measured at fair value and classified by level with the following fair value hierarchy :

| | The Group | | | | | The Bank | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount RM'000 | Fair Value Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 | Carrying amount RM'000 | Fair Value Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 |
| **31 December 2017** | | | | | | | | | | |
| *Recurring fair value measurement* | | | | | | | | | | |
| Financial assets | | | | | | | | | | |
| Financial assets held for trading | | | | | | | | | | |
| - Quoted securities | 757 | 757 | - | - | 757 | 757 | 757 | - | - | 757 |
| - Unquoted securities | 1,767 | - | 1,767 | - | 1,767 | 1,767 | - | 1,767 | - | 1,767 |
| Financial investments available-for-sale | | | | | | | | | | |
| - Unquoted securities | 821 | - | - | 821 | 821 | - | - | - | - | - |
| Derivative financial instruments | | | | | | | | | | |
| - Trading derivatives | 9,071 | - | 9,071 | - | 9,071 | 9,071 | - | 9,071 | - | 9,071 |
| Total | 12,416 | 757 | 10,838 | 821 | 12,416 | 11,595 | 757 | 10,838 | - | 11,595 |
| *Recurring fair value measurement* | | | | | | | | | | |
| Financial liabilities | | | | | | | | | | |
| Derivative financial instruments | | | | | | | | | | |
| - Trading derivatives | 5,169 | - | 5,169 | - | 5,169 | 5,169 | - | 5,169 | - | 5,169 |
| Total | 5,169 | - | 5,169 | - | 5,169 | 5,169 | - | 5,169 | - | 5,169 |

# Notes to the Financial Statements
# for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.4 Fair value estimation (Continued)

### 48.4.1 Determination of fair value and fair value hierarchy (Continued)

The following table represents assets and liabilities measured at fair value and classified by level with the following fair value hierarchy: (Continued):

| | The Group | | | | | The Bank | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Fair Value Level 1 | Fair Value Level 2 | Fair Value Level 3 | Total | Carrying amount | Fair Value Level 1 | Fair Value Level 2 | Fair Value Level 3 | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **31 December 2016** | | | | | | | | | | |
| *Recurring fair value measurement* | | | | | | | | | | |
| Financial assets | | | | | | | | | | |
| Financial assets held for trading | | | | | | | | | | |
| - Quoted securities | 267 | 267 | - | - | 267 | 267 | 267 | - | - | 267 |
| Financial investments available-for-sale | | | | | | | | | | |
| - Unquoted securities | 1,303 | - | - | 1,303 | 1,303 | 611 | - | - | 611 | 611 |
| Derivative financial instruments | | | | | | | | | | |
| - Trading derivatives | 12,919 | - | 12,919 | - | 12,919 | 12,919 | - | 12,919 | - | 12,919 |
| Total | 14,489 | 267 | 12,919 | 1,303 | 14,489 | 13,797 | 267 | 12,919 | 611 | 13,797 |
| *Recurring fair value measurement* | | | | | | | | | | |
| Financial liabilities | | | | | | | | | | |
| Derivative financial instruments | | | | | | | | | | |
| - Trading derivatives | 6,884 | - | 6,884 | - | 6,884 | 6,884 | - | 6,884 | - | 6,884 |
| Total | 6,884 | - | 6,884 | - | 6,884 | 6,884 | - | 6,884 | - | 6,884 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.4 Fair value estimation (Continued)

### 48.4.1 Determination of fair value and fair value hierarchy (Continued)

The following represents the changes in Level 3 instruments for the financial year ended 31 December 2017 and 31 December 2016 for the Group and the Bank.

| | The Group<br>Financial Assets<br>Financial investments<br>available-for-sale<br>RM'000 | Total<br>RM'000 |
|---|---|---|
| **2017** | | |
| At 1 January | 1,303 | 1,303 |
| Total loss recognised in statement of income | (37) | (37) |
| Total gain recognised in other comprehensive income | 129 | 129 |
| Redemption | (574) | (574) |
| At 31 December | 821 | 821 |
| Total loss recognised in statement of income relating to assets held on 31 December 2017 | (37) | (37) |
| **2016** | | |
| At 1 January | 1,437 | 1,437 |
| Total loss recognised in statement of income | (134) | (134) |
| At 31 December | 1,303 | 1,303 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.4 Fair value estimation (Continued)

### 48.4.1 Determination of fair value and fair value hierarchy (Continued)

The following represents the changes in Level 3 instruments for the financial year ended 31 December 2017 and 31 December 2016 for the Group and the Bank. (Continued)

| | The Bank<br>Financial Assets<br>Financial investments<br>available-for-sale<br>RM'000 | Total<br>RM'000 |
|---|---|---|
| **2017** | | |
| At 1 January | 611 | 611 |
| Total losses recognised in statement of income | (37) | (37) |
| Redemption | (574) | (574) |
| At 31 December | - | - |
| | | |
| **2016** | | |
| At 1 January | 745 | 745 |
| Total losses recognised in statement of income | (134) | (134) |
| At 31 December | 611 | 611 |

### 48.4.2 Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Certain credit derivatives products where valuation inputs are unobservable are valued using analytic/semi-analytic pricing models that model credit default with other market variables such as foreign exchange ("FX") rates in a mathematically and theoretically consistent framework. These valuation models are the usual market standard used in credit derivatives pricing.

## 48 Financial Risk Management (Continued)

### 48.4 Fair value estimation (Continued)

#### 48.4.2 Quantitative information about fair value measurements using significant unobservable inputs (Level 3) (Continued)

Credit derivatives inputs deemed to trigger Level 3 classification:

- Credit correlation between the underlying debt instruments
- Correlation between Credit and FX

Actual transactions, where available, are used to regularly recalibrate unobservable parameters

For the purpose of Model Reserve, the following ranges (where applicable) are proposed to be used for performing sensitivity analysis to determine such reserves:

- Credit correlation (reserve on a Level 3 input) -
  1. Long correlation positions will be shocked with lower correlation
  2. Short correlation positions will be shocked with higher correlation

- Credit & FX correlation (reserve on a Level 3 input) -
  1. Short Quanto CDS position shocked with larger negative correlation
  2. Long Quanto CDS position shocked with larger positive correlation

- FX Volatility (reserve on a valuation model) -
  1. Long volatility shocked with lower volatility
  2. Short volatility shocked with higher volatility

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.4 Fair value estimation (Continued)

### 48.4.2 Quantitative information about fair value measurements using significant unobservable inputs (Level 3) (Continued)

Equity derivatives which primarily include over-the-counter options on individual or basket of shares or market indices are valued using option pricing models such as Black-Scholes and Monte Carlo Simulations.

These models are calibrated with the inputs which include underlying spot prices, dividend and yield curves. A Level 3 input for equity options is historical volatility i.e., volatility derived from the shares' historical prices. The magnitude and direction of the impact to the fair value depend on whether the Group is long or short the exposure.

- Higher volatility will result in higher fair value for net long positions.
- Higher volatility will result in lower fair value for net short positions.

Fund derivatives which primarily include over-the-counter options on funds (mutual funds, unit trusts, etc.) are valued using option pricing models such as Black-Scholes.

These models utilize pricing inputs which include underlying fund prices, dividend and yield curves. A Level 3 input for fund options is historical volatility i.e., volatility derived from the funds' historical prices. The magnitude and direction of the impact to the fair value depends on whether the Group is long or short the exposure.

- Higher volatility will result in higher fair value for net long positions.
- Lower volatility will result in higher fair value for net short positions.

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.4 Fair value estimation (Continued)

#### 48.4.2 Quantitative information about fair value measurements using significant unobservable inputs (Level 3) (Continued)

**The Group**
**31 December 2017**

| Description | Fair value assets (RM'000) | Valuation technique(s) | Unobservable input | Range of unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|---|---|---|---|---|
| Financial investments available-for-sale | 821 | Net tangible asset | Net tangible asset | Not applicable | Higher net tangible assets results in higher fair value |

**31 December 2016**

| Description | Fair value assets (RM'000) | Valuation technique(s) | Unobservable input | Range of unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|---|---|---|---|---|
| Financial investments available-for-sale | 1,303 | Net tangible asset | Net tangible asset | Not applicable | Higher net tangible assets results in higher fair value |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.4 Fair value estimation (Continued)

### 48.4.2 Quantitative information about fair value measurements using significant unobservable inputs (Level 3) (Continued)

**The Bank**
**31 December 2017**

| Description | Fair value assets (RM'000) | Valuation technique(s) | Unobservable input | Range of unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|---|---|---|---|---|
| Financial investments available-for-sale | - | Net tangible asset | Net tangible asset | Not applicable | Higher net tangible assets results in higher fair value |

**31 December 2016**

| Description | Fair value assets (RM'000) | Valuation technique(s) | Unobservable input | Range of unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|---|---|---|---|---|
| Financial investments available-for-sale | 611 | Net tangible asset | Net tangible asset | Not applicable | Higher net tangible assets results in higher fair value |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.4 Fair value estimation (Continued)

### 48.4.3 Assets and liabilities not measured at fair value but for which fair value is disclosed

The following table analyses within the fair value hierarchy the Group's assets and liabilities not measured at fair value at 31 December 2017 and 31 December 2016 but for which fair value is disclosed.

| | | The Group Fair Value | | |
|---|---|---|---|---|
| | | Quoted market prices | Observable inputs | |
| | Carrying value | (Level 1) | (Level 2) | Total |
| **31 December 2017** | RM'000 | RM'000 | RM'000 | RM'000 |
| **Financial assets** | | | | |
| Cash and short-term funds | 1,226,387 | 1,226,387 | - | 1,226,387 |
| Deposits and placement with banks and other financial institutions | 29 | - | 29 | 29 |
| Loans, advances and financing | 169,646 | - | 166,298 | 166,298 |
| Other assets | 2,030,591 | - | 2,030,591 | 2,030,591 |
| Amounts due from related companies | 4,477 | - | 4,477 | 4,477 |
| Investment properties | 17,849 | - | 44,000 | 44,000 |
| Statutory deposits with Bank Negara Malaysia | 91 | 91 | - | 91 |
| Total | 3,449,070 | 1,226,478 | 2,245,395 | 3,471,873 |
| | | | | |
| **Financial liabilities** | | | | |
| Deposits from customers | 38,637 | - | 38,637 | 38,637 |
| Deposits and placements of banks and other financial institutions | 700,996 | - | 700,996 | 700,996 |
| Other liabilities | 2,078,390 | - | 2,078,045 | 2,078,045 |
| Amounts due to related companies | 17,090 | - | 17,090 | 17,090 |
| Subordinated loan | 10,000 | - | 10,000 | 10,000 |
| Total | 2,845,113 | - | 2,844,768 | 2,844,768 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.4 Fair value estimation (Continued)

#### 48.4.3 Assets and liabilities not measured at fair value but for which fair value is disclosed (Continued)

The following table analyses within the fair value hierarchy the Group's assets and liabilities not measured at fair value at 31 December 2017 and 31 December 2016 but for which fair value is disclosed. (Continued)

| | | The Group Fair Value | | |
|---|---|---|---|---|
| **31 December 2016** | **Carrying value RM'000** | **Quoted market prices (Level 1) RM'000** | **Observable inputs (Level 2) RM'000** | **Total RM'000** |
| **Financial assets** | | | | |
| Cash and short-term funds | 1,419,038 | 1,419,038 | - | 1,419,038 |
| Deposits and placement with banks and other financial institutions | 2,033 | - | 2,033 | 2,033 |
| Loans, advances and financing | 183,466 | - | 179,355 | 179,355 |
| Other assets | 992,038 | - | 992,038 | 992,038 |
| Amounts due from related companies | 18,075 | - | 18,075 | 18,075 |
| Investment properties | 18,364 | - | 44,000 | 44,000 |
| Statutory deposits with Bank Negara Malaysia | 146 | 146 | - | 146 |
| **Total** | 2,633,160 | 1,419,184 | 1,235,501 | 2,654,685 |
| | | | | |
| **Financial liabilities** | | | | |
| Deposits from customers | 76,073 | - | 76,073 | 76,073 |
| Deposits and placements of banks and other financial institutions | 980,157 | - | 980,157 | 980,157 |
| Other liabilities | 1,023,449 | - | 1,022,975 | 1,022,975 |
| Amounts due to related companies | 3,530 | - | 3,530 | 3,530 |
| Subordinated loan | 10,000 | - | 10,000 | 10,000 |
| **Total** | 2,093,209 | - | 2,092,735 | 2,092,735 |

## 48 Financial Risk Management (Continued)

### 48.4 Fair value estimation (Continued)

### 48.4.3 Assets and liabilities not measured at fair value but for which fair value is disclosed (Continued)

The following table analyses within the fair value hierarchy the Bank's assets and liabilities not measured at fair value at 31 December 2017 and 31 December 2016 but for which fair value is disclosed.

| | The Bank | | | |
|---|---|---|---|---|
| | | Fair Value | | |
| 31 December 2017 | Carrying value RM'000 | Quoted market prices (Level 1) RM'000 | Observable inputs (Level 2) RM'000 | Total RM'000 |
| **Financial assets** | | | | |
| Cash and short-term funds | 1,177,737 | 1,177,737 | - | 1,177,737 |
| Loans, advances and financing | 169,646 | - | 166,298 | 166,298 |
| Other assets | 2,027,910 | - | 2,027,910 | 2,027,910 |
| Amounts due from related companies | 4,788 | - | 4,788 | 4,788 |
| Investment properties | 17,849 | - | 44,000 | 44,000 |
| Statutory deposits with Bank Negara Malaysia | 91 | 91 | - | 91 |
| **Total** | 3,398,021 | 1,177,828 | 2,242,996 | 3,420,824 |
| | | | | |
| **Financial liabilities** | | | | |
| Deposits from customers | 38,637 | - | 38,637 | 38,637 |
| Deposits and placements of banks and other financial institutions | 700,996 | - | 700,996 | 700,996 |
| Other liabilities | 2,076,286 | - | 2,075,940 | 2,075,940 |
| Amounts due to related companies | 17,090 | - | 17,090 | 17,090 |
| **Total** | 2,833,009 | - | 2,832,663 | 2,832,663 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.4 Fair value estimation (Continued)

#### 48.4.3 Assets and liabilities not measured at fair value but for which fair value is disclosed (Continued)

The following table analyses within the fair value hierarchy the Bank's assets and liabilities not measured at fair value at 31 December 2017 and 31 December 2016 but for which fair value is disclosed. (Continued)

| | The Bank | | | |
|---|---|---|---|---|
| | | Fair Value | | |
| | Carrying value | Quoted market prices (Level 1) | Observable inputs (Level 2) | Total |
| **31 December 2016** | RM'000 | RM'000 | RM'000 | RM'000 |
| **Financial assets** | | | | |
| Cash and short-term funds | 1,374,452 | 1,374,452 | - | 1,374,452 |
| Deposits and placement with banks and other financial institutions | 2,004 | - | 2,004 | 2,004 |
| Loans, advances and financing | 183,466 | - | 179,355 | 179,355 |
| Other assets | 989,408 | - | 989,408 | 989,408 |
| Amounts due from related companies | 18,118 | - | 18,118 | 18,118 |
| Investment properties | 18,364 | - | 44,000 | 44,000 |
| Statutory deposits with Bank Negara Malaysia | 146 | 146 | - | 146 |
| **Total** | 2,585,958 | 1,374,598 | 1,232,885 | 2,607,483 |
| | | | | |
| **Financial liabilities** | | | | |
| Deposits from customers | 76,073 | - | 76,073 | 76,073 |
| Deposits and placements of banks and other financial institutions | 980,157 | - | 980,157 | 980,157 |
| Other liabilities | 1,021,138 | - | 1,020,664 | 1,020,664 |
| Amounts due to related companies | 3,530 | - | 3,530 | 3,530 |
| **Total** | 2,080,898 | - | 2,080,424 | 2,080,424 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 48 Financial Risk Management (Continued)

### 48.4 Fair value estimation (Continued)

### 48.4.3 Assets and liabilities not measured at fair value but for which fair value is disclosed (Continued)

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

**Short term funds and placements with financial institutions**

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

**Other assets**

The fair value of other assets approximates the carrying value less impairment allowance at the statement of financial position date.

**Loans, advances and financing**

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

For fixed rate loans with maturities of six months or more, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of loans with similar credit risks and maturities.

The fair values of impaired floating and fixed rate loans are represented by their carrying value, net of individual impairment allowance, being the expected recoverable amount.

## 48 Financial Risk Management (Continued)

### 48.4 Fair value estimation (Continued)

#### 48.4.3 Assets and liabilities not measured at fair value but for which fair value is disclosed (Continued)

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

**Amounts due (to)/from subsidiaries and related companies**

The estimated fair values of the amounts due (to)/from subsidiaries and related companies approximate the carrying values as the balances are either recallable on demand or are based on the current rates for such similar loans.

**Amounts due (to)/from holding company and ultimate holding company**

The estimated fair value of the amounts due (to)/from holding company approximates the carrying value as the balances are recallable on demand.

**Deposits from customers**

For deposits from customers with maturities of less than six months, the carrying amounts are a reasonable estimate of their fair value. For deposit with maturities of six months or more, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

**Deposits and placements of banks and other financial institutions**

The estimated fair values of deposits and placements of banks and other financial institutions with maturities of less than six months approximate the carrying values. For deposits and placements with maturities of six months or more, the fair values are estimated based on discounted cash flows using prevailing money market interest rates for deposits and placements with similar remaining period to maturities.

## 48 Financial Risk Management (Continued)

### 48.4 Fair value estimation (Continued)

#### 48.4.3 Assets and liabilities not measured at fair value but for which fair value is disclosed (Continued)

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

**Other liabilities**

The fair value of other liabilities approximates the carrying value at the statement of financial position date.

**Other borrowings**

The estimated fair values of other borrowings with maturities of less than six months approximate the carrying values. For other borrowings with maturities six months or more, the fair values are estimated based on discounted cash flows using prevailing market rates for borrowings with similar risk profile.

**Credit related commitment and contingencies**

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

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 49 The operations of Islamic Banking

### Statements of Financial Position as at 31 December 2017

| | | The Group and the Bank | |
|---|---|---|---|
| | | 31 December 2017 | 31 December 2016 |
| | Note | RM'000 | RM'000 |
| **Assets** | | | |
| Cash and short term funds | (a) | 418,545 | 428,970 |
| Islamic derivative financial instruments | (b) | 9,071 | 12,919 |
| Other assets | (c) | 142,543 | 181,542 |
| Tax recoverable | | 420 | 1,172 |
| Deferred tax assets | (d) | 123 | 25 |
| Property, plant and equipment | (e) | 132 | 229 |
| Amounts due from related companies | (f) | 292 | 432 |
| **Total assets** | | 571,126 | 625,289 |
| **Liabilities and Islamic Banking capital funds** | | | |
| Islamic derivative financial instruments | (b) | 5,169 | 6,794 |
| Other liabilities | (g) | 157,903 | 190,504 |
| Amounts due to related companies | (f) | 413 | 402 |
| **Total liabilities** | | 163,485 | 197,700 |
| Islamic Banking capital funds | | 55,696 | 55,696 |
| Reserves | | 351,945 | 371,893 |
| **Total Islamic Banking capital funds** | | 407,641 | 427,589 |
| **Total liabilities and Islamic Banking capital funds** | | 571,126 | 625,289 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 49 The operations of Islamic Banking (Continued)

### Statements of Income for the financial year ended 31 December 2017

| | | The Group and the Bank | |
|---|---|---|---|
| | | 2017 | 2016 |
| | Note | RM'000 | RM'000 |
| Income derived from investment of shareholders' funds | (h) | 62,153 | 64,490 |
| Allowance for impairment losses on other receivables | | (28) | (57) |
| **Total attributable income** | | 62,125 | 64,433 |
| Income attributable to the depositors | (i) | (20) | (10) |
| **Total net income** | | 62,105 | 64,423 |
| Personnel expenses | (j) | (1,067) | (1,216) |
| Other overheads and expenditures | (k) | (11,937) | (10,494) |
| **Profit before taxation** | | 49,101 | 52,713 |
| Taxation | (l) | (12,049) | (12,907) |
| **Profit after taxation/total comprehensive income for the financial year** | | 37,052 | 39,806 |

| | | |
|---|---|---|
| **Total net income** | 62,105 | 64,423 |
| Add : allowance for impairment losses on other receivables | 28 | 57 |
| **Income from Islamic Banking operations** | 62,133 | 64,480 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 49 The operations of Islamic Banking (Continued)

**Statements of Changes in Equity for the financial year ended 31 December 2017**

| | Islamic Banking capital fund RM'000 | Statutory reserve RM'000 | Retained profits RM'000 | Total RM'000 |
|---|---|---|---|---|
| **The Group and the Bank** | | | | |
| At 1 January 2017 | 55,696 | 1,336 | 370,557 | 427,589 |
| Net profit for the financial year | - | - | 37,052 | 37,052 |
| Total comprehensive income for the financial year | - | - | 37,052 | 37,052 |
| Final dividend paid in respect of the financial year ended 31 December 2016 | - | - | (57,000) | (57,000) |
| **At 31 December 2017** | 55,696 | 1,336 | 350,609 | 407,641 |
| | | | | |
| At 1 January 2016 | 55,250 | 1,336 | 396,751 | 453,337 |
| Net profit for the financial year | - | - | 39,806 | 39,806 |
| Total comprehensive income for the financial year | - | - | 39,806 | 39,806 |
| Issue of capital funds | 446 | - | - | 446 |
| Final dividend paid in respect of the financial year ended 31 December 2015 | - | - | (66,000) | (66,000) |
| **At 31 December 2016** | 55,696 | 1,336 | 370,557 | 427,589 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 49 The operations of Islamic Banking (Continued)

### Statements of Cash Flows for the financial year ended 31 December 2017

| | | The Group and the Bank | |
|---|---|---|---|
| | | 2017 | 2016 |
| | Note | RM'000 | RM'000 |
| **Cash flows from operating activities** | | | |
| Profit before taxation | | 49,101 | 52,713 |
| Add/(less) adjustments: | | | |
| Unrealised foreign exchange (gain)/loss | | (29) | 31 |
| Allowance for impairment losses on other receivables | | 28 | 57 |
| Net unrealised loss on revaluation of Islamic derivative financial instruments | | 2,223 | 2,485 |
| Depreciation of property, plant and equipment | | 99 | 111 |
| Cash flow from operating profit before changes in operating assets and liabilities | | 51,422 | 55,397 |
| | | | |
| **(Increase)/decrease in operating assets** | | | |
| Other assets | | 38,999 | (30,237) |
| Amounts due from related companies | | 140 | (79) |
| | | | |
| **Decrease/(increase) in operating liabilities** | | | |
| Other liabilities | | (32,601) | 38,941 |
| Amounts due to related companies | | 11 | 1 |
| Cash flow used in operating activities | | 57,971 | 64,023 |
| Taxation paid | | (11,394) | (14,377) |
| Net cash generated from operating activities | | 46,577 | 49,646 |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (2) | (2) |
| Issue of capital funds | | - | 446 |
| Net cash (used in)/generated from investing activities | | (2) | 444 |
| | | | |
| **Cash flows from financing activities** | | | |
| Dividends paid | | (57,000) | (66,000) |
| Net cash used in financing activities | | (57,000) | (66,000) |
| | | | |
| **Net decrease in cash and cash equivalents during the financial year** | | (10,425) | (15,910) |
| **Cash and cash equivalents at beginning of the financial year** | | 428,970 | 444,880 |
| **Cash and cash equivalents at end of the financial year** | (a) | 418,545 | 428,970 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 49 The operations of Islamic Banking (Continued)

| | | The Group and the Bank | |
|---|---|---|---|
| | | 31 December 2017 RM'000 | 31 December 2016 RM'000 |
| (a) | **Cash and short term funds** | | |
| | Cash and balances with banks and other financial institutions | 3,103 | 2,980 |
| | Money at call and deposit placements maturing within one month | 415,442 | 425,990 |
| | | 418,545 | 428,970 |

### (b) Islamic derivative financial instruments

The following tables summarise the contractual or underlying principal amounts of Islamic derivative financial instruments held at fair value through profit or loss. The principal or contractual amounts of these instruments reflect the volume of transactions outstanding at the end of the reporting period, and do not represent amounts at risk.

In the financial statements, trading derivative financial instruments are revalued on a gross position basis and the unrealised gains or losses are reflected in "Islamic Derivative Financial Instruments" Assets and Liabilities respectively.

| | The Group and the Bank | | |
|---|---|---|---|
| | Principal amount RM'000 | Fair values Assets RM'000 | Fair values Liabilities RM'000 |
| **At 31 December 2017** | | | |
| **Trading derivatives** | | | |
| Islamic profit rate derivatives | | | |
| Islamic profit rate swaps | 138,550 | 4,519 | - |
| Equity derivatives | | | |
| Equity options | 281,108 | - | - |
| Credit related derivatives | | | |
| Total return swap | 277,100 | 4,552 | (5,169) |
| Total derivative assets/(liabilities) | 696,758 | 9,071 | (5,169) |

## 49 The operations of Islamic Banking (Continued)

### (b) Islamic derivative financial instruments (Continued)

| | The Group and the Bank | | |
|---|---|---|---|
| | Principal amount | Fair values Assets | Liabilities |
| | RM'000 | RM'000 | RM'000 |
| **At 31 December 2016** | | | |
| **Trading derivatives** | | | |
| Islamic profit rate derivatives | | | |
| Islamic profit rate swaps | 141,050 | 6,936 | - |
| Equity derivatives | | | |
| Equity options | 316,883 | - | - |
| Credit related derivatives | | | |
| Total return swap | 282,100 | 5,983 | (6,794) |
| Total derivative assets/(liabilities) | 740,033 | 12,919 | (6,794) |

| | | The Group and the Bank | |
|---|---|---|---|
| | | 31 December 2017 | 31 December 2016 |
| | | RM'000 | RM'000 |
| (c) | **Other assets** | | |
| | Due from brokers and clients, net of allowance for impairment loss | 8,512 | 8,107 |
| | Other debtors, deposits and prepayments | 134,031 | 173,435 |
| | | 142,543 | 181,542 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 49 The operations of Islamic Banking (Continued)

### (d) Deferred taxation

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

| | The Group and the Bank | |
|---|---|---|
| | 31 December 2017 RM'000 | 31 December 2016 RM'000 |
| Deferred taxation asset (net) | 123 | 25 |

The gross movement on the deferred taxation account are as follows:

| | The Group and the Bank | |
|---|---|---|
| | 31 December 2017 RM'000 | 31 December 2016 RM'000 |
| **Deferred tax assets (before offsetting)** | | |
| Other temporary differences | 119 | 25 |
| | 119 | 25 |
| Offsetting | 4 | - |
| **Deferred tax assets (after offsetting)** | 123 | 25 |
| **Deferred tax liabilities (before offsetting)** | | |
| Property, plant and equipment | 4 | - |
| | 4 | - |
| Offsetting | (4) | - |
| **Deferred tax liabilities (after offsetting)** | - | - |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 49 The operations of Islamic Banking (Continued)

### (d) Deferred taxation (Continued)

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

| The Group and the Bank | Accelerated tax depreciation RM'000 | Other temporary differences RM'000 | Total RM'000 |
|---|---|---|---|
| **Deferred tax assets/(liabilities)** | | | |
| At 1 January 2017 | - | 25 | 25 |
| Credited to statements of income | 4 | 95 | 99 |
| Under provision in prior year | - | (1) | (1) |
| At 31 December 2017 | 4 | 119 | 123 |

| The Group and the Bank | Accelerated tax depreciation RM'000 | Other temporary differences RM'000 | Total RM'000 |
|---|---|---|---|
| **Deferred tax assets/(liabilities)** | | | |
| At 1 January 2016 | (8) | 96 | 88 |
| Credited/(charged) to statements of income | 8 | (70) | (62) |
| Under provision in prior year | - | (1) | (1) |
| At 31 December 2016 | - | 25 | 25 |

## 49 The operations of Islamic Banking (Continued)

### (e) Property, plant and equipment

| The Group and the Bank | Office equipment and furniture and fittings RM'000 | Computer equipment and software RM'000 | Motor vehicles RM'000 | Renovation RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **31 December 2017** | | | | | |
| **Cost** | | | | | |
| At 1 January | 285 | 170 | 119 | 216 | 790 |
| Additions | - | 2 | - | - | 2 |
| Disposal | (54) | (48) | - | - | (102) |
| At 31 December | 231 | 124 | 119 | 216 | 690 |
| **Accumulated depreciation** | | | | | |
| At 1 January | 195 | 143 | 119 | 104 | 561 |
| Charge for the financial year | 37 | 19 | - | 43 | 99 |
| Disposal | (54) | (48) | - | - | (102) |
| At 31 December | 178 | 114 | 119 | 147 | 558 |
| **Net book value as at 31 December 2017** | 53 | 10 | - | 69 | 132 |
| **31 December 2016** | | | | | |
| **Cost** | | | | | |
| At 1 January | 285 | 168 | 119 | 216 | 788 |
| Additions | - | 2 | - | - | 2 |
| At 31 December | 285 | 170 | 119 | 216 | 790 |
| **Accumulated depreciation** | | | | | |
| At 1 January | 158 | 112 | 119 | 61 | 450 |
| Charge for the financial year | 37 | 31 | - | 43 | 111 |
| At 31 December | 195 | 143 | 119 | 104 | 561 |
| **Net book value as at 31 December 2016** | 90 | 27 | - | 112 | 229 |

| | The Group and the Bank 31 December 2017 RM'000 | The Group and the Bank 31 December 2016 RM'000 |
|---|---|---|
| **(f) Amounts due from/(to) related companies** | | |
| (i) Amounts due from: | | |
| - Related companies | 292 | 432 |
| (ii) Amounts due to: | | |
| - Related companies | (413) | (402) |

## 49 The operations of Islamic Banking (Continued)

| | | The Group and the Bank | |
|---|---|---|---|
| | | 31 December 2017 RM'000 | 31 December 2016 RM'000 |
| (g) | **Other liabilities** | | |
| | Due to brokers and clients | 16,298 | 49,191 |
| | Structured deposits | 138,550 | 141,050 |
| | Other liabilities | 3,055 | 263 |
| | | 157,903 | 190,504 |

| | | The Group and the Bank | |
|---|---|---|---|
| | | 2017 RM'000 | 2016 RM'000 |
| (h) | **Income derived from investment of shareholders' funds** | | |
| | **Finance income and hibah:** | | |
| | Money at call and deposit and placements with financial institutions | 11,896 | 12,630 |
| | **Other trading income:** | | |
| | Unrealised loss on revaluation of derivatives | (2,223) | (2,485) |
| | Net realised gain on derivatives | 2,629 | 2,744 |
| | | 406 | 259 |
| | **Fee and commission income:** | | |
| | Advisory fees | 8,700 | 2,542 |
| | Placement fees | 7,601 | 456 |
| | Brokerage fees | 5,866 | 11,388 |
| | Underwriting commission | 2,452 | 936 |
| | Others | 23,428 | 36,898 |
| | | 48,047 | 52,220 |
| | **Other income:** | | |
| | Foreign exchange gain/(loss) | 24 | (638) |
| | Others | 1,780 | 19 |
| | | 1,804 | (619) |
| | | 62,153 | 64,490 |

## 49 The operations of Islamic Banking (Continued)

| | | The Group and the Bank | |
|---|---|---|---|
| | | 2017 | 2016 |
| | | RM'000 | RM'000 |
| (i) | **Income attributable to depositors** | | |
| | **Deposits and placements of banks and other financial institutions** | | |
| | - Mudharabah Fund | 19 | 9 |
| | **Others** | | |
| | - Structured deposits | 1 | 1 |
| | | 20 | 10 |
| (j) | **Personnel expenses** | | |
| | - Salaries, allowances and bonuses | 993 | 1,114 |
| | - EPF | 40 | 42 |
| | - Others | 34 | 60 |
| | | 1,067 | 1,216 |
| (k) | **Other overheads and expenditure** | | |
| | **Establishment expenses** | | |
| | - Depreciation of property, plant and equipment | 99 | 111 |
| | - Rental | 238 | 230 |
| | - Others | 47 | 34 |
| | | 384 | 375 |
| | **Marketing expenses** | | |
| | - Others | 68 | 60 |
| | | 68 | 60 |
| | **Administration and general expenses** | | |
| | - Legal and professional fees | 4 | 4 |
| | - Others | 154 | 111 |
| | | 158 | 115 |
| | **Shared services cost** | | |
| | -Personnel cost | 7,119 | 6,248 |
| | -Establishment cost | 2,145 | 2,492 |
| | -Marketing expenses | 299 | 269 |
| | -Administration and general expenses | 1,764 | 935 |
| | | 11,327 | 9,944 |
| | | 11,937 | 10,494 |

## 49 The operations of Islamic Banking (Continued)

(l) **Taxation**

| | The Group and the Bank | |
|---|---|---|
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| **(i) Tax expense for the financial year** | | |
| Current year tax | | |
| - Malaysian income tax | 12,147 | 12,844 |
| Deferred tax | (99) | 62 |
| Under provision in prior years | 1 | 1 |
| | 12,049 | 12,907 |

**(ii) Numerical reconciliation of income tax expense**

The explanation on the relationship between tax expense and profit before taxation is as follows:

| | The Group and the Bank | |
|---|---|---|
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| Profit before taxation | 49,101 | 52,713 |
| Tax calculated at tax rate of 24% | 11,784 | 12,651 |
| Expenses not deductable for tax purposes | 264 | 255 |
| Under provision in prior years | 1 | 1 |
| Tax expense | 12,049 | 12,907 |

(m) **Sources and uses of charity funds**

| | The Group and the Bank | |
|---|---|---|
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| **Sources of charity funds** | | |
| Undistributed charity funds as at 1 January | 1 | - |
| Gharamah/penalty charges | 1 | 1 |
| | 2 | 1 |
| **Undistributed charity funds as at 31 December** | 2 | 1 |

## 49 The operations of Islamic Banking (Continued)

### (n) Related party transactions and balances

(i) Related parties and relationships

The related parties of, and their relationship with the Bank, is disclosed in Note 39 (a).

(ii) Significant related party transactions and balances

A number of banking transactions are entered into with related parties in the normal course of business. These significant related party transactions were carried out on commercial terms (i.e. terms and conditions obtainable in transactions with unrelated parties) and at market rates unless otherwise stated.

| | 31 December 2017 Other related companies RM'000 | 31 December 2016 Other related companies RM'000 |
|---|---|---|
| **The Group and the Bank** | | |
| **Income:** | | |
| Net realised loss on derivatives | (264) | (329) |
| Dividend income | 10,738 | 11,699 |
| | 10,474 | 11,370 |
| **Expenses:** | | |
| Dividend expense | 19 | 9 |
| Dividend paid | 57,000 | 66,000 |
| | 57,019 | 66,009 |
| **The Group and the Bank** | | |
| **Amounts due from:** | | |
| Cash and short term funds | 340 | 920 |
| Other assets | 139,353 | 141,853 |
| | 139,693 | 142,773 |
| **Principal** | | |
| **Equity related contracts:** | | |
| Equity options | 140,554 | 158,441 |

# Notes to the Financial Statements for the financial year ended 31 December 2017 (Continued)

## 49 The operations of Islamic Banking (Continued)

### (o) Capital adequacy ratio

(a) The capital adequacy ratios of the Group and Bank are as follows:

| | The Group and the Bank | |
|---|---|---|
| | 31 December 2017 | 31 December 2016 |
| **Before deducting proposed dividend** | | |
| Common Equity Tier 1 Ratio | 143.155% | 162.516% |
| Tier 1 ratio | 143.155% | 162.516% |
| Total capital ratio | 143.155% | 162.516% |
| **After deducting proposed dividend** | | |
| Common Equity Tier 1 Ratio | 110.836% | 140.851% |
| Tier 1 ratio | 110.836% | 140.851% |
| Total capital ratio | 110.836% | 140.851% |

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

| | The Group and the Bank | |
|---|---|---|
| | 31 December 2017 RM'000 | 31 December 2016 RM'000 |
| Credit risk | 163,477 | 160,917 |
| Market risk | 9,113 | 10,029 |
| Operational risk | 112,080 | 92,144 |
| Total risk-weighted assets | 284,670 | 263,090 |

(c) Components of Common Equity Tier I and Tier II capitals are as follows :

| | The Group and the Bank | |
|---|---|---|
| | 31 December 2017 RM'000 | 31 December 2016 RM'000 |
| **Common Equity Tier I capital** | | |
| Ordinary shares | 55,696 | 55,696 |
| Other reserves | 351,945 | 371,893 |
| Less : Proposed dividends | (92,000) | (57,000) |
| Common Equity Tier I capital / total Tier I Capital | 315,641 | 370,589 |
| Less: Regulatory adjustments | | |
| Deferred Tax Assets | (123) | (25) |
| Common equity tier I capital after regulatory adjustments / total Tier I capital | 315,518 | 370,564 |
| Total capital base | 315,518 | 370,564 |

## 50 Client trust accounts

As at 31 December 2017, cash held in trust for clients by the Group and the Bank amounted to RM1,204,931,000 and RM779,906,000 respectively (31 December 2016: RM1,102,414,000 and RM675,101,000). These amounts are not recognised in the financial statements as the Group and the Bank held them in a fiduciary capacity.

## 51 Authorisation for issue of Financial Statements

The Financial Statements have been authorised for issue in accordance with a resolution of the Board of Directors on 6 March 2018.