



BPMB

Malaysia Development Bank



ANNUAL REPORT **2016**

STRENGTHENING
FINANCIAL RESILIENCE



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Rationale

Despite a challenging economic outlook, BPMB is confident of improving its performance in the coming year. We are confident that we are in a position of strength both financially and strategically to pursue our goal of profitable and sustainable long-term growth.

However, given the uncertainties in the global economy, we are facing challenges in our target sectors. Nevertheless, we will strengthen our fundamentals in order to drive performance and to remain competitive. We will continue to focus on our Islamic financing with the aim to transform into a full-fledged Islamic Development Financial Institution by 2018. By staying focused and leveraging on the strengths of our people, we will continuously strive to deliver results and create value for our shareholders.

CORPORATE PROFILE



INFRASTRUCTURE

- Area Development
- Community, Social & Public Services
- Port
- Tourism
- Transportation
- Utilities
- Road/Highways

OIL & GAS

- Offshore
- Onshore
- Offshore Support Vessels

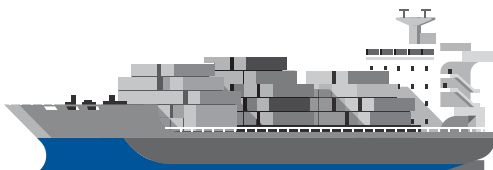


Bank Pembangunan Malaysia Berhad (BPMB) is wholly owned by the Malaysia Government through the Minister of Finance Inc. BPMB is mandated as a development financial institution providing financial solutions to the following sectors:



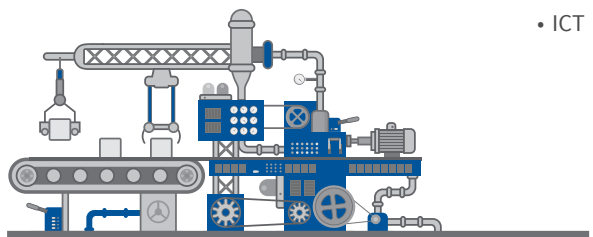
MARITIME

- Shipping
- Shipyard
- Marine Related



TECHNOLOGY

- Manufacturing
- Biotechnology
- Environmental Conservation
- ICT



CORPORATE STRUCTURE



SUBSIDIARIES

90%
GLOBAL MARITIME
VENTURES BHD

100%
SME GROWTH
ACCELERATION
FUND SDN BHD

100%
MAJU NOMINEES
(TEMPATAN) SDN BHD

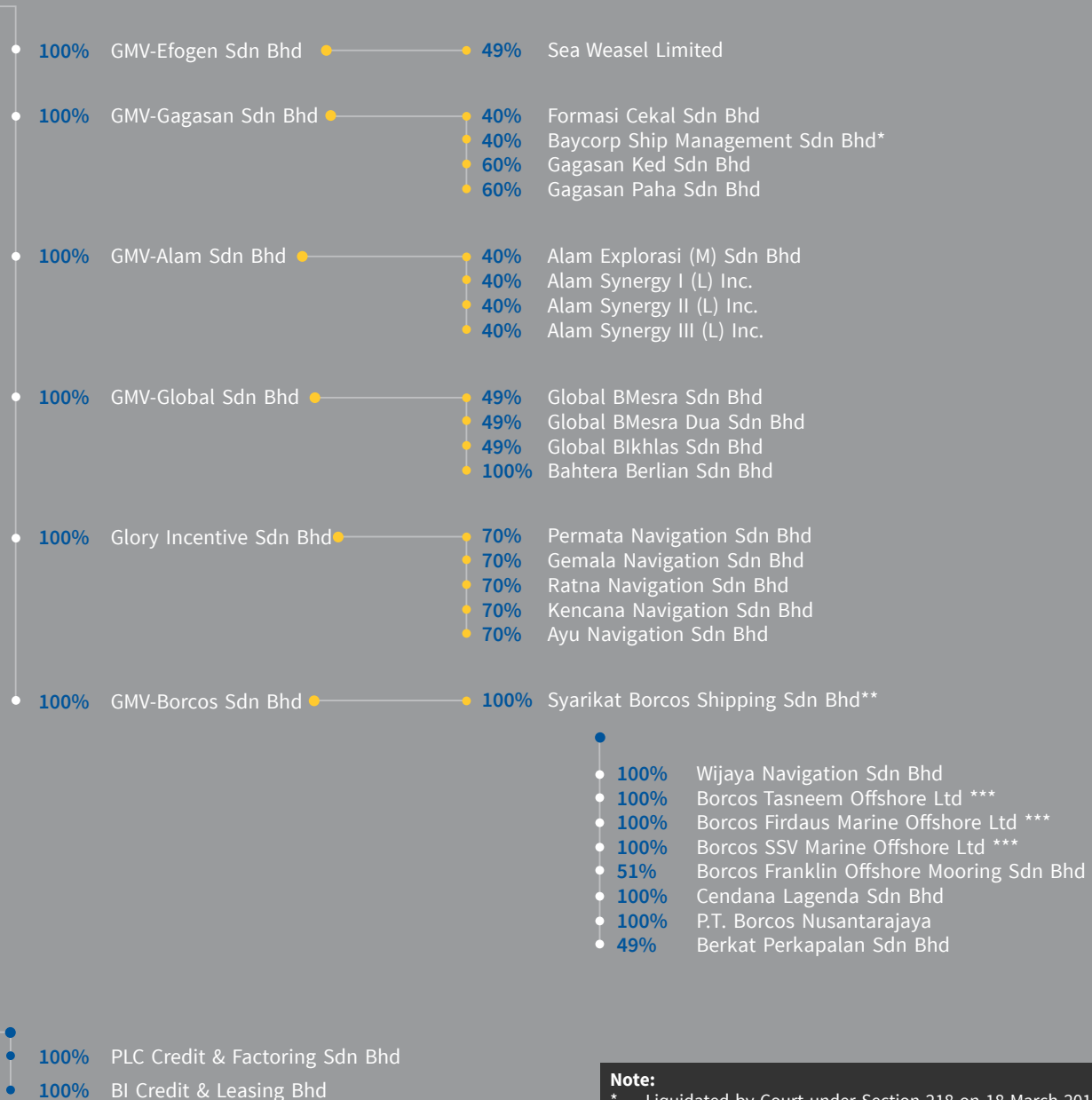
100%
BPMB URUS HARTA
SDN BHD

100%
EMERALD UPLINE
SDN BHD

100%
PEMBANGUNAN LEASING
CORPORATION SDN BHD

- **30%** Wawasan Bulk Services Sdn Bhd
- **70%** Mutiara Navigation Sdn Bhd
- **70%** Sari Navigation Sdn Bhd
- **70%** Nilam Navigation Sdn Bhd
- **100%** GMV-Regional Sdn Bhd
- **100%** GMV-Offshore Sdn Bhd
- **100%** GMV-Orkim Sdn Bhd ****
- **100%** GMV-Bahtera Sdn Bhd
- **100%** GMV-Jasa Sdn Bhd
- **100%** GMV-Omni Sdn Bhd

**OTHERS
(Quoted)**
18.39%
MALAYSIAN BULK
CARRIERS BERHAD



Note:

* Liquidated by Court under Section 218 on 18 March 2015

** The Company was put under Creditors' Voluntary Liquidation on 22 Dec 2016

*** The Companies were put under Members' Voluntary Liquidation on 20 Jan 2017

**** The Company was put under Members' Voluntary Liquidation on 17 April 2017

CHAIRMAN'S STATEMENT



“

In 2016, the business environment became more challenging for the financial services industry. ”

**TAN SRI DATO' SRI DR. WAN
ABDUL AZIZ WAN ABDULLAH**
CHAIRMAN

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

On behalf of the Board of Directors of Bank Pembangunan Malaysia Berhad, it is my great pleasure to present the 43rd Annual Report and Audited Financial Statement of Bank Pembangunan and Group for the financial year ended December 31, 2016.

ECONOMIC REVIEW FOR 2016

The world economy registered the lowest growth rate in 2016 since the Global Financial Crisis. Global trade continued to moderate reflecting the weakness in economic activity. In Asia, while China's economy expanded at a more gradual pace due to ongoing reforms and rebalancing towards a consumption-led growth model, many other Asian economies recorded stronger growth. The expansion was driven by higher infrastructure investments and implementation of monetary, fiscal and structural policy measures to support growth. Global inflationary pressures remained low reflecting mainly the weak demand and weak commodity prices, especially crude oil.

Despite the challenging economic environment, the Malaysian economy recorded a growth of 4.2% (2015: 5.0%). The economy continued to face headwinds from the higher cost of living amid soft employment conditions. Concurrently, business and consumer sentiments were affected by a confluence of global and domestic factors, including the heightened volatility in financial markets and the significant underperformance of the ringgit.

Inflationary pressures in the economy remained low with headline inflation averaging 2.1% in 2016 (2015: 2.1%). Despite the weaker ringgit exchange rate during the year, low global energy and commodity prices resulted in lower domestic fuel prices and input costs, which mitigated the impact of adjustments to administered prices and higher food prices.

The strong fundamentals of the Malaysian economy have accorded Malaysia the ability to weather these external and domestic challenges. The diversified sources of growth in the economy have helped to contain the spillover effects of sector-specific shocks. Stable labour market conditions amid continued wage growth continued to support household spending.

Outstanding financing by the Malaysian banking system expanded by 5.3% to RM1,521.5 billion in 2016, mainly driven by financing to the household sector. Banks continue to lend to small and medium enterprises (SMEs), which grew by 9.2%. Meanwhile, financing by development financial institutions (DFIs) to targeted sectors expanded by 5.7% in 2016.

FINANCIAL PERFORMANCE IN 2016

In 2016, the business environment became more challenging for the financial services industry. Against this backdrop, BPMB Group was able to achieve Profit Before Tax of RM207.6 million in 2016 as compared to RM406.4 million in 2015. The decrease of 48.9% is mainly due to higher impairment of loans, advances and financing. Nevertheless, BPMB Group recorded Profit After Tax of RM231.2 million in 2016 as compared to Loss After Tax of RM12.7 million in 2015. The positive result was mainly attributable to gain on deconsolidation of discontinued operations of Borcos Group.

BPMB Group's Total Assets decreased to RM26.9 billion as at end of 2016 from RM27.3 billion in the previous year. The drop was largely due to lower loans, advances and financing arising from lower disbursement compared to higher collection during the year under review. Total Liabilities of BPMB Group also dropped to RM19.3 billion from RM19.7 billion in the previous year attributed to maturity of bills and acceptance payable as well as lower borrowings.

Bank Pembangunan Malaysia Berhad (BPMB)

For the financial year ended 2016, BPMB recorded Profit Before Tax of RM125.7 million, a shortfall of RM102.4 million or 44.9% from RM228.1 million recorded in 2015. The decrease was mainly due to higher impairment of loans, advances and financing by RM178.6 million.

BPMB's Total Assets decreased slightly from RM26.7 billion to RM26.6 billion, a drop of 0.4% from the previous year largely due to lower loans, advances and financing. Total Liabilities decreased by RM0.1 billion to RM19.2 billion mainly contributed by lower borrowings.

During the year, BPMB had the Issue Rating for its RM7.0 billion Conventional Medium-Term Notes (MTN) and Islamic Murabahah MTN Programmes reaffirmed at AAA by RAM. MARC also reaffirmed its MARC-1 rating for BPMB's Islamic Commercial Papers and/or Conventional Commercial Papers Programme of up to RM2.0 billion. In addition, RAM and MARC have assigned a Financial Institution Rating of AAA on BPMB, premised on our established track record in infrastructure financing, strong capitalisation and strong regulatory and government support.

Global Maritime Venture Berhad (GMVB)

For the financial year ended 31 December 2016, GMVB Group recorded Profit Before Tax of RM3.5 million as compared to Loss Before Tax of RM46.9 million in the previous year mainly due to lower other operating expenses. For the period under review, GMVB Group registered Net Profit of RM105.9 million as compared to Net Loss of RM328.9 million incurred in the year before. The favourable performance was due to gain on deconsolidation of Borcos Group amounting to RM440.4 million as a result of the deconsolidation exercise that took place on 22 December 2016.

Total Assets of RM255.1 million recorded as at 31 December 2016 was lower by RM458.9 million compared to the previous year mainly due to lower cash and bank balances and decrease in asset held for sale. Total Liabilities was lower by RM355.5 million mainly due to lower loans and borrowings as well as payables and accruals.

Pembangunan Leasing Corporation Sdn Bhd (PLC)

For the financial year ended 31 December 2016, PLC Group recorded higher Operating Profit of RM24.2 million compared to RM17.9 million in the previous year. The increase was due to higher interest income and lower overhead expenses. Nevertheless, Profit Before Tax decreased to RM23.3 million from RM46.0 million recorded in 2015. It was attributable to impairment of loans, advances and financing of RM0.8 million in 2016 as compared to write-back of loans, advances and financing of RM28.1 million in 2015.

CHAIRMAN'S STATEMENT

Total Assets of PLC Group decreased to RM340.1 million mainly due to lower loans, advances and financing. Total Liabilities also decreased to RM43.5 million largely due to lower other liabilities.

OUTLOOK AND PROSPECT FOR 2017

Global economic activity is projected to improve in 2017, underpinned by an expansion in domestic demand in the advanced and emerging market economies. With the gradual improvement in global growth, recovery in global commodity prices and the continued growth of domestic demand are expected to collectively support Malaysia's growth performance. The Malaysian economy is projected to register a sustained growth of 4.3% - 4.8% in 2017. Domestic demand will continue to be the principal driver of growth, underpinned by private sector activity.

Malaysia's external sector is expected to remain resilient despite continued uncertainties in the global environment. Both exports and imports are expected to strengthen in 2017, supported by the projected improvements in global growth, higher commodity prices and sustained domestic demand.

Financial institutions are expected to remain resilient to severe macroeconomic and financial strains. In 2017, conditions are expected to remain challenging. Some deterioration in loan performance is likely, but this is not expected to be broad-based given the generally strong asset quality of banks, stable labour market conditions and continued economic growth.

Against the backdrop of improved economic condition, BPMB Group is expected to improve its financial positions, supported by sound governance and risk management practices.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to record our deepest appreciation to the Government particularly the Ministry of Finance for their continuous support and assistance rendered throughout 2016. I would also like to extend our gratitude to Bank Negara Malaysia for their guidance and advice. To our valued clients, thank you for the continuous support and trust given throughout the year.

I would like to put on record our sincere appreciation to all my colleagues in the Board of Directors as well as Shariah Committee for their dedication and invaluable contribution. I look forward to working closely with them to further bring BPMB and its subsidiaries to higher level of success. I would like to acknowledge our appreciation to Dato' Ir. Haji Mohamad bin Husin and Dato' Kapt. Haji Ahmad bin Othman, who ended their term from the

Board on 8 March 2017. Their commitment to the growth and successes of the Group are indeed commendable.

I also would like to take this opportunity to welcome five new directors, Datuk Jamaludin bin Nasir who joined the Board on 8 December 2016, Datuk Seri Hashmuddin bin Mohammad who joined the Board on 23 January 2017 as well as Encik Shaharuddin bin Zainuddin, Encik Musa bin Abdul Malek and Encik Suffian bin Baharuddin who joined the Board on 13 February 2017. We are confident, given their vast experience and expertise, they would be able to contribute positively to BPMB Group.

Last and most of all, I would like to express my heartfelt gratitude to the Management and staff of BPMB Group who have demonstrated a high level of integrity and commitment in their daily actions amidst the many challenges. Hopefully this contribution will be further enhanced in the coming years.

**TAN SRI DATO' SRI DR. WAN ABDUL AZIZ
WAN ABDULLAH**
Chairman

PRESIDENT/GROUP MANAGING DIRECTOR'S STATEMENT

“**BPMB’s capital adequacy remained solid with Risk Weighted Capital Ratio (RWCR) and Core Capital Ratio recorded 34.7% and 31.3% respectively.**”



MOHAMMED RAFIDZ AHMED RASIDDI
PRESIDENT/GROUP MANAGING DIRECTOR

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

OVERVIEW

In 2016, the Malaysian economy continued to expand amid a challenging external environment including slower growth in the advanced economies, prolonged low oil prices and volatile international financial markets. The banking sector remained challenging as earnings was under pressure from several fronts. Slower loan growth, weak capital market activities and a moderating economy hampered revenue and earnings growth for the sector and impacted the net interest margins.

The banking sector has seen pressure not only on loan growth but deposits as well, amid the challenging operating environment. Among the signs which showed weakness in the sector was declining household loans growth as well as uninspiring leading loan indicators. Amidst challenges posed by the volatile

economic environment, BPMB continued to focus on managing risks and costs while enhancing operational excellence.

FINANCIAL PERFORMANCE

For the financial year ended 2016, BPMB recorded Net Income of RM930.3 million, an increase of RM5.9 million from the previous year. The increase was mainly due to lower interest expense and higher income from Islamic financial business. However, the Profit Before Tax declined to RM125.7 million as compared to RM228.1 million in 2015 contributed by higher impairment of loans, advances and financing. Consequently, BPMB’s Profit After Tax decreased to RM52.2 million as at 31 December 2016, from RM117.7 million in the previous year.

BPMB’s capital adequacy remained solid with Risk Weighted Capital Ratio (RWCR)

and Core Capital Ratio recorded 34.7% and 31.3% respectively. However, the Gross Impaired Loan and Financing Ratio deteriorated to 14.9% from 11.3% in 2015.

LENDING PERFORMANCE

BPMB continued to play its role in spearheading the growth of the country’s strategic economic sectors with a total approval of RM2.5 billion favouring 17 projects in 2016, channelled to various infrastructure sub-sectors. Against a backdrop of slower growth in the banking sector, the approval recorded a drop of 28.6% from the previous year’s approval of RM3.5 billion which was granted to 23 projects. During the period under review, 100% of the approval was channelled to infrastructure sector. There was no approval for maritime, oil & gas and technology sectors in 2016.

PRESIDENT/GROUP MANAGING DIRECTOR'S STATEMENT

In order to strengthen its asset quality, BPMB has tightened its loan approval process with focus on loans related to government-initiated projects and borrowers with good payment track records.

Infrastructure

Infrastructure projects continued to be the Bank's forte, accounting for RM20.6 billion or 86.6% of the Bank's financing portfolio as at 31 December 2016. For the period under review, financing for 17 infrastructure projects worth RM2,487.1 million were approved.

In 2016, the top three infrastructure sub-sectors that recorded the highest approval were area development, education and tourism. 26.7% of the infrastructure financing approved was channelled to area development (RM663.8 million for five projects), 23.0% to education (RM573.0 million for one project) and 18.1% to tourism (RM450.0 million for six projects). The remaining 32.2% was channelled to community, transport, highway and road sub-sectors (RM800.3 million for five projects).

A total of RM1,272.0 million or 51.1% of the approved financing under the infrastructure sector was for government-backed projects.

Technology

During the period under review, there was no approval under technology sector. Business expectation in the sector remained unfavourable given the uncertainty of the economic environment and rising operating cost.

Maritime

The supply of shipping vessels remained higher than demand for most shipping services. Slow global economic growth and continued deliveries of new vessels has led to a capacity glut, which limits companies' ability to raise rates charged for shipping freight, thereby constraining revenue and earnings growth. As a result of the unfavourable environment, there was no approval under maritime sector in 2016.

Oil and Gas

Against a landscape of weak market condition, there was no approval under oil and gas sector in 2016. The oil and gas sector has been volatile given the slump in oil prices, slow rollout of domestic developments, downscaled projects, declining marine charter rates and deteriorating visibility of regional prospects. Slower project rollouts and delays in new tenders had translated into a cut in earnings for local oil and gas players.

OUTLOOK

The world economy is projected to expand 3.4% in 2017 (2016: 3.1%) supported by rising growth in emerging and developing economies as well as a modest pickup in the advanced economies. Meanwhile, world trade is envisaged to accelerate 3.8% (2016: 2.3%). However, several downside risks remain, which include a heightening volatility in global financial markets. The Malaysian economy is projected to record a sustained growth of 4.3% - 4.8% in 2017 supported by domestic demand.

The banking sector is expected to record loan growth of between 6.0% - 7.0% in 2017 compared to 5.3% 2016. The improvement will be largely driven by stable operating conditions in the country on the back of robust domestic economic activities. Improved sentiment in business sectors will contribute to stable consumer spending and provide an uplift to a better loan growth.

The construction sector is projected to grow 8.3% in 2017 (2016: 8.7%) mainly supported by the commencement of large infrastructure projects such as MRT Sungai Buloh – Serdang – Putrajaya Line, Pan Borneo Highway, Sungai Besi – Ulu Klang Elevated Expressway and Damansara – Shah Alam Elevated Expressway. The upgrading road works from Klang Container Terminal – North Port and the construction of infrastructure in Malaysia Vision Valley are expected to further support the sector. The residential

“ The construction sector is projected to grow 8.3% in 2017 (2016: 8.7%) mainly supported by the commencement of large infrastructure projects. ”

sub-sector is projected to expand driven by affordable housing programmes, particularly 1Malaysia Civil Servants Housing. Meanwhile, the non-residential sub-sector is expected to benefit from the mixed commercial development mainly in Klang Valley, Johor and Pahang. With strong momentum of project awards that has been sustained in the last few years, the construction sector is expected to remain the fastest-growing economic sector in 2017.

The maritime sector outlook is expected to remain negative in 2017. Overcapacity in the shipping industry is putting pressure on freight rates and driving further consolidation and defaults. All segments will be under pressure but tanker shipping will face slightly less stress than dry bulk and container shipping. Dry bulk freight rates will remain low due to subdued demand, though deferred vessel deliveries, cancellations and scrapping will help curb net capacity growth. More loan restructuring, debt for equity swaps, or forced sales are expected throughout 2017.

The oil and gas sector will continue to experience a bleak outlook in 2017. Despite potential crude price hikes after a two-year slump, the upstream oil and gas sector may not benefit much from higher global investment due to lack of business certainty. In response to the deteriorating market environment, Petronas will introduce a series of sequential steps to face the difficult period to ensure its long-term sustainability. These steps include an organisation restructuring to increase effectiveness, optimisation of manpower to eliminate redundancy and slashing capital expenditure (capex) and operating expenditure (opex).

The technology sector outlook is expected to remain moderate in 2017 given the uncertainty of the economic environment. Malaysian manufacturers remain cautious over the business conditions in 2017, plagued by lower local sales and higher production costs. The manufacturing sector will remain the key driver of the Malaysian economy with exports of electrical and electronics products expected to increase by 10% in 2017.

MOVING FORWARD

The priority for 2017 will be to focus on strengthening the Group's capabilities and competitiveness that would contribute to an increase in quality loan portfolio and hence, the sustainability of the Group. We are confident of improving our performance by intensifying all efforts to institutionalise best practices in corporate governance, capital, liquidity and risk control.

In 2017, BPMB is targeted to approve a higher amount of RM4.0 billion new financing as compared to RM2.5 billion approved in 2015. Out of the RM4.0 billion new financing, RM3,700 million is targeted for infrastructure, RM200 million for technology, RM50 million for maritime and RM50 million for oil and gas. The bulk of the new financing approval is targeted for infrastructure sector as there are sizeable jobs in the pipeline. It is expected that there will be less technology projects coming on stream in 2017, while uncertain outlook in the oil and gas and maritime sectors will continue to have a negative bearing on future financing approvals for these sectors. BPMB will continue to focus on its Islamic financing and aims to transform into a full-fledged Islamic Development Financial Institution by 2018.

As a signatory to the Corporate Integrity Pledge and in line with our commitment to conduct business free from any corruption, BPMB has enhanced its Whistleblowing Policy and established an Anti-Bribery and Corruption Policy. Additionally, the Chairman and I had communicated our expectations to staff through the town-hall sessions. Training sessions on integrity were also conducted to all staff, Senior Management, Shariah Committee members and Board members. With the implementation of the initiatives, we hope that the overall governance and integrity environment will be further strengthened.

On behalf of BPMB, I would like to express my gratitude to our customers, the Ministry of Finance and Bank Negara Malaysia for their continued support and confidence. On behalf of the Management team, I would also like to extend my sincere appreciation to the Board of Directors and Shariah Committee, whom has supported us tirelessly. The support and confidence, hopefully, will augur well in the years to come to ensure BPMB will remain relevant in spurring the nation's growth.

MOHAMMED RAFIDZ AHMED RASIDDI
President/Group Managing Director

PERFORMANCE ASSESSMENT

DEVELOPMENT OUTCOMES

Objective	Strategic Actions	Performance Target	Target FY2016	Actual FY2016	Medium Term Target (FY2017)	Long Term Target (FY2019)
Contribution to the development of strategic sectors	To provide financing to mandated sectors	Value of loans approved by sector:				
		Infrastructure	RM5,340 mil	RM2,487 mil	RM3,700 mil	RM4,889 mil
		Maritime	RM350 mil	-	RM50 mil	RM67 mil
		Oil & Gas	RM100 mil	-	RM50 mil	RM68 mil
		Technology	RM510 mil	-	RM200 mil	RM266 mil
Total		RM6,300 mil	RM2,487 mil	RM4,000 mil	RM5,290 mil	

Development Outcomes is defined as high level impact analysis on DFI's achievement.

Target is based on approved BPMB Budget 2016.

MANDATED SECTOR OUTPUT

Objective	Strategic Actions	Performance Target	Target FY2016	Actual FY2016	Medium Term Target (FY2017)	Long Term Target (FY2019)
Support the needs of the targeted sectors	To provide financing to aid the growth of quality assets	Value of loan disbursements by sector:				
		Infrastructure	RM2,775 mil	RM1,766 mil	RM2,594 mil	RM3,752 mil
		Maritime	RM238 mil	RM694 mil	RM205 mil	RM34 mil
		Oil & Gas	RM28 mil	-	RM5 mil	RM35 mil
		Technology	RM312 mil	RM75 mil	RM313 mil	RM112 mil
Total		RM3,353 mil	RM2,535 mil	RM3,117 mil	RM3,933 mil	

Mandated Sector Output is defined as institutional achievements in supporting the needs of targeted sectors.

Target is based on approved BPMB Budget 2016.

ORGANISATIONAL SOUNDNESS

Objective	Strategic Actions	Performance Target	Target FY2016	Actual FY2016	Medium Term Target (FY2017)	Long Term Target (FY2019)
Achieve financial sustainability	To increase profitability	Profit Before Tax	RM451 mil	RM126 mil	RM219 mil	RM720 mil
Achieve strong capitalisation	To achieve optimal capital adequacy	Risk Weighted Capital Ratio (RWCR)	38.2%	34.6%	37.4%	38.9%
Strengthen asset quality	To consistently reduce Gross Impaired Loan Ratio	Gross Impaired Loan Ratio	10.2%	14.9%	11.9%	10.8%

Organisational Soundness is defined as institutional requisites to facilitate DFI in achieving mandated activities.

Target is based on approved BPMB Budget 2016.

5-YEAR GROUP FINANCIAL SUMMARY

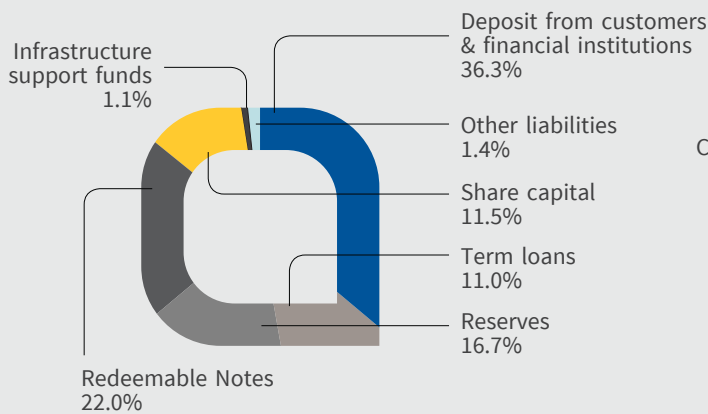
	2016	2015	2014	2013	2012
PROFITABILITY (RM Million)					
Continuing Operations:					
Net Income	981	972	1,172	1,196	926
Net Income from Islamic banking business	259	143	262	265	192
Operating profit	213	416	295	532	263
Profit before taxation & zakat from continuing operations	208	406	306	492	286
Profit from continuing operations, net of tax	121	269	125	304	188
Profit/(loss) from discontinued operations, net of tax	110	(282)	–	–	–
Net profit/(loss) for the year	231	(13)	125	304	188
KEY STATEMENTS OF FINANCIAL POSITION DATA (RM Million)					
Total assets	26,861	27,298	29,945	29,228	27,476
Cash and total deposits and placements	1,296	1,471	2,630	1,406	1,574
Financial Investment – Available for sale (AFS)	3,697	2,099	1,321	1,504	1,242
Financial Investment – Held to maturity (HTM)	186	184	260	259	226
Loans, advances and financing	21,210	22,757	24,757	24,196	23,234
Other assets	472	787	977	1,863	1,200
Total liabilities	19,278	19,710	22,375	21,645	20,193
Deposits from customers and financial institutions	9,760	8,198	5,967	7,426	5,568
Redeemable Notes	5,920	4,353	5,964	3,025	4,134
Term Loans	2,944	4,613	9,604	10,362	9,643
Infrastructure support fund	307	337	367	366	400
Deferred income	234	240	244	249	251
Other liabilities	113	1,969	229	217	197
Total equity	7,583	7,588	7,570	7,583	7,283
Paid-up capital	3,079	3,079	3,079	3,079	3,079
Reserves	4,472	4,484	4,444	4,423	4,051
Non Controlling Interest	32	25	47	81	153
Commitments and contingencies	8,351	5,138	7,035	7,096	6,047
SHARE INFORMATION (Per share (sen))					
Earnings per share	7.08	0.36	4.75	12.31	7.47
Gross dividend	3.25	–	1.20	3.25	3.25
FINANCIAL RATIOS (%)					
Profitability Ratios (%)					
Return on Equity	3.05	(0.17)	1.65	4.09	2.59
Return on Assets	0.86	(0.04)	0.42	1.07	0.65
Cost to Income Ratio	13.03	24.06	33.71	28.85	20.84
Asset Quality Ratio (%)					
Gross Impaired Loans, Advances and Financing Ratio	15.02	11.14	10.95	10.19	11.01
Net Impaired Loans, Advances and Financing Ratio	6.33	5.78	4.10	4.07	4.63

FINANCIAL HIGHLIGHTS

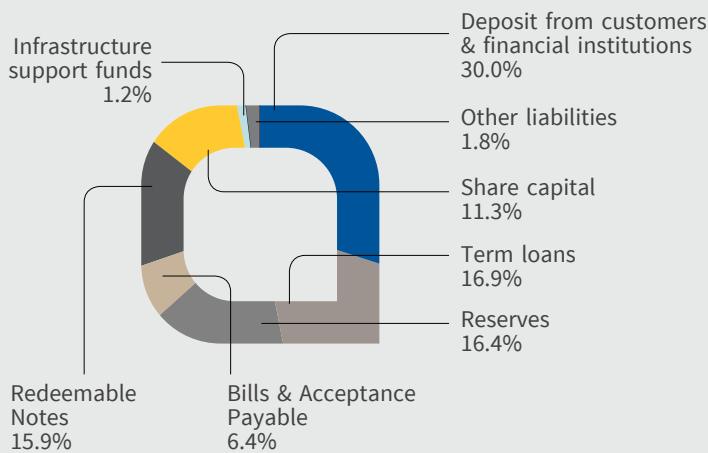
	Group		Bank	
	2016	2015	2016	2015
PROFITABILITY (RM Million)				
Continuing Operations:				
Net Income	981	972	930	924
Net Income from Islamic banking business	259	143	253	137
Operating profit	213	416	126	228
Profit before taxation & zakat from continuing operations	208	406	126	228
Profit from continuing operations, net of tax	121	269	52	118
Profit/(loss) from discontinued operations, net of tax	110	(282)	-	-
Net profit/(loss) for the year	231	(13)	52	118
KEY KEY STATEMENTS OF FINANCIAL POSITION DATA (RM Million)				
Total assets	26,861	27,298	26,618	26,736
Cash and total deposits and placements	1,296	1,471	1,028	1,126
Financial Investment – Available for sale (AFS)	3,697	2,099	3,694	2,095
Financial Investment – Held to maturity (HTM)	186	184	186	184
Investment in subsidiaries	-	-	389	481
Loans, advances and financing	21,210	22,757	21,006	22,572
Other assets	472	787	315	278
Total liabilities	19,278	19,710	19,227	19,373
Deposits from customers and financial institutions	9,760	8,198	9,760	8,198
Redeemable Notes	5,920	4,353	5,920	4,353
Borrowing	2,944	4,613	2,944	4,444
Infrastructure support fund	307	337	307	337
Deferred income	234	240	234	239
Other liabilities	113	1,969	62	1,802
Total Equity	7,583	7,588	7,391	7,363
Paid-up capital	3,079	3,079	3,079	3,079
Reserves	4,472	4,484	4,312	4,284
Non Controlling Interest	32	25	-	-
Commitments and contingencies	8,351	5,138	8,136	4,806
SHARE INFORMATION				
Earnings per share – basic (sen)	7.08	0.36	-	-
Gross dividend	3.25	-	3.25	-
FINANCIAL RATIOS (%)				
Profitability Ratios (%)				
Return on Equity	3.05	(0.17)	0.71	1.60
Return on Assets	0.86	(0.04)	0.20	0.42
Cost to Income Ratio	13.03	24.06	9.80	9.15
Capital Adequacy (%)				
Risk Weighted Capital Ratio (RWCR)	-	-	34.65	38.54
Core Capital Ratio	-	-	31.27	34.26
Asset Quality Ratio (%)				
Gross Impaired Loans, Advances and Financing Ratio	15.02	11.14	14.86	11.26
Net Impaired Loans, Advances and Financing Ratio	6.33	5.78	6.36	6.15

GROUP STATEMENTS OF FINANCIAL POSITION

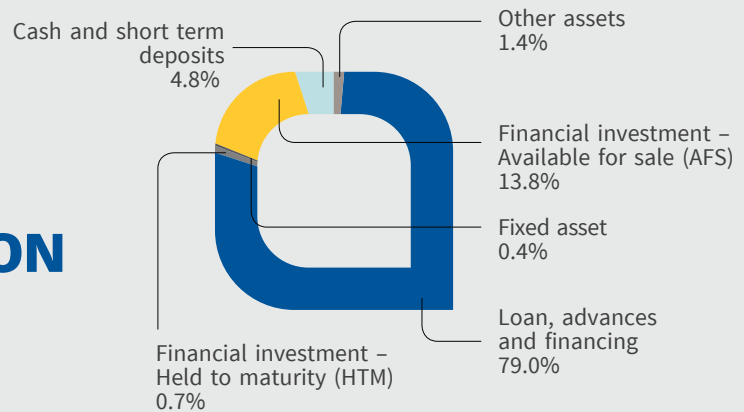
EQUITY & LIABILITIES 2016



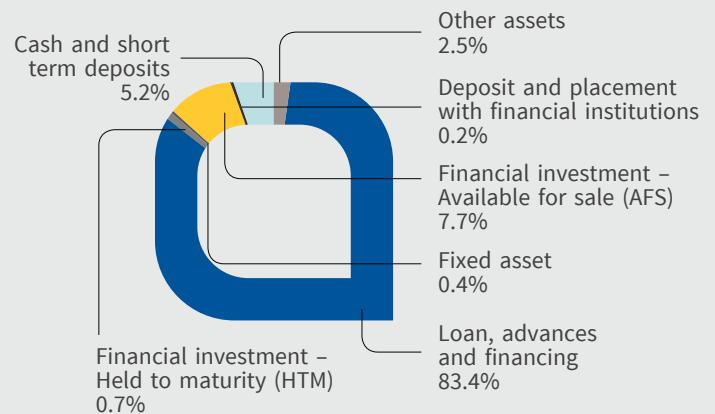
EQUITY & LIABILITIES 2015



ASSETS 2016

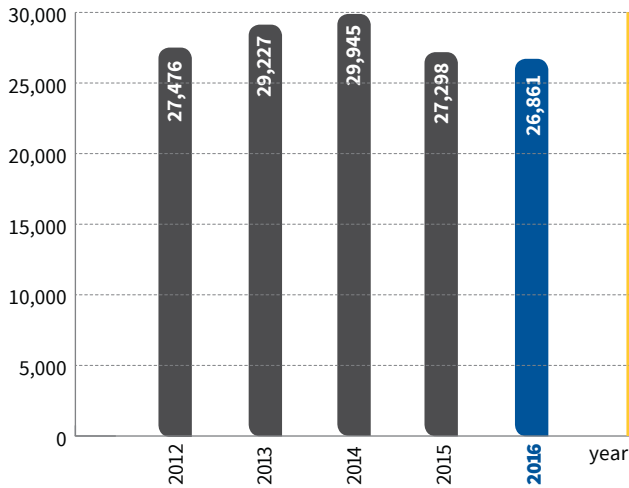


ASSETS 2015

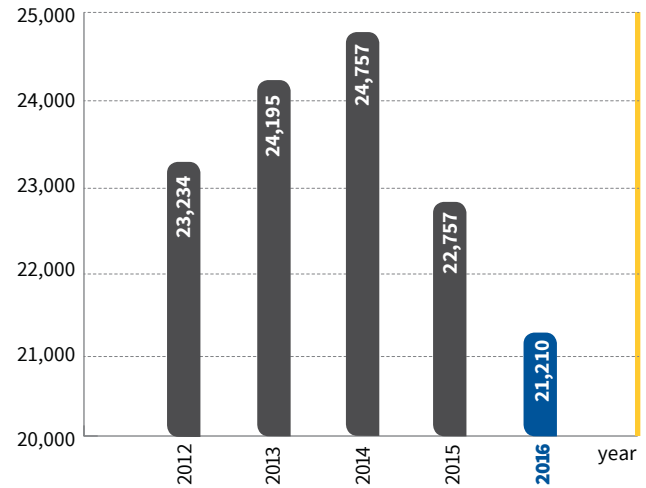


5-YEAR GROUP GROWTH

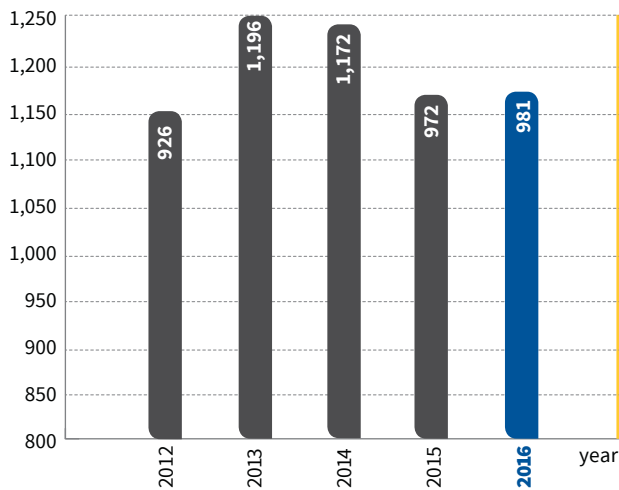
TOTAL ASSETS EMPLOYED (RM Million)



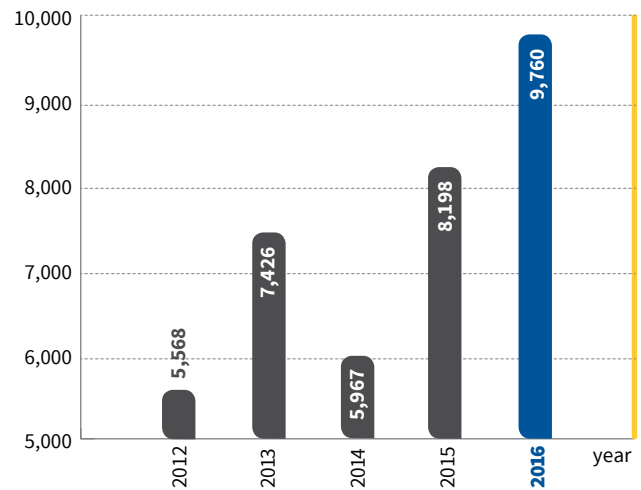
NET LOANS, ADVANCES & FINANCING (RM Million)



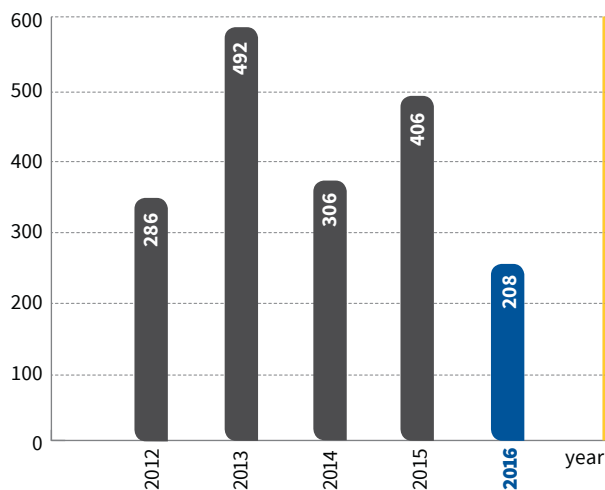
NET INCOME (RM Million)



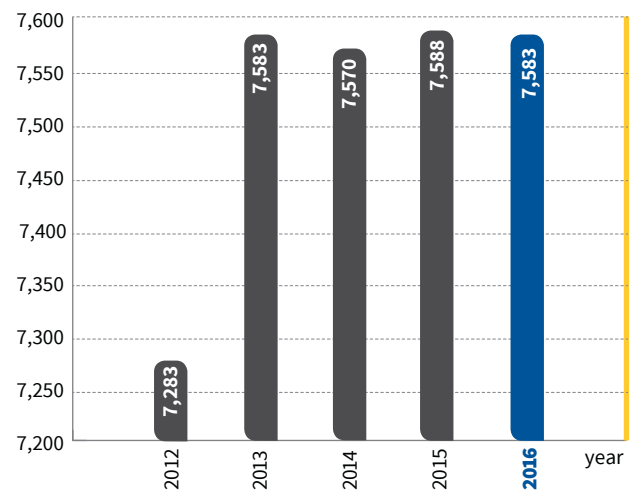
DEPOSITS FROM CUSTOMERS & FINANCIAL INSTITUTIONS (RM Million)



PROFIT BEFORE TAXATION & ZAKAT (RM Million)



TOTAL EQUITY (RM Million)



CORPORATE INFORMATION

BOARD OF DIRECTORS

Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah
Chairman

Mohammed Rafidz Ahmed Rasiddi
President/Group Managing Director

Datuk Wan Azhar Wan Ahmad

Datuk Engku Nor Faizah Engku Atek

Dato' Ir Haji Mohamad Husin
(ceased with effect from 8 March 2017)

Dato' Capt. Haji Ahmad Othman
(ceased with effect from 8 March 2017)

Datuk Jamaludin Nasir

Datuk Seri Hashmuddin Mohammad

Shaharuddin Zainuddin

Musa Abdul Malek

Suffian Baharuddin

COMPANY SECRETARIES

Razali Hassan
(LS 05531)

Hazlinda Ahmad Rosdi
(MAICSA 7053034)

SHARIAH COMMITTEE

Tan Sri Dato' Seri Haji Harussani Haji Zakaria
Chairman
(term ended 31 March 2017)

Associate Prof. Dr. Aznan Hasan
Chairman

Assistant Prof. Dr. Miszairi Sitoris

Associate Prof. Dr. Noraini Mohd. Ariffin

Prof. Dr. Haji Abdul Samat Musa
(term ended 31 March 2017)

Dr. Rushdi Ramli
(term ended 31 March 2017)

Dr. Ahmad Basri Ibrahim

Ustaz Mohd. Fadhly Md. Yusoff

Musa Abdul Malek

AUDITORS

Ernst & Young (AF:0039)

REGISTERED OFFICE

Aras 16, Menara Bank Pembangunan
Bandar Wawasan
No. 1016, Jalan Sultan Ismail
50250 Kuala Lumpur
Malaysia

WEBSITE

www.bpmb.com.my

BOARD OF DIRECTORS' PROFILE

TAN SRI DATO' SRI DR. WAN ABDUL AZIZ WAN ABDULLAH

Non-Executive Chairman/Independent Non-Executive Director

BOARD COMMITTEE MEMBERSHIPS:

- Member of Credit Committee of the Board
- Member of Group Nomination Committee
- Member of Group Remuneration Committee
- Member of Group Risk Management Committee

Tan Sri Dato' Sri Dr. Wan Abdul Aziz bin Wan Abdullah was appointed as the Non-Executive Chairman of Bank Pembangunan Malaysia Berhad on 1 December 2012. He graduated with a Bachelor of Economics (Honours) from the University of Malaya, Masters in Philosophy (Development Studies) from the Institute of Development Studies, University of Sussex, Brighton, UK and obtained a Ph.D. (Economics) from the School of Business and Economic Studies, University of Leeds, UK. He also attended the Advance Management Program at Harvard Business School, Harvard University, Boston USA.

Tan Sri Dato' Sri Dr. Wan Abdul Aziz has spent more than 37 years in the public service with vast experience in the banking and economic sectors. He served in various capacities in the Economic Planning Unit in the Prime Minister's Department and the Ministry of Finance. He was appointed as an Alternate Executive Director of World Bank Group in Washington DC, USA (on secondment by the Government of Malaysia) representing South East Asia Group from 1998 to 2001. He was also appointed as the Executive Director of the Islamic Development Bank in Jeddah from 2008 to 2013. In 2007, he was appointed as Secretary General of Treasury in the Ministry of Finance. He retired from the public service on 23 May 2008 and subsequently continued to serve as Secretary General of Treasury until 23 August 2012.

Currently, he is the Chairman of Malaysia Airports Holdings Berhad and Group, Sime Darby Motors Sdn. Bhd. and GOM Resources Sdn. Bhd. He is also the Deputy Chairman of Sime Darby Berhad and a Board Member of Permodalan Nasional Berhad and RAM Holdings Berhad.



BOARD OF DIRECTORS' PROFILE

MOHAMMED RAFIDZ AHMED RASIDDI

President/Group Managing Director

Encik Mohammed Rafidz Ahmed Rasid was appointed as President/Group Managing Director of Bank Pembangunan Malaysia Berhad on 15 June 2015. He holds a BSc Economics from the City University, London, United Kingdom and an MBA from Manchester Business School, Manchester, United Kingdom. He has over 25 years of experience in financial services and capital markets industry. His formative years as a banker started when he joined Bumiputera Merchant Bankers and later Amanah Merchant Bank during the 1990s.

He had held senior and leadership positions in established and leading Malaysian financial institutions including Director of Corporate Finance in CIMB, Head of Strategic Assets in CIMB,

Country Head of CIMB-GK Securities in Thailand and Head of Investment Banking in RHB Investment Bank. In 2011 Encik Mohammed Rafidz was appointed as the CEO of Alliance Investment Bank. Immediately prior to joining Bank Pembangunan, he was the Deputy CEO and Head of Corporate Investment Banking at MIDF Amanah Investment Bank.

DATUK WAN AZHAR WAN AHMAD

Independent Non-Executive Director

BOARD COMMITTEE MEMBERSHIPS:

- Member of Group Nomination Committee
- Member of Group Audit & Examination Committee
- Member of Group Risk Management Committee
- Member of Credit Committee of the Board

Datuk Wan Azhar bin Wan Ahmad was appointed to the Board of Bank Pembangunan Malaysia Berhad on 2 May 2015. He holds a Master in Business Administration (International Business) from National University San Diego CA, USA (1985) and a Bachelor in Business Administration (Finance) from the University of Pacific, Stockton CA, USA (1983).

Datuk Wan Azhar was the Chief Executive Officer of Credit Guarantee Corporation Malaysia Berhad (CGC) from 1997 until his retirement on 31 December 2014. He began his career in banking as a Loans Executive of Hong Leong Bank in 1985 and left the bank as Head of Branches Operations in 1993. He was then recruited and appointed as a Manager in CGC by Bank Negara Malaysia in 1993. In 1995, he was promoted to Assistant General Manager and subsequently to Chief Executive Officer in 1997. In year 2000 he was then appointed to the Board

of Directors and assumed the role of Managing Director. One of the key highlights of his career was the transformation of CGC from a traditional credit guarantee provider into a market-driven and financially sustainable SME-support institution. He was also instrumental in the set-up of Credit Bureau Malaysia where he was the Chairman for 6 years from 2008 to 2014. Upon his retirement, he was then appointed as Consultant to the World Bank from 2015 to 2016, undertaking projects relating to SME financing in the Middle East.

Datuk Wan Azhar is currently the Chairman of the Small Debt Resolution Committee at Bank Negara Malaysia. He is also the Chairman of Alliance Islamic Bank Berhad, Pembangunan Leasing Corporation Sdn Bhd, PLC Credit & Factoring Sdn Bhd, BI Credit & Leasing Berhad and SME Growth Acceleration Fund Sdn Bhd. He also serves on the Boards of Bina Darulaman Berhad, Alliance Bank Malaysia Berhad, Global Maritime Ventures Berhad and Board of Trustee of NAMA Foundation.



DATUK ENSKU NOR FAIZAH ENSKU ATEK

Independent Non-Executive Director

BOARD COMMITTEE MEMBERSHIPS:

- Chairman of Group Nomination Committee
- Member of Group Remuneration Committee

Datuk Engku Nor Faizah Engku Atek was appointed to the Board of Bank Pembangunan Malaysia Berhad on 1 December 2014. She holds an LLB (Hons) from the University of Malaya and has attended a number of courses and seminars related to her work in the public sector, including the Government Legal Adviser's Course at the Institute of Advance Legal Studies in the UK sponsored by the British Council, Seminar on Industrial Property in Strasbourg and Munich sponsored by the European Union and Legislative Drafting Institute at the University of Loyola and Tulane, in the USA.

Datuk Engku Nor Faizah is currently the Solicitor General of Malaysia. She has over 30 years of experience in the public sector. She started her career at the Attorney General's Chambers ('AGC') in 1983 and has held various positions in AGC, including Deputy Solicitor General, Parliamentary Draftsman, Senior Federal Counsel and Deputy

Public Prosecutor. She has also served as the State Legal Adviser of Negri Sembilan and Perak.

As Solicitor General, she oversees, amongst other responsibilities, the work of the Advisory Division, Drafting Division, Law Reform and Revision Division, Research Division and International Affairs Division at AGC. A great part of her responsibility involves matters relating to Federal and State relations, project agreements involving the Federal Government and international instruments. She has been involved in the drafting and/or approving of numerous legislation including the Central Bank of Malaysia Act 2009, the Limited Liability Partnerships Act 2012, the Netting of Financial Agreements Act 2015, the Special Measures Against Terrorism in Foreign Countries Act 2015, the Malaysian Airline System Berhad (Administration) Act 2015 and the Malaysian Aviation Commission Act 2015.

DATUK JAMALUDIN NASIR

Independent Non-Executive Director

BOARD COMMITTEE MEMBERSHIPS:

- Chairman of Group Risk Management Committee
- Member of Group Audit & Examination Committee
- Member of Credit Committee of the Board
- Member of Group Remuneration Committee

Datuk Jamaludin Nasir was appointed to the Board of Bank Pembangunan Malaysia Berhad on 8 December 2016. He has a double degree in Bachelor of Science (Finance and Business Economics) and Bachelor of Economics and a Masters of Business Administration from USA.

Datuk Jamaludin is a seasoned banker with more than 27 years in the commercial and investment banking fraternity. He commenced his banking career in 1986 at Kwong Yik Bank (now known as 'RHB Bank') with his last position being the Head and Assistant General Manager, Corporate and Capital Markets. In 1997, he joined Dresdner Bank AG as General Manager and subsequently, in 1999, joined the Group's investment banking outfit, Dresdner Kleinwort Wasserstein as Chief Operating Officer Malaysia and its Regional Asia Pacific (ex Japan) Syndicate and Capital Markets team based in Singapore. In 2005, he re-joined Maybank Group. He sits in the Group Management Committee

and held the position of Senior Executive Vice President/Group Chief Credit Officer. Datuk Jamaludin joined Asian Finance Bank as the Deputy Chief Executive Officer in 2010 and completed his term of service in 2012.

He has attended ICLIF's Global Leadership Development Program at Drucker School of Management, Claremont Graduate University, Haas School of Business in University of California Berkeley and Marshall School of Business in University of Southern California.

Since then, Datuk Jamaludin has been involved in project management in Indonesia and has been advising several companies on re-organisation, operational efficiency, fund raising exercise apart from opportunistic investment through his joint venture company in Indonesia and UAE. In Malaysia, he served as Chairman of Bursa Malaysia listed company; Kotra Industries Berhad, member of Rating Committee, Malaysian Rating Corporation Berhad and member of the Technical Committee, Finance Accreditation Agency.



BOARD OF DIRECTORS' PROFILE

DATUK SERI HASHMUDDIN MOHAMMAD

Non-Independent Non-Executive Director

BOARD COMMITTEE MEMBERSHIPS:

- Member of Credit Committee of the Board
- Member of Group Nomination Committee
- Member of Group Remuneration Committee

Datuk Seri Hashmuddin Mohammad was appointed to the Board of Bank Pembangunan Malaysia Berhad on 23 January 2017. He holds a Master of Arts in Procurement and Acquisition Management from Webster University, St. Louis, Missouri, U.S.A. He also holds a Certificate in Purchasing and Supply Management from the Northern Territory University, Australia, a Bachelor of Arts (Hons.) in Anthropology and Sociology from the University of Malaya, Malaysia and a Diploma in Public Administration from the National Institute For Public Administration (INTAN), Malaysia.

Datuk Seri Hashmuddin has more than 30 years of experience specialising in procurement and has been serving the Government of Malaysia since 1984. He began his career as an Assistant Secretary, Planning Division in the Ministry of Information and was transferred to Contract and Supply Division, Ministry of

Finance (MOF) in 1986. During his tenure in MOF, he undertook various positions in the Government Procurement Division including Assistant Secretary (1986-1993), Principal Assistant Secretary (1994-2003), Acting Deputy Undersecretary (Works) (2003-2005), Deputy Undersecretary (Policy and Consulting Services) (Operation) (2005-2012) and Undersecretary (2012-2015) before he was promoted to his current position as Deputy Secretary General Management in December 2015.

Datuk Seri Hashmuddin currently sits on the Boards of UDA Holdings Berhad, Tenaga Nasional Berhad, Perbadanan Putrajaya, Jambatan Kedua Sdn Bhd and Perbadanan Kemajuan Negeri Selangor.

SHAHARUDDIN ZAINUDDIN

Independent Non-Executive Director

BOARD COMMITTEE MEMBERSHIPS:

- Chairman of Group Audit & Examination Committee
- Member of Group Risk Management Committee
- Member of Credit Committee of the Board

Encik Shaharuddin Zainuddin was appointed to the Board of Bank Pembangunan Malaysia Berhad on 13 February 2017. He holds a Bachelor of Science (Hons) Degree in Accounting from the University of East Anglia, United Kingdom and is a fellow of the Association of Chartered Certified Accountants. He is also a qualified investment, securities and futures professional, being a Registered Representative of Securities and Futures Authority and an Investment Management Certificate holder of Investment Management Regulatory Organisation, United Kingdom.

He has over 20 years of global experience specialising in risk management, governance and control, gained from his senior executive roles in the banking, finance and private equity industries in London, Bahrain and most recently, in Malaysia.

Prior to his return to Malaysia, he served as the Regional Head of Compliance and Financial Security of Credit Agricole Corporate and Investment Bank (Caylon), where he spearheaded the implementation of enhanced compliance and governance programmes in the Middle East and Africa networks and branches from 2005 to 2012. He was also a Director of Banking Operations at Accounting and Auditing Organisation for Islamic Financial Institutions, the International Islamic banking regulator based in Bahrain.

In the last four years, Encik Shaharuddin has been providing corporate finance advisory services for SMEs and listed corporations in the oil and gas, transport, aviation, technology and telecommunication industries. He is also involved in providing investment opportunities in banks in emerging markets.

Encik Shaharuddin currently sits on the Boards of Alliance Islamic Bank Berhad, Adamas Capital Sdn Bhd, Adamas International Limited and Sabre-Adamas Pte Ltd.



MUSA ABDUL MALEK

Independent Non-Executive Director

BOARD COMMITTEE MEMBERSHIPS:

- Chairman of Credit Committee of the Board
- Member of Group Audit & Examination Committee
- Member of Group Risk Management Committee

Encik Musa Abdul Malek was appointed to the Board of Bank Pembangunan Malaysia Berhad on 13 February 2017. He holds a Bachelor of Business Administration (Honours) from the University of Ohio/Institute Technology of Mara, Malaysia.

Encik Musa, a seasoned banker, began his banking career at HSBC Group in 1979. During his 31 years career with HSBC Group, he held various management positions in various departments/functions including Credit, Debt Origination of Debt Capital Market in Hong Kong, Corporate Relationship, Islamic Banking and Bumiputra Unit, Business Development and Product Development and Management. He assumed the role of Deputy Managing Director of HSBC Amanah Malaysia (the Islamic window of HSBC Bank Malaysia Berhad) and subsequently appointed as Executive Director and Chief Executive Officer in 2008.

He then joined Bank Muamalat Malaysia Berhad in 2010 as Deputy Chief Executive Officer. During the 3 years tenure in Bank Muamalat, he was responsible in managing the business functions of the Bank and to assist the CEO in other operational matters. Prior to his retirement in April 2016, Encik Musa was the Group Head of Islamic Banking Consumer Banking at CIMB Islamic Bank Berhad.

During his banking career, Encik Musa has been exposed to all the challenges faced by the banking industry including managing them during the three economic down turn faced by Malaysia.

SUFFIAN BAHARUDDIN

Independent Non-Executive Director

BOARD COMMITTEE MEMBERSHIPS:

- Chairman of Group Remuneration Committee
- Member of Credit Committee of the Board
- Member of Group Audit & Examination Committee
- Member of Group Nomination Committee

Encik Suffian Baharuddin was appointed to the Board of Bank Pembangunan Malaysia Berhad on 13 February 2017. He is a fellow of the Association of Chartered Certified Accountants and member of the Malaysian Institute of Accountants.

He held various senior positions in several transport and logistics companies within a Malaysian infrastructure conglomerate from 2010 to 2016, including as the Senior General Manager (Corporate Division) of Pelabuhan Tanjung Pelepas Sdn Bhd and Deputy Chief Executive Officer of Senai Airport Terminal Services Sdn Bhd. His last position was as Director of Special Projects, Johor Port Berhad where he had been seconded to Penang Port Sdn Bhd from 2014 to 2016.

Encik Suffian was the Chief Executive Officer/Managing Director of Rangkaian Pengangkutan Integrasi Deras Sdn Bhd ("RapidKL") from 2008 to 2009. During his time at RapidKL, he was also a Director in Syarikat Prasarana Negara Berhad and served as a Vice Chairman and Executive Committee member of the International Association of Public Transport ("UITP") Asia Pacific Division.

He was the General Manager (Corporate Planning) at Indah Water Konsortium Sdn Bhd from mid 2006 to 2008. Between end 1999 to mid 2006, he served in various positions in Malaysia Airports Holdings Berhad ("MAHB") where the last position was as the Head of Finance of MAHB. From 1996 to 1999, he was with Renong Berhad where his last position was as Senior Manager of Finance. Encik Suffian began his career in the Corporate Finance Department of AmMerchant Bank Berhad in 1994.



PROFILE OF SHARIAH COMMITTEE

ASSOCIATE PROFESSOR DR. AZNAN HASAN

Chairman

Dr. Aznan Hasan was appointed as Chairman of the Shariah Committee of BPMB on 1 April 2017. He holds a Bachelor Degree in Shariah from University of Al-Azhar, Egypt. He then successfully completed his Master Degree in Shariah from Cairo University, Egypt with distinction. He later obtained his Ph.D from University of Wales, Lampeter, United Kingdom.

Dr. Aznan is currently an Associate Professor at the IUM Institute of Islamic Banking and Finance, International Islamic University of Malaysia. He teaches post-graduate level students and specialises in the subjects of Shariah such as Islamic commercial law, Islamic legal maxim and other related areas of Islamic banking and finance.

Dr. Aznan is a renowned Shariah scholar locally as well as at the international arena in the field of Islamic finance. He has an extensive experience and involvement in Shariah advisory for approximately 15 years, where he has served as a Shariah advisor and consultant to various financial institutions, corporates entities, government agencies and regulatory authorities. He was involved in advising and approving various Islamic financial products in the banking, capital market and takaful industries. He has also conducted and published more than 40 researches and presented more than 100 presentations on Shariah and Islamic finance world-wide.

Currently, Dr. Aznan serves as the President of the Association of Shariah Advisors in Islamic Finance. He is also the Deputy Chairman of Shariah Advisory Council of the Securities Commission Malaysia and the Chairman of the Shariah Committee of Maybank Islamic Berhad.

ASSISTANT PROFESSOR DR. MISZAIRI SITIRIS

Member

Dr. Miszairi Sitiris was appointed as a Member of the Shariah Committee of BPMB on 1 October 2008. He holds a Bachelor Degree in Islamic Revealed Knowledge and Heritage (Fiqh and Usul Al-Fiqh) and a second Bachelor Degree in Psychology from the International Islamic University Malaysia. He then pursued his Master Degree and Ph.D in Fiqh and Usul Al-Fiqh at the same university. He also holds a Postgraduate Diploma in Law and Administration of Islamic Judiciary from the Harun M. Hashim Law Centre, International Islamic University Malaysia.

Dr. Miszairi Sitiris is currently an Assistant Professor in the Department of Fiqh and Usul Al-Fiqh at the Kulliyah of Islamic Revealed Knowledge and Human Sciences, International Islamic University Malaysia. He teaches several subjects on Shariah and has written a number of research papers. In line with his interest on Islamic finance, he has also supervised post-graduate thesis on takaful and is teaching at IUM Institute of Islamic Banking and Finance on part-time basis. Occasionally he has involved as trainer and facilitator on Shariah subjects in Islamic banking and finance courses. He participates actively in the conferences on Shariah and Islamic finance.

Currently, Dr. Miszairi is a member of Association of Shariah Advisors in Islamic Finance.

ASSOCIATE PROFESSOR DR. NORAINI MOHD ARIFFIN

Member

Dr. Noraini Mohd Ariffin was appointed as a Member of the Shariah Committee of BPMB on 13 June 2012. She holds a Bachelor of Science (Econs) in Accounting from University College of Wales, Wales. She then obtained a Master Degree in Accounting (with distinction) from the University of Dundee, Scotland and a Ph.D in Accounting for Islamic Banks from University of Surrey, England.

Dr. Noraini is currently an Associate Professor in the Department of Accounting, Kulliyah of Economics and Management Sciences, International Islamic University Malaysia. She teaches several subjects such as Company Accounting, Accounting for Islamic Banks, Accounting, Auditing and Governance of Islamic Financial Institutions and Risk Management for Islamic Financial Institutions for undergraduate and postgraduate levels.

Dr. Noraini has published numerous articles related to Islamic accounting and finance, mainly on risk management for Islamic banks and corporate governance of Islamic banks. She has participated as a speaker at national and international conferences. She has also involved in consultancy projects to develop Islamic banking regulations in few developing countries.

Currently, Dr. Noraini is a member of Association of Shariah Advisors in Islamic Finance and also an Associate Member of the Malaysian Institute of Accountants.



DR. AHMAD BASRI IBRAHIM

Member

Dr. Ahmad Basri Ibrahim was appointed as a Member of the Shariah Committee of BPMB on 1 April 2017. He holds a Bachelor in Islamic Jurisprudence and Legislation from the University of Jordan, Jordan. He also holds a Master Degree in Islamic Revealed Knowledge and Heritage from the International Islamic University Malaysia and a Ph.D in Islamic Law from the University of Birmingham, United Kingdom.

Dr. Ahmad Basri is currently Head of Islamic Project at Permodalan Nasional Berhad (PNB). He leads and oversees a team which is in-charge of Shariah matters in unit trust funds management. Prior to this, he was an Associate Professor at the Department of Fiqh and Usul Al-Fiqh at the Kulliyah of Islamic Revealed Knowledge and Human Sciences, International Islamic University Malaysia. He used to teach subjects of Shariah such as Usul Al-Fiqh, Islamic criminal law, introduction to Fiqh and his research areas of interest includes Islamic law of transactions, Islamic political system and Islamic legal maxims.

Dr. Ahmad Basri has wide experience in Shariah advisory as he has previously served as chairman and member of Shariah Committee of a number of Islamic financial institutions in Islamic banking and takaful industries. He also conducted researches and published articles, book chapters as well as invited to present papers and training on Shariah and Islamic finance in conferences.

Currently, Dr. Ahmad Basri is a member of Association of Shariah Advisors in Islamic Finance.

USTAZ MOHD FADHLY MD YUSOFF

Member

Ustaz Mohd Fadhly Md Yusoff was appointed as a Member of the Shariah Committee of BPMB on 1 April 2017. He holds a Bachelor Degree in Shariah (First Class) from the University of Malaya, Malaysia.

Ustaz Mohd Fadhly currently runs his own business and is also an independent Shariah advisor and consultant. Prior to this, he was previously a manager with the Islamic Capital Market Department in Securities Commission Malaysia where he had served for 12 years. He was responsible in managing, supervising and monitoring Shariah compliance requirements of Islamic product structures in relation to submissions for issuance of Sukuk, structured products, collective investments and Islamic real estate investment trusts. He was also in-charge of research and development activities in relation to Islamic capital market products and outlined the criteria and manuals for Islamic securities. Besides, he was also involved in reviewing and providing technical inputs for preparation of Islamic capital market guidelines.

Ustaz Mohd Fadhly was appointed as a consultant for the Islamic Capital Market Department after he left the Securities Commission. He was also appointed as Shariah advisor and consultant by a number of educational, non-governmental organisations and financial institutions. On capacity building front, he is involved in reviewing Shariah and Islamic finance curriculum and syllabus for human capital development and training providers. He is also an accredited trainer for Islamic Finance Qualification by Chartered Institute for Securities and Investment.

Currently, Ustaz Mohd Fadhly is a member of Association of Shariah Advisors in Islamic Finance. He is also a member of Shariah Committee of RHB Islamic Bank Berhad and Sun Life Takaful Berhad.

MUSA ABDUL MALEK

Member

Encik Musa Abdul Malek was appointed as a Member of the Shariah Committee of BPMB on 5 June 2017. He holds a Bachelor of Business Administration (Honours) from the University of Ohio/Institut Teknologi MARA, Malaysia.

Encik Musa, a seasoned banker, began his banking career at HSBC Group in 1979. During his 31 years career with HSBC Group, he held various management positions in several departments and functions including Credit, Debt Origination of Debt Capital Market in Hong Kong, Corporate Relationship, Islamic Banking and Bumiputra Unit, Business Development and Product Development and Management. He assumed the role of Deputy Managing Director of HSBC Amanah Malaysia (the Islamic window of HSBC Bank Malaysia Berhad) and subsequently appointed as Executive Director and Chief Executive Officer in 2008.

He then joined Bank Muamalat Malaysia Berhad in 2010 as Deputy Chief Executive Officer. During the 3 years tenure in Bank Muamalat, he was responsible in managing the business functions of the Bank and assisting the CEO in other operational matters. Prior to his retirement in April 2016, Encik Musa was appointed as Group Head of Islamic Consumer Banking at CIMB Islamic Bank Berhad. During his banking career, Encik Musa has been exposed to all the challenges faced by the banking industry including managing them during the three economic down turn faced by Malaysia.

Currently, Encik Musa is an independent Board Member of Bank Pembangunan Malaysia Berhad.



GROUP MANAGEMENT COMMITTEE

MOHAMMED RAFIDZ AHMED RASIDDI

President/Group Managing Director

AFIDAH MOHD GHAZALI

Chief Operating Officer

ZAINUL BAHRI ZAIN HASHIM

Executive Vice President/Head,
Business & Investment Banking

AHMAD MOCHTAR HASHIM

Chief Credit Officer/
Acting Chief Risk Officer

SHEIKH AHMAD YANI SHEIKH AB HAMID

Chief Compliance Officer

MARAZIZI OMAR

Chief Executive Officer,
Pembangunan Leasing Corporation Sdn Bhd

MUHAMMAD AZRAINI ABDUL HAMID

Chief Executive Officer,
Global Maritime Ventures Berhad

LATIFAH ABDUL LATIFF

Senior Vice President/Head,
Business Banking II

FAUZIAH HANIM BAHARIN

Senior Vice President/Head,
Group Human Resource Development

MOHD YAZID SAFUAN

Senior Vice President/Head,
Group Treasury

NOOR AZMI NAKIM

Senior Vice President/Head,
Credit Operations

MOHAMAD SALIHIN DERIS

Senior Vice President/Head,
Group Shariah

RAZALI HASSAN

Senior Vice President/Head,
Group Legal & Corporate Secretarial

STATEMENT OF **CORPORATE GOVERNANCE**

“

The Board of Directors of Bank Pembangunan Malaysia Berhad is committed to uphold good corporate governance by continuously advocating transparency, accountability, responsibility and integrity, in line with the principles and best practices of Corporate Governance, the Bank Negara Malaysia (BNM)'s Guidelines on Corporate Governance for Development Financial Institutions and primary legislative and regulatory provisions.

”

**THE BOARD IS
RESPONSIBLE
TO ENSURE THE
EFFECTIVENESS
OF THE BANK'S
OPERATIONS.**

STATEMENT OF CORPORATE GOVERNANCE

BOARD COMPOSITION AND BALANCE

The Directors' professional backgrounds, skills, extensive experience and knowledge in various fields, that they accumulated while serving the private and government sectors, brings to the Board the essential range of capability and experience required to effectively perform its functions. A brief profile of each Director is presented on pages 17 to 21 of the Annual Report.

The present Board comprises nine (9) members with one (1) Non-Executive Chairman/Independent Non-Executive Director, one (1) President/Group Managing Director, one (1) Non-Independent Non-Executive Director and six (6) Independent Non-Executive Directors. All Independent Directors are persons of high calibre and integrity to exercise independent judgement and act in the best interest of the Bank.

The appointment/re-appointment of Directors is governed by BNM Guidelines on Corporate Governance for Development Financial Institutions (DFIs), BPMB's Guideline on Fit & Proper for BOD (Group) and the Bank's Articles of Association. The Group Nomination Committee (GNC) reviews and assesses the candidates/Directors' skills, core competencies, experience, integrity and time to effectively discharge his or her role for the purpose of appointments/re-appointments before recommendation is made to the Board for approval. GNC will also refer to the results of the individual assessments conducted via Directors Self and Peer Assessment for re-appointment of Directors. The application for the appointment/re-appointment of Directors will be submitted to BNM for verification.

The Board had also implemented annual assessment in relation to the effectiveness of the Board and Board Committees, as a whole. The feedback and suggestions from the Board will be gathered for deliberation/information of the GNC and thereafter presented to the Board for consideration and approval.

DUTIES AND RESPONSIBILITIES

The Board is responsible to ensure the effectiveness of the Bank's operations. This includes the responsibility of determining the Bank's overall strategic directions, approval of performance targets, monitoring of management achievements, providing overall policy guidance and ensuring that the policies and procedures for internal control system and succession planning are in place.

There is a schedule of matters reserved specifically for the Board's decision, including approval of business plan and annual budget, recommendation of dividend, acquisition and disposal of undertaking and properties of substantial values, major investment

Directors shall maintain its high reputation for ethical behaviours and fair dealings in the conduct of its business.

and financial decisions, changes to the management and control structure within the Group, including policies and delegated authority limits.

Where a potential conflict of interest arises, the Director concerned needs to declare his/her interest and abstain from the deliberation and decision-making process.

CODE OF ETHICS AND BUSINESS CONDUCT FOR BOARD OF DIRECTORS (GROUP)

BPMB has adopted a Code of Ethics and Business Conduct Board of Directors (Group) that sets out sound principles and standards of good practice in banking industry. Directors shall maintain its high reputation for ethical behaviours and fair dealings in the conduct of its business and are expected to conduct the business of BPMB Group with the highest level of ethical behaviour and in a professional manner.

BOARD MEETING AND SUPPLY OF INFORMATION

The Board meets at least once a month to discuss and monitor amongst others, the overall conduct and performance of the Bank, including matters relating to financials, policies, strategies, performance and resources. Approvals on urgent or important business issues requiring the sanction of the Board are sought by convening Special Board meetings or by way of Circular Resolutions enclosing all relevant information to enable the Board to make informed decisions. All Circular Resolutions approved by the Board will then be tabled at the next Board meeting for notation.

The Board and Board Committees meetings are scheduled in advance prior to the commencement of a new year and the same is circulated to all Directors to enable them to plan ahead. The agenda for each Board meeting and papers relating to the matters to be deliberated at the meetings are forwarded to all Directors prior to the date of the Board/ Board Committees meetings.

The Board also peruses the decisions deliberated by the Board Committees through minutes of those Committees. The Chairman of every Board Committees is responsible to inform the Directors during the Board meetings of any salient matters noted by the Committees, which requires the Board's notice or direction. All proceedings of the Board meetings are minuted and signed by the Chairman in accordance with the provisions of the Companies Act, 2016.

All Directors have direct access to the services of the Company Secretary and the Senior Management. Independent professional advice is also made available to the Directors in discharging their duties, in the event such services are required.

During the financial year ended 31 December 2016, the Board met 21 times. The attendance record of the Directors at the Board Meetings for 2016 is as follows:

Name of Director	No. of Meetings and Attendance
Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah <i>Independent Non-Executive Director/Chairman</i>	21/21
Encik Mohammed Rafidz Ahmed Rasiddi <i>President/Group Managing Director</i>	21/21
Datuk Engku Nor Faizah Engku Atek <i>Independent Non-Executive Director</i>	19/21
Dato' Ir. Hj. Mohamad Husin <i>Independent Non-Executive Director</i>	20/21
Dato' Capt. Haji Ahmad Othman <i>Independent Non-Executive Director</i>	21/21
Datuk Wan Azhar Wan Ahmad <i>Independent Non-Executive Director</i>	21/21
Datuk Jamaludin Nasir <i>Independent Non-Executive Director</i> <i>(appointed with effect from 8 December 2016)</i>	1/1*
Tuan Haji Zainul Rahim Mohd Zain <i>Independent Non-Executive Director</i> <i>(ceased with effect from 8 March 2016)</i>	3/3*
Tuan Haji Rosli Abdullah <i>Independent Non-Executive Director</i> <i>(ceased with effect from 8 March 2016)</i>	3/3*
Dato' Abd Rahman Md Khalid <i>Independent Non-Executive Director</i> <i>(ceased with effect from 8 March 2016)</i>	3/3*

* Reflects the number of meetings attended during the time the Director held office.

STATEMENT OF CORPORATE GOVERNANCE

TRAINING AND DEVELOPMENT OF DIRECTORS

The newly appointed Directors are required to attend an induction programme organised by the Management. The Directors will be briefed on the Bank's history, operations and financial performance as to enable them to have first-hand understanding of the Bank's operations. At the induction programme, Heads of Functions/Chief Executive Officer of the main subsidiaries will brief the newly appointed Directors on their areas of responsibilities in order to offer the Directors with background knowledge of the Bank as well as a platform to establish personalise interaction with the key senior management.

The Board keeps abreast with the development in the banking industry by attending conferences and seminars held in Malaysia and abroad for their continuing education and skills improvement.

The Bank also encourages its Directors to attend talks, training programmes and seminars to update themselves on new development in the business environment.

D. COMMITTEES

There are five (5) Board Committees established to assist the Board in discharging its duties and responsibilities, namely the Credit Committee of the Board, Group Audit and Examination Committee, Group Nomination Committee, Group Remuneration Committee and Group Risk Management Committee.

CREDIT COMMITTEE OF THE BOARD

1. Objective

The primary objective of the Credit Committee of the Board (CCB) is to perform supervisory and oversight role of loans approval and to ensure adequate risk management processes are in place.

2. Functions and Responsibilities

- Veto power to challenge, reject loan and modify the terms of all loans related financing facilities and investment proposals as per limit set in BPMB Group Authority for Credit and Investment Approvals ('GACIA').
- To approve "policy loans" and loans which are required by statute to be approved by the Board, provided that the initial filter of approval is conducted by the full-time executive committee.
- To approve all cases of write-offs proposals from BPMB and shall be submitted to the Board of Directors for notification.

- To approve the appointment and/or termination of members of credit management committees.
- To endorse/approve any other matter as prescribed by GACIA.

3. Committee Meeting and Attendance

Based on the Term of Reference of the CCB, the meeting is to be held twice a month or when necessary as proposed by the P/GMD. The CCB met 16 times during the financial year 2016. The Committee members and their records of attendance are as follows:-

Members	No. of Meetings and Attendance
Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah, Chairman	(16/16)
Datuk Wan Azhar Wan Ahmad	(16/16)
Dato' Ir. Hj. Mohamad Husin	(16/16)
Dato' Capt. Hj. Ahmad Othman (appointed with effect from 16 March 2016)	(14/14)*
Tuan Haji Zainul Rahim Mohd Zain (ceased with effect from 8 March 2016)	(2/2)*
Tuan Haji Rosli Abdullah (ceased with effect from 8 March 2016)	(2/2)*
Dato' Abd Rahman Md Khalid (ceased with effect from 8 March 2016)	(1/2)*

* Reflects the number of meetings attended during the time the Member held office.

GROUP AUDIT AND EXAMINATION COMMITTEE

1. Objective

The objective of the Group Audit and Examination Committee (GAEC) is to review the financial conditions of the Bank and its subsidiaries, the internal controls, performance and findings of the Internal Auditors, and to recommend appropriate remedial action regularly.

2. Functions and Responsibilities

The functions and responsibilities of the GAEC are as follows:

- Recommend to the Board each year on the appointment/re-appointment of External Auditors, the fee and other matters pertaining to the resignation or termination or change of External Auditors.
- Review with the External Auditors:-
 - (a) their audit plan;
 - (b) their evaluation of the system of internal controls;
 - (c) their audit report;
 - (d) their management letter and management response; and
 - (e) the assistance given by the management and staff to the External Auditors.
- With regards to the Internal Audit function:
 - (a) Review the adequacy of scope, functions and resources of the Internal Audit function and that it has the necessary authority to carry out its responsibilities;

- (b) Review and approve the Internal Audit plan, programme and processes;
 - (c) Review audit reports and consider adequacy of Management's actions taken on audit findings or recommendations;
 - (d) Recommend to the Group Nomination Committee on the appointment and termination of the Head, Group Audit & Examination;
 - (e) Review the performance evaluation of the Head, Group Audit & Examination and senior members of the Internal Audit function as well as decide on their remuneration package;
 - (f) Review the effectiveness of the Internal Audit function, including compliance with The Institute of Internal Auditors' *International Professional Practices Framework for Internal Auditing* consisting of the *Definition of Internal Auditing*, *Code of Ethics* and *the Standards*; and
 - (g) Review the assessment or findings arising from the Shariah audit and report the non-compliance events to the Shariah Committee and the Board.
- Receive and consider reports relating to the perpetration and prevention of fraud.
 - Review the Bank's compliance with the related Government's regulations including Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) measures.

- Review the quarterly results and the year-end financial statements prior to their submission to the Board for its approval. The review of the year-end financial statements by the external auditor, shall focus particularly on:
 - (a) Any major changes in the accounting policy or its implementation;
 - (b) Adequacy of allowance against contingencies, bad and doubtful debts;
 - (c) Significant and unusual events; and
 - (d) Compliance with accounting standards and other legal requirements.
- Ensure that the accounts are prepared in a timely and accurate manner and ensure prompt publication of annual accounts.
- Discuss any problem and reservations that may arise from the interim and final audits, as well as any matter, which the External Auditors may wish to discuss, in the absence of Management, where necessary.
- Review any related party transactions and conflict of interest situation that may arise in the Bank or BPMB Group including any transaction, procedure or conduct that raises questions of management integrity.
- Preparation of the GAEC report at the end of each financial year, which shall be published in the Bank's Annual Report.

STATEMENT OF CORPORATE GOVERNANCE

- Review and endorse the status and progress of Management’s responses and corrective measures on issues raised in the Bank Negara Malaysia Examination Report, before it is tabled to the Board for approval.
- For the preparation of the Bank’s annual report, to prepare the GAEC report, which shall contain the following information:
 - (a) The composition of the GAEC, including name, designation and directorship of the members and whether the Director is independent or otherwise;
 - (b) The terms of reference of GAEC;
 - (c) The number of GAEC meetings held in the financial year and details of attendance of each member;
 - (d) A summary of the activities of the GAEC in the discharge of its functions and duties for the financial year; and
 - (e) A summary of the activities of the Internal Audit Department.
- Inform the Board on the issues and concerns discussed during its meetings, including those raised by the external auditors and where appropriate, make the necessary recommendations to the Board.

3. Committee Meeting and Attendance

Based on the Term of Reference of the GAEC, the meeting is to be held at least four (4) times a year and such additional meeting as the Chairman shall decide. The GAEC met 13 times during the financial year 2016. The Committee members and their records of attendance are as follows:

Members	No. of Meetings and Attendance
Tuan Haji Rosli Abdullah, Chairman <i>(ceased with effect from 8 March 2016)</i>	1/1*
Dato’ Abd Rahman Md Khalid <i>(ceased with effect from 8 March 2016)</i>	1/1*
Tuan Haji Zainul Rahim Mohd Zain <i>(ceased with effect from 8 March 2016)</i>	1/1*
Datuk Wan Azhar Wan Ahmad, Chairman <i>(appointed as Chairman with effect from 16 March 2016)</i>	13/13
Datuk Engku Nor Faizah Engku Atek <i>(appointed with effect from 16 March 2016)</i>	12/12*
Dato’ Ir. Hj. Mohamad Husin <i>(appointed with effect from 16 March 2016)</i>	11/12*
Dato’ Capt. Haji Ahmad Othman <i>(appointed with effect from 16 March 2016)</i>	12/12*

* Reflects the number of meetings attended during the time the Member held office.

GROUP NOMINATION COMMITTEE

1. Objective

The primary objective of the Group Nomination Committee (‘GNC’) is to provide a formal and transparent procedure for the appointment and/or re-appointment of Board of Directors (‘BOD’), President/Group Managing Director (‘P/GMD’), BOD Committee Members, Shariah Committee (‘SC’) Members and Key Senior Management Officers as well as to assess the effectiveness of individual Directors, the BOD as a whole and BOD Committees including SC, the P/GMD and Key Senior Management Officers for Bank Pembangunan Group (the ‘Group’).

2. **Functions and Responsibilities**

The functions and responsibilities of the GNC are as follows:

- Establish minimum requirements for the BOD and the P/GMD to perform their responsibilities effectively.
- Oversee the overall composition of the BOD, BOD Committees and SC Members in terms of the appropriate size and skills, the balance between Executive Directors, Non-Executive and Independent Directors, and mix of skills and other core competencies required through annual reviews.
- Recommend and/or assess nominees for the appointment or re-appointment of the BOD (BPMB and its major subsidiaries), P/GMD, BOD Committees and SC Members for BOD's approval. The proposed appointment or re-appointment of BPMB BOD/SC Members will require BNM's verification/approval and Minister of Finance/Minister of Finance (Incorporated) ('MOF')'s final approval, as the case may be.
- Establish a mechanism for the formal assessment on the effectiveness of the BOD as a whole, the contribution by each Director to the effectiveness of the BOD, the contribution of the BOD Committees including SC and the performance of the P/GMD and Key Senior Management Officers. Annual assessment should be conducted based on objective performance criteria. Such performance criteria should be approved by the full Board.

- Recommend to the BOD on the removal of a Director or P/GMD if he/she is ineffective, errant or negligent in discharging his/her responsibilities.
- Ensure that all Directors and SC Members undergo appropriate induction programme and received continuous training in order to keep abreast with the latest developments in the industry.
- Assess the performance of P/GMD before submission to the BOD for its approval.
- Oversee/Recommend the following matters in relation to Key Senior Management Officers for BOD's approval:-
 - New appointment
 - Re-appointment
 - Confirmation of contract
 - Non-renewal of contract
 - Management succession planning
 - Performance evaluation

For new appointments, the P/GMD be given the authority to assess and evaluate candidates, negotiate and determine the salary, benefits and terms and conditions of service for the positions of Key Senior Management Officers and thereafter it would be tabled to GNC for recommendation and BOD for approval.

The appointment, re-appointment, confirmation/non-renewal of contract and performance evaluation of CEO of major subsidiaries and

management succession planning shall be tabled to BOD of the respective subsidiaries first prior to GNC for endorsement and BPMB BOD for approval.

- Recommend to BOD on the removal of Key Senior Management Officers if they are ineffective, errant and negligent in discharging their responsibilities.

The removal of CEO of major subsidiaries shall be tabled to the BOD of the respective subsidiaries first prior to GNC for endorsement and BPMB BOD for approval.

- To endorse the Corporate KPIs of BPMB and its major subsidiaries for BOD's approval.

Upon endorsement of GNC, the Corporate KPIs of major subsidiaries shall be tabled to BOD of the respective subsidiaries for approval and thereafter to BPMB BOD for final approval.

- To recommend the appointment of BOD in the subsidiaries/ associated companies (excluding JV-SOCs of Global Maritime Ventures Berhad).
- To conduct 'fit & proper' assessment on BPMB Directors on yearly basis as to ensure the effectiveness of BOD in carrying out his/her responsibilities. For SC Members, such assessment is to be conducted at the point of appointment and reappointment.
- To consider any other matters as referred to GNC by the BOD.

STATEMENT OF CORPORATE GOVERNANCE

3. Committee Meetings and Attendance

Based on the Term of Reference of the GNC, the meeting is to be held at least once a year. The GNC met 18 times during the financial year 2016. The Committee members and their records of attendance are as follows:

Members	No. of Meetings and Attendance
Datuk Wan Azhar Wan Ahmad, Chairman (appointed with effect from 8 March 2016)	15/15*
Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah	18/18
Dato' Capt. Haji Ahmad Othman	16/18
Datuk Engku Nor Faizah Engku Atek (appointed with effect from 8 March 2016)	14/15*
Dato' Ir. Hj. Mohamad Husin (appointed with effect from 8 March 2016)	15/15*
Tuan Haji Zainul Rahim Mohd Zain, Chairman (ceased with effect from 8 March 2016)	3/3*
Tuan Haji Rosli Abdullah (ceased with effect from 8 March 2016)	3/3*
Dato' Abd Rahman Md Khalid (ceased with effect from 8 March 2016)	3/3*

* Reflects the number of meetings attended during the time the Member held office.

GROUP REMUNERATION COMMITTEE

1. Objective

The primary objective of the Group Remuneration Committee ('GRC') is to provide a formal and transparent procedure for developing a remuneration policy for Board of Directors ('BOD'), President/Group Managing Director ('P/GMD'), Board Committee Members, Shariah Committee ('SC') Members and Key Senior Management Officers and ensuring that compensation is competitive and consistent with the Bank's culture, objectives and strategies.

2. Functions and Responsibilities

The functions and responsibilities of the GRC are as follows:

- Recommend to BOD a framework of remuneration for BOD, P/GMD, SC Members and Key Senior Management Officers. The remuneration policy should:-
 - (a) Be documented and approved by BOD and any changes thereto should be subject to the endorsement of BOD;

- (b) Reflect the experience, responsibility and commitment in their work as Directors of all boards and committees under the Group, P/GMD, SC Members and Key Senior Management Officers;
- (c) Sufficient to attract and retain directors, P/GMD, SC Members and other Key Senior Management Officers of the appropriate caliber, experience and quality needed to manage the Group successfully;
- (d) Be balanced against the need to ensure that the funds of the Group are not used to subsidise excessive remuneration packages and to ensure that the remuneration are in line with the current industry best practice; and
- (e) The framework should cover all aspects of remuneration including directors' fees, salaries, allowances and benefit-in-kind.

- Propose, review or recommend to BOD specific remuneration packages for Directors, P/GMD, SC Members and Key Senior Management Officers. The remuneration packages should:
 - (a) Be based on an objective consideration and approved by BOD;
 - (b) Take due consideration of the assessments of the GNC of the effectiveness and contribution of the Director, P/GMD, SC Members and Key Senior Management Officers concerned;

- (c) Not to be decided by the exercise of sole discretion of any one individual or restricted group of individuals; and
 - (d) Be competitive and is consistent with the Group's culture, objective and strategy.
- Assess and endorse the schemes, Terms of Services and new Terms for Executives and staff of the Group for BOD's approval.
 - Recommend to BOD with regard to staff bonus and annual increment of the Group.
 - To consider any other matters as referred to GRC by BOD.

3. Committee Meetings and Attendance

Based on the Term of Reference of GRC, the meeting is to be held at least once a year. The GRC met 9 times during the financial year 2016. The Committee members and their records of attendance are as follows:

Members	No. of Meetings and Attendance
Dato' Ir. Hj. Mohamad Husin, Chairman (appointed with effect from 16 March 2016)	7/7*
Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah	9/9
Dato' Capt. Haji Ahmad Othman	8/9
Datuk Wan Azhar Wan Ahmad (appointed with effect from 16 March 2016)	7/7*
Dato' Abd. Rahman Md Khalid, Chairman (ceased with effect from 8 March 2016)	2/2*
Tuan Haji Zainul Rahim Mohd Zain (ceased with effect from 8 March 2016)	2/2*
Tuan Haji Rosli Abdullah (ceased with effect from 8 March 2016)	2/2*

* Reflects the number of meetings attended during the time the Member held office.

GROUP RISK MANAGEMENT COMMITTEE

1. Objective

The objective of the Group Risk Management Committee (GRMC) is to oversee the senior management's activities in managing the key areas of the Group and to ensure that the risk management process is in place and functioning effectively.

2. Functions and Responsibilities

The functions and responsibilities of the GRMC are as follows:

- Provide oversight and strategic direction for the Management of all risks in BPMB.
- Review and endorse policies, including group-wide policies for the Management of the various risks for approval by Board of Directors.
- Provide oversight on the management of risks exposures at group-wide level, including the implementation of group-wide risk management policies throughout the Group.
- Review and approve objectives, functions and strategies for Group Risk Management function.
- Ensure structures and procedures for risk management are in place and they are reflective of BPMB risk tolerance.
- Review and endorse credit/lending policies encompassing all products and business for approval by Board of Directors.
- Review risk limits and concentration.
- Oversee the implementation of risk related strategic initiatives contained in its corporate plan.
- Review and address the overall risk profile of the Bank and monitor the risk portfolio composition of significant activities of the Group.
- Review and endorse contingency plans for critical and worst case scenarios and address related issues.

STATEMENT OF CORPORATE GOVERNANCE

- Review reports of credit review process, asset quality and ensure prompt corrective action.
- Promoting an integrated approach to evaluate and monitor interrelated risks.
- To ensure effective internal control system for Anti-Money Laundering, Regulatory Compliance, Shariah Compliance and maintain adequate oversight of the overall measures undertaken by the Group.

3. Committee Meetings and Attendance

Based on the Term of Reference of the GRMC, the meeting is held once in every two months. The GRMC met 5 times during the financial year 2016. The Committee members and their records of attendance are as follows:-

Members	No. of Meetings and Attendance
Datuk Wan Azhar Wan Ahmad, Chairman <i>(appointed as Chairman with effect from 16 March 2016)</i>	5/5
Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah <i>(appointed with effect from 16 March 2016)</i>	4/4*
Datuk Engku Nor Faizah Engku Atek <i>(appointed with effect from 16 March 2016)</i>	4/4*
Dato' Ir. Hj. Mohamad Husin <i>(appointed with effect from 16 March 2016)</i>	3/4*
Tuan Haji Zainul Rahim Mohd Zain, Chairman <i>(ceased with effect from 8 March 2016)</i>	1/1*
Tuan Haji Rosli Abdullah <i>(ceased with effect from 8 March 2016)</i>	1/1*
Dato' Abd Rahman Md Khalid <i>(ceased with effect from 8 March 2016)</i>	0/1*

* Reflects the number of meetings attended during the time the Member held office.

STATEMENT OF INTERNAL CONTROL

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RESPONSIBILITY

The Board acknowledges its overall responsibility in establishing a sound internal control system as well as reviewing its adequacy and effectiveness.

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INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM ARE TO MANAGE RISKS.

The Board acknowledges its overall responsibility in establishing a sound internal control system as well as reviewing its adequacy and effectiveness.

The Board is of the view that the internal controls together with the risk management system are designed to manage the Group's risks within the acceptable risk appetite.

Whilst total elimination of risks is not possible, the internal controls and the risk management system that are in place are designed to manage risks in meeting the Group's business objectives, and provide reasonable and not absolute assurance, against material misstatement, loss or fraud.

The Board has established appropriate control structure and process for identifying, evaluating, monitoring, managing and responding to significant risks faced by the Group in its achievement of the business goals and objectives. The control structure and process which have been instituted throughout the Group are reviewed and updated from time to time in response to the changes in the business environment, and this on-going process has been in place for the whole financial year under review.

KEY INTERNAL CONTROL PROCESSES AND STRUCTURES

Key processes that the Board have established in reviewing the adequacy and effectiveness of the internal control system include the following:

Establish Management's role with regards to internal controls

The roles of Management include:

- Identifying and evaluating the risks faced, and the achievement of business objectives and strategies;
- Formulating relevant policies and procedures to manage these risks;
- Monitoring the effective implementation of internal control system; and
- Reporting in a timely manner to the Board any changes to the risks and the corrective actions taken.

STATEMENT OF INTERNAL CONTROL

Internal Audit Function – Group Audit & Examination (GAE)

GAE undertakes regular reviews of the Group's internal control systems. The Group's operations and business processes (auditable entities) that are included in the annual audit plan are identified using a risk-based approach taking into consideration input from the Management, the Shariah and Group Audit & Examination Committees. The reviews are performed to examine and evaluate the adequacy and effectiveness of internal controls relating to governance, risk management and compliance to the relevant laws and regulations.

Significant risks and non-compliance impacting the Group are highlighted and recommendations are provided in the audit report and the Management follows through and implements the remedial action plans.

Management Audit & Examination Committee (MAEC)

The MAEC is a management committee chaired by the President/Group Managing Director, which meets monthly, or as and when required, to ensure that all recommendations/management action plans in the audit reports are implemented within the agreed due date. Minutes of the MAEC meeting are tabled to the GAEC together with the audit reports.

Group Audit & Examination Committee (GAEC)

The GAEC meets at least four (4) times yearly and additional meeting as the Chairman shall decide to review issues identified in audit reports prepared by GAE as well as by external auditors. The GAEC has active oversight on GAE's independence, scope of work and resources. It also reviews and approves the annual audit plan and frequency of the internal audit activities.

OTHER INTERNAL CONTROL PROCESSES AND STRUCTURES

The other key elements of the procedures established by the Board that provides effective internal control include:

Business Plan and Performance Review

An annual business plan and budget are submitted to the Board for approval. Performance achievements are reviewed against the targeted results on a monthly basis allowing timely responses and corrective actions to be taken to mitigate risks. The Board reviews regular reports from the Management on the key operating statistics. The Board also approves any changes or amendments to the Group's policies.

Board Committees

Board Committees (other than the GAEC) are also established to assist the Board in performing its oversight function namely Credit Committee of the Board, Group Nominating Committee, Group Remuneration Committee and Group Risk Management Committee. These Committees have the authority (terms of reference) to examine all matters within their scope and report to the Board with their recommendations.

Management Committees

Various Management Committees (Executive Level) are also established by Management to assist and support the various Board Committees to oversee the core areas of business operations. These committees include the Group Management Committee (GMC), Group Credit Committee (GCC), Executive Risk Management Committee (ERMC), Asset & Liability Committee (ALCO), Tender Committee and Information Technology Committee (ITC).

Policies, Guidelines, Procedures and Authority Limits

Policies, guidelines and procedures governing the Group's businesses and operations are documented and are made available to employees across the Group. These policies, guidelines and procedures are reviewed and updated by the business and functional units through a structured process of review to cater to changes in laws and regulations as well as changes to the business and operational environment.

Delegation of authority including authorised limits at various levels of Management in the Group are documented and designed to ensure accountability and responsibility.

Code of Ethics and Conduct

The Code of Ethics and Conduct ("the Code") sets out the standards of good and ethical banking practices, as well as aims to maintain confidence in the security and integrity of the Group's business practices. It is a requirement that all employees of the Group understand and observe the Code.

RISK MANAGEMENT

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Against the backdrop of a dynamic and challenging global economy and continuous regulatory reforms, there was an increased need for Group Risk Management (GRM) to integrate seamlessly with the business and work more effectively to create greater synergies and value for the Group in 2016.

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**GRM ENSURES
GROUP'S
PORTFOLIO
ALIGNS TO THE
RISK APPETITE
AND STRATEGY.**

2016 has been a tough year for the country because of the oil price crisis, global economic reform, depreciation of Ringgit, rebalancing in China and an elusive synchronised and sustainable growth due to an overlay of political or geopolitical tension that magnifies the purely economic challenges.

Amidst such challenges, BPMB stays focused in fulfilling its mandated role whilst remaining steadfast in improving its asset quality.

Hence, in managing the risk profile of the Group, GRM ensures that the Group's portfolios are aligned to the risk appetite and strategy as well as to refresh and update the Group's respective risk management frameworks to be forward looking.

RISK MANAGEMENT FRAMEWORK

Risk is an inherent component in all aspects of the Group's businesses. The Risk management process seeks to identify, measure, monitor and control risk in order to ensure that the risk exposure is adequately managed and that expected return able to compensate the risk taken. The Group's approach to the management of risk involves the establishment of risk principles and strategies as the core foundation in driving strong risk management culture and practices across the Group. The Group manages its risk actively guided by its risk management governance and framework.

RISK MANAGEMENT

i. Risk Management Governance

The following illustrates the Risk Management Governance structure adopted by the Bank, which is guided by BNM’s Risk Governance Policy, Guidelines on Corporate Governance for Development Financial Institutions and the Shariah Governance Framework for Islamic Financial Institutions.

Board of Directors

The Board of Directors has the ultimate responsibility for the sound and prudent management of the Group. This includes responsibility for risk oversight and to ensure appropriate risk management frameworks and policies are established and implemented accordingly for the various categories of risk exposures within the Group.

Board Level Committees

Group Risk Management Committee (GRMC)

The GRMC is a Board level Committee responsible to perform oversight on the Group’s risks. It is primarily responsible to oversee senior management’s activities in managing the key risk areas of the Group and to ensure the appropriate risk management infrastructure, resources and processes are in place and functioning effectively.

Credit Committee of the Board (CCB)

The CCB is tasked by the Board to review financing approvals and credit risk portfolio.

Group Nomination and Remuneration Committee (GNRC)

The GNRC is appointed to oversee the establishment and implementation of remuneration policy and structures; including to ensure such policy and structures do not induce excessive risk-taking and able to reinforce prudent risk-taking.

Shariah Committee

The Shariah Committee reports directly to the Board and undertakes a fundamental role in ensuring the Group’s compliance with Shariah requirements. The Shariah Committee is responsible to deliberate and provide decisions, views and advice on Shariah matters/issues, as well as Shariah compliance oversight on the Group’s Islamic business operations/ activities.

Management Level Committees

Asset & Liability Committee (ALCO)

The primary objective of Asset & Liability Management Committee (ALCO) is to perform the oversight function and to deliberate key issues related to the Bank’s asset and liability management and market risk.

Executive Risk Management Committee (ERMC)

The ERMC is a Management level committee responsible for the management of all material risks within the Group.

Group Credit Committee (GCC)

The GCC forms part of the risk governance for managing credit/investment risks within the Group. The Committee is empowered to approve credit/investment related proposals, which falls within their authority.

To ensure that risk governance remains strong and relevant, GRM continues to embed robust risk governance and accountability across the Group as well as ensure the adherence to the dynamic global and local regulatory requirement and risk management practices across the Group.

ii. Risk Appetite Statement and Strategy

The risk appetite framework serves as a foundation for the Bank’s risk culture and sets out the principles and policies to guide business activities and decision making process towards achieving an optimal balance between risk and return.

The Bank’s development of its risk appetite has been integrated into the annual strategy and business planning process and is adaptable to changing business and market conditions. The Bank’s risk appetite balances the needs of all stakeholders by acting both as a risk

gatekeeper and as a driver of future and current business activities.

The articulation of the risk appetite is done through a set of risk appetite statements which includes a comprehensive view of all material risks to the Group and is as follows:

Risk Appetite Categories	Risk Appetite
Solvency & Capitalisation	<ul style="list-style-type: none"> • Maintain RAM rating equivalent to Malaysia’s sovereign rating; • Maintain the Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) above the respective regulatory requirement.
Sustainable Earnings	<ul style="list-style-type: none"> • Achieve sustainable profitability whilst fulfilling its mandated role.
Liquidity	<ul style="list-style-type: none"> • Maintain the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) above Basel III liquidity ratio requirement under normal economic conditions (business-as-usual); • Reduce reliance on short term funding; • Full regulatory compliance to the New Liquidity Framework (NLF) at all times.
Asset Quality	<ul style="list-style-type: none"> • Maintain an acceptable impaired ratio.
Operational Risk	<ul style="list-style-type: none"> • Zero tolerance on operational risk.
Compliance	<ul style="list-style-type: none"> • Zero tolerance on Shariah non-compliance event; • Compliance to regulatory requirement and internal policies.

* Risk appetite is reviewed once in two years.

iii. Risk Management Ownership

Group Risk is moving towards adopting an integrated risk management approach towards the effective management of Group-wide risks. In accordance with the Group’s structure, GRM has continuously enhanced its integrated risk management approach towards the effective management of enterprise-wide risks.

The governance model aims to place accountability and ownership whilst facilitating an appropriate level of independence and segregation of duties. The structure is premised on the three lines of defence and defines the lines of authority, roles and responsibilities to efficiently

manage risk across the Group. Hence, the structure the Group adopts where risks are collectively managed by all functions based on their respective role can be reflected below:

RISK MANAGEMENT

Approach	Responsibility	Functions
1st Line of Defence	Risk Taking Functions	Business and Support Functions, who are the risk takers, are primarily responsible for managing risk exposures in their daily activities.
2nd Line of Defence	Risk Control	<p>The risk control responsibility lies with Group Risk Management (GRM), Group Compliance, Credit Appraisal and Technical Assessment.</p> <p>Group Risk Management (GRM), being an independent function to support the Risk Management Committees is responsible for establishing, implementing and maintaining Risk Management frameworks, policies, guidelines, tools and methodologies, as well as providing independent risk management oversight.</p> <p>Compliance is responsible for ensuring the Group's compliance to applicable laws, regulations, Shariah rulings, internal policies, guidelines and procedures, including establishing and maintaining policies and procedures to detect and minimise risk of non-compliance.</p> <p>Credit Appraisal provides independent risk assessment on all credit/ investment proposals and credit review proposals. The Function also develops and maintains the Bank's credit risk rating models and system, being one of the measures to manage the Bank's credit risks. Meanwhile, Technical Assessment provides independent assessment on technical aspects and risks of projects in respect of credit proposals.</p>
3rd Line of Defence	Risk Assurance	Group Audit & Examination is responsible to conduct independent review and provide assurance on the adequacy and effectiveness of risk management processes and level of compliance.

iv. Risk Management Process

Categories of Risk	Broad Definition	Risk Management Practices
Credit	Losses in principal or income arising from the failure of an obligor or counterparty to perform their contractual obligations in accordance with agreed terms.	<ul style="list-style-type: none"> The Group has a strong credit culture which incorporates a clear credit policy, robust credit evaluation and approval as well as sound credit portfolio management. Credit risk in the portfolio is continuously evaluated and reviewed by the business sectors together with the risk units. Senior Management and the Board have good oversight of the credit risks and play an active role in the overall credit risk management.
Concentration	Concentration exposures that have the potential to produce losses that are substantial enough to threaten the financial condition of the Group and its core operations.	<ul style="list-style-type: none"> The Group adopts a proactive, robust and controlled policy-driven approach in portfolio diversification. The Group's guiding principle in its lending activity is to diversify its loan portfolio mix and avoid any undue concentration of credit risks in its portfolio. Independent assessment on the Group's portfolio profile is undertaken to mitigate concentration risk.

Categories of Risk	Broad Definition	Risk Management Practices
Operational	Losses due to failed internal processes, people, inadequacy/or systems and from external events.	<ul style="list-style-type: none"> • The Group has established an Operational Risk Management Framework (ORMF) to outline a clear governance structure and processes in managing Group wide operational risk exposures, including IT Risk, Business Continuity Management (BCM) and Shariah non-compliance risk. It is periodically reviewed and aligned to the Group's business strategy and directions towards ensuring the operational risk management objectives are met. • Various tools and techniques are also used to minimise operational risk to an acceptable level. • In addition, the Group also has in place a robust crisis management and business continuity plan to ensure continuity of essential business services during unfortunate events or disaster.
Market	Losses or adverse impacts on earnings or capital from changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates, commodity prices and equity prices.	<ul style="list-style-type: none"> • The Group measures, manages and controls its market risk exposure using industry best practices. • The enhancement of market risk triggers and controls are an ongoing effort. The Group plans to continue with such enhancements to ensure prudence in managing the market risks are well contained. • Although it is non-compulsory for the Group to adopt Basel II initiatives, it is currently observing practices derived from Basel II.
Liquidity & Funding	Risk that the Group will not be able to meet both expected and unexpected current and future cash flow and collateral needs effectively without affecting either daily operations or the financial condition of the Group.	<ul style="list-style-type: none"> • The Group uses a range of tools to monitor and control liquidity risk exposure such as liquidity gaps, early warning signals, liquidity indicators and stress testing. • The liquidity positions of the Group are monitored regularly against the established policies, procedures and limits. • The enhancement of liquidity risk triggers and controls are an ongoing effort. The Group plans to continue with such enhancements to ensure prudence in managing the liquidity risks are well contained. • Although it is non-compulsory for the Group to adopt Basel II initiatives, it is currently observing practices derived from Basel II.

RISK MANAGEMENT

Categories of Risk	Broad Definition	Risk Management Practices
Interest Rate	Risk arising from the change in market interest rates that adversely impact the Group's financial condition in terms of earnings or economic value.	<ul style="list-style-type: none"> The Group measures, manages and controls its interest rate risk by adopting and employing both qualitative and quantitative approaches. Such controls include Earning at Risk (EAR), Economic Value of Capital (EVE), Total Rate Sensitive Asset/Liabilities Ratio, Stress Testing etc. Each has a limit of which is monitored and reported regularly against the established frameworks, policies and procedures.
Reputational	Risk that the Group's reputation is damaged by one or more reputation event, as reflected from negative publicity about the Group's business practices, conduct or financial condition.	<ul style="list-style-type: none"> The Group's reputation is preserved through managing all the risks that affect the Group's reputation through good corporate governance, effective risk management processes and a structured management of reputational events when they occur.
Information Technology (IT)	The potential that a given threat will exploit vulnerabilities of Group's IT related assets and thereby cause harm to the Group. The includes risks that customers or the Group may be significantly affected by service disruptions, losses arising from system defects, illegal use of computer systems and breach of data via computer systems perpetrated either by internal or external parties, including any damage to the reputation of the Group.	<ul style="list-style-type: none"> The Group ensures and creates awareness among its internal and external customers of this risk. Assess all potential risks on IT systems use by the group through Risk Control Self Assessment (RCSA) exercises from both GIT and Business Users perspectives.
Regulatory	Change in regulations which could threaten the Group's competitive position and capacity to conduct business effectively.	<ul style="list-style-type: none"> The Group keeps a close watch on all key regulatory developments in order to anticipate changes and potential impact on performance with the focus of continuously improving the risk governance structure and framework.
Business & Strategic Risk	Risk of current or prospective impact on the Group's earnings, capital, reputation or standing arising from changes in the environment the Group operates in and from adverse strategic decisions, improper implementation of decisions or lack of responsiveness to industry, economic or technological changes.	<ul style="list-style-type: none"> The Group has a well-established risk governance structure and recently established dedicated team that reviews the overall strategic risk facing the Group. The Group adopts appropriate strategies to balance risk and return taking into account changing conditions through the economic cycle and monitoring of economic trends in the market closely. The respective Risk Management Sub-Functions continuously review the suitability of its risk policies and controls.

v. Risk & Compliance Culture

A vital component in strengthening the Group's risk governance structure is its risk and compliance culture. Culture forms the fundamental building block of risk management and serves as the foundation upon which a strong enterprise wide risk management structure is built.

The risk and compliance culture of the Group is driven from the top and complimented with the tone from the middle, that are ingrained in all levels of business and activities. As an essential building block for effective risk governance, it is continuously promoted to ensure that the right risk and compliance culture is embraced and exhibited in the behaviour of each individual within the organisation.

As part of the risk and compliance culture, the Group has also tried to instil a compliance culture where the Board, Senior Management and every employee of the Group is committed to adhere to the requirement of relevant laws, rules, regulations and regulatory guidelines. The Group's commitment is clearly demonstrated through the establishment of strong compliance policies and guidelines to ensure that the Group's non-compliance risks are effectively managed. Such measures help lower the cost of doing business arising from regulatory penalties, as well as protects the Group's integrity and reputation.

STRATEGIC PRIORITIES FOR 2016

GRM's strategic priorities for 2016 continue to build around managing its key focus areas of asset and liabilities management. The team has considered both external and internal drivers during the setting of the Strategic Priority for 2016. They were:

i. Key External Drivers

- Challenging economic and cost environment;
- Increased data and IT infrastructure requirement;
- Regulatory pressures on business model and cost structure.
- Government initiative to Strengthening infrastructure and re-engineering economic growth for greater prosperity

ii. Key Internal Drivers

- Compliance to regulatory requirement;
- Enhance shareholders' value;
- Optimisation of resources;
- Risk ownership at various functions;
- Deepening risk awareness culture at all levels.

KEY ACHIEVEMENTS IN 2016

Although Basel II-compliant is not yet a requirement, the Group has taken the initiative to adopt a more forward looking approach to capital management and develop more rigorous risk management techniques.

Hence, the following initiatives were undertaken:

- i. Basel II Awareness Session to the Project Team, Board and Senior Management
- ii. Validation on data and methodology for IAA and CAA for the Bank and its subsidiary, namely Pembangunan Leasing Company (PLC)
- iii. Pre-Implementation validation on Moody's enhancement of the Bank's credit risk rating model
- iv. Establishment of Asset & Liability Committee (ALCO)
- v. Establishment of Operational Risk Management Committee (ORMC)
- vi. Enhancement of Credit Portfolio System
- vii. Review on Shariah Non-Compliance Risk Catalogue
- viii. Awareness Program on Alternate Workflows into business SOPs for BCM
- ix. Awareness Program on Call-Tree Template Establishment for BCM
- x. BCM Awareness: Walkthrough Exercise (Scenario and BCP/DRP Manual Review)
- xi. Deepening Group-wide risk management via Knowledge Sharing Sessions, Employee Induction Program, Risk Portal etc

The Group's state of implementation of these initiatives were reported to the ERM, RMC and Board on a regular basis, thus ensuring that the Management and Board of the Group are aware and continue to maintain oversight of the risks undertaken by the Group.

RISK MANAGEMENT

EMERGING RISKS

Identifying and monitoring top and emerging risks are integral to the Group's approach to risk management. The identification and prioritisation of key risks facing the Group will be important in order to enable the Group to proactively plan for a holistic management of these risks, amongst others, across the Group. Some of the key concerns for the Group that continues going into 2017 are:

a. Challenging Business Environment

The global economy is on the recovery path after bottoming out last year. An upward pressure on prices poses a setback to consumption growth. Uncertainty in crude oil prices and a depreciated ringgit will contribute towards a higher cost-push inflation expectation. This has impacted the Bank's existing customer and target market. Despite that, Malaysia is expecting a better-than-expected performance for 2017 hoping for recovery in commodities prices as an incentive for global growth. The year has started with a confidence-boosting start with the Business Conditions Index climbing above the benchmark to read 112.7 points, up from 81.2 points in the previous quarter indicating a growth in Manufacturing sector.

The liberalisation of construction sector through General Agreement on Trade in Services (GATS), ASEAN Master Plan of Connectivity and other Free Trade Agreement has reshaped the competitive landscape of the sector including the financial part of it. Increasing Chinese involvement in the sector has a pull factor for more China financing opportunity reducing the market share of the domestic financial player.

b. Regulatory Changes and Requirements

One of the key risks going into 2016 is the evolving landscape of regulatory requirements and the introduction of new regulations. Governments and regulators in numerous jurisdictions are expected to continue to develop regulations which may impose new requirements, including but not limited to the areas of capital and liquidity, corporate structures, conduct of business, corporate governance and operational risk.

c. Concentration risk and connected lending

Concentration risk arises due to Bank localisation approach and the Bank's limitation in providing to its mandated role and business sector. However, the Bank is currently observing the Connected Party Limit to mitigate the rising concentration risk. Although the Bank has yet to observe the Single Counterparty Exposure Limit, its adoption is imminent and inevitable. The Bank is required to aggregate its exposures to a single counterparty together with its exposure to persons connected to the single counterparty as they may present a common risk to the banking institution, such that difficulties faced by either the single counterparty or persons connected to it may affect the funding or repayment capabilities of either one.

The adoption of SCEL and Connected Parties Limit are to extend financing facilities including investment to connected parties which are of good credit standing in the ordinary course of the business while

performing its mandate. This is to ensure that connected parties, by virtue of their position that could potentially exert influence over the Bank, do not inappropriately benefit from such transactions to the detriment of the Bank.

d. Cyber security

The rising Cyber threat incidents are currently very alarming especially involving malicious software (malware) attack. This could result in significant financial losses, temporary or permanent data loss, disruptions to regular business operations and further leads to reputational damage of the Bank. Hence, immediate heighten of cyber preparedness and cyber resiliency enhancement are required. Currently, BPMB has put effective security controls in place to prevent malware outbreaks from spreading into the organisation's network.

However, since cyber technology evolves over time, the effectiveness of current security controls need to be adequately assessed, especially when there is an undertake of new activity or change in IT infrastructures to better manage the risk exposures. Any critical gaps must be addressed immediately in managing cyber risks including strengthening the existing security controls, IT policies and related processes.

e. Movement in Interest Rates

A reduction in interest rate will have a favourable impact on the margins of the Bank's fixed rate loan portfolio. This portfolio is consistent with the Bank's mandated role, business model and product offering to finance infrastructure projects that is sensitive to interest rate risk. However, the interest rate risk is managed within the risk appetite of the Bank and controls established.

Notwithstanding this, BNM is expected to maintain the overnight policy rate (OPR) at 3.00% in the first half of 2017, reflecting the supportive monetary policy stance and taking into account emerging weaknesses in the external environment, falling commodity prices and continued moderation in aggregate domestic demand.

f. Data

Modern techniques of risk management, reflected in the methodological approach of Basel II, involve the estimation of probabilities of default on the lender's loan portfolio, as well as of loss-given-default. The Bank will continuously ensure that accurate data is maintained for PD, EAD and LGD/collateral value that is used in our provisioning methodology.

g. Changes in market structure and growing competition

Changes in the financial market structure (privatisation, increased entry by commercial banks, financial innovations) have significantly altered the competitive environment faced by the BPMB. Commercial banks intensify competition with access to cheaper financing. Their competitive advantages are often enhanced by greater operating efficiency and better technology.

On one hand, the erosion in pricing power (i.e. less ability to lower deposit rates and raise loan rates) reduces earnings and increases the incentives for risk-taking on the part of the banks. Moreover, competitive pressures might also lead to mispricing.

The presence of other commercial banks can also enhance financial stability by improving risk management among competitors. Improvements in measuring expected and unexpected loss are also needed in order to increase the use of risk-based pricing.

STATEMENT OF SHARIAH GOVERNANCE

“

Bank Pembangunan Malaysia Berhad (BPMB) is carrying on Islamic financial business in addition to its existing conventional financial business. The conduct of Islamic financial business of BPMB is governed mainly by the relevant provisions in the Development Financial Institutions Act 2002 and other rules and regulations as issued by Bank Negara Malaysia (BNM) from time to time. With regard to Shariah governance requirements, BPMB is primarily governed by the Shariah Governance Framework for Islamic Financial Institutions (SGF) issued by BNM.

”

**SGF PROVIDES
GUIDELINE
FOR BPMB TO
ADHERE IN
RELATIONS
TO SHARIAH
COMPLIANCE.**

This SGF was issued with the primary objective of outlining and enhancing the roles and responsibilities of the Board, the Shariah Committee and the Management of BPMB in relation to Shariah governance and compliance matters. It provides a guideline comprising the Shariah governance structure, processes and controls which BPMB is expected to adhere in order to ensure that all its operations and business activities are performed in compliance with Shariah.

In accordance with the requirements of the SGF BNM and an internal Shariah governance framework, the oversight on Shariah compliance in BPMB is monitored by a dedicated Shariah Committee which reports to the Board of Directors, and supported by relevant designated internal Shariah compliance and research functions residing at Group Shariah, Group Risk Management, Group Compliance and Group Audit & Examination.

SHARIAH COMMITTEE

While the Board is ultimately responsible and accountable on the overall Shariah governance framework and Shariah compliance of BPMB, the Board is expected to rely on the Shariah Committee on Shariah decisions in relation to Islamic financial business of BPMB. The Shariah Committee is regarded as a committee of the Board and therefore functionally reporting to the Board, and is expected to play an oversight role in overseeing all Shariah matters related to Islamic financial business of BPMB. The Shariah Committee, amongst others, ensures that the Shariah rulings and requirements relating to Islamic financial business of BPMB comply with the fundamental Shariah decisions and resolutions by the relevant regulatory authorities on Shariah matters.

Composition and Background

In line with SGF BNM, the Shariah Committee currently comprises six (6) members where majority of them i.e. four (4) have Shariah qualification and two (2) have non-Shariah qualification. A brief profile of each Shariah Committee member is presented on pages 22 to 23 of the Annual Report. The appointment/re-appointment of members of Shariah Committee is governed by SGF BNM and internal policies and procedures. The Group Nomination Committee (GNC) reviews and assesses the members for the purpose of appointment/re-appointment before recommendation is made to the Board for approval. GNC will also refer to results of the individual assessments conducted via self and peer assessment of Shariah Committee. The application for the appointment/re-appointment of Shariah Committee members will be submitted to BNM for approval.

Duties and Responsibilities

The Shariah Committee is expected to play an oversight role in overseeing all Shariah matters related to Islamic financial business of BPMB. Specifically, the functions and responsibilities of the Shariah Committee are as follows:-

1. To be responsible and accountable for all Shariah decisions, opinions and views provided by them.
2. To advise the Board and Management of BPMB on Shariah matters in order to ensure that its Islamic financial business and operations comply with Shariah principles at all times.
3. To validate and endorse the following:-
 - (a) The Islamic products and services of BPMB are in compliance with Shariah principles in all aspects including:-
 - The terms and conditions contained in the forms, contracts and agreements used in executing the transactions;
 - The guidelines, manuals and procedures in relation to the products and services, schemes and funds offered by BPMB; and
 - The marketing advertisement, disclosure sheets, sales illustrations and brochures used to describe the product.
 - (b) The policies and procedures applicable to Islamic financial business prepared by BPMB and to ensure that the contents therein do not have any elements which are not in line with Shariah.
4. To confirm and form an independent opinion on Shariah compliance status of BPMB based on their assessment on the works carried out by Shariah review and Shariah audit, and provide assurance information to be disclosed in the annual report, with respect to the following:-
 - The transactions and dealings by BPMB in relation to its Islamic financial business for the reporting year are in compliance with Shariah;
 - The allocation of profit and charging of losses relating to investment accounts, if any, are in compliance with Shariah;
 - The de-recognition of Shariah non-compliant earnings and its distribution for charity purposes are in compliance with Shariah; and
 - The computation and distribution of zakat are in compliance with Shariah
5. To advise BPMB to consult the Shariah Advisory Council of BNM (SAC) on any Shariah matters which could not be resolved.
6. To provide written Shariah opinion(s) in the following circumstances:-
 - Where BPMB refers to the SAC for advice; or
 - Where BPMB submits applications to BNM for approval of new Islamic products

STATEMENT OF SHARIAH GOVERNANCE

7. To assist and provide advice on Shariah matters to related parties such as legal counsel, auditor or consultant appointed by BPMB based on the recommendation or request from the Management. among others, the overall Shariah compliance matters of BPMB. The notice and agenda for each Shariah Committee meeting together papers to be deliberated at the meetings are distributed to all members of Shariah Committee prior to the meetings by the Company Secretary with the assistance from Group Shariah as the secretariat to the Shariah Committee. The minutes of the meetings are escalated to the Board for perusal and information.
8. To put on record its concerns over any Shariah non-compliance issues in its report or statements directed to the Board.

Meetings and Attendance

In line with the requirements in the SGF BNM, the meetings shall be held at least six (6) times a year. The Shariah Committee meets to discuss and monitor

During the financial year ended 31 December 2016, the Shariah Committee had held 12 meetings. The record of attendance of members of the Shariah Committee for the meetings is as follows:-

Name of Shariah Committee Members	No. of Meetings and Attendance
Tan Sri Dato' Seri (Dr) Hj. Harussani Hj. Zakaria*	4/12
Asst. Prof. Dr. Miszairi Sitiris	12/12
Assoc. Prof. Dr. Noraini Mohd Ariffin	12/12
Prof. Dr. Hj. Abdul Samat Musa*	9/12
Dr. Rushdi Ramli*	11/12
Assoc. Prof. Dr. Aznan Hasan**	N/A
Dr. Ahmad Basri Ibrahim**	N/A
Ustaz Mohd Fadhly Md Yusoff**	N/A
Encik Musa Abdul Malek***	N/A

* Retired w.e.f 31st March 2017

** Newly appointed w.e.f 1st April 2017

*** Newly appointed w.e.f 5th June 2017

Training and Development of Shariah Committee Members

The newly appointed members of Shariah Committee are required to attend an induction program organised by the Management to enable them to have first-hand understanding of BPMB and its operations.

The Bank also encourages the Shariah Committee members to attend talks, training programs and seminars to update themselves and to keep abreast with the new development in the industry for their continuing education and skills improvement.

SHARIAH COMPLIANCE AND RESEARCH FUNCTIONS

(a) Group Shariah

Group Shariah in BPMB is assisting the Shariah Committee with regard to internal **Shariah research** function which includes day-to-day advisory and pre-approval review in relation to BPMB Group's business and support stakeholders on Shariah aspects in Islamic financial business. It also serves as the secretariat to the Shariah Committee in undertaking related administrative matters. Group Shariah is currently organised into three (3) main areas of responsibilities as follows:

i. Shariah Advisory

Responsible for providing Shariah advisory to relevant stakeholders and entities within BPMB Group, based on the decisions, precedents, rulings, advice and guidelines already made or issued by BPMB's Shariah Committee, BNM's Shariah Advisory Council and Security Commission's Shariah Advisory Council.

ii. Shariah Research & Secretariat
Responsible for performing in-depth Shariah research and studies on Shariah issues identified from time to time and to serve as the secretariat to the Shariah Committee such as coordinating meetings, compiling proposal papers and disseminating Shariah Committee decisions to relevant stakeholders within BPMB Group. It also includes matters with regard to appointment of Shariah Committee, their trainings etc.

iii. Shariah Transaction
Responsible for reviewing and vetting through the relevant proposed transaction agreements and legal documents as well as on the proposed policies, guidelines and procedures from internal stakeholders in order to ensure that they comply with the approved Shariah principles and decisions. It also coordinates BPMB Group's projects and initiatives in relation to the implementation of requirements under the SGF.

(b) Group Compliance

In line with the SGF, the dedicated Shariah Compliance Unit within the Group Compliance, comprising qualified Shariah officers, is responsible for conducting the **Shariah review** function.

Group Compliance has established BPMB Group Shariah Compliance Review Procedures which sets out the Shariah compliance review function, encompassing regular assessment on Shariah compliance

in the activities and operations of BPMB Group, including examining and evaluating BPMB Group's level of compliance to the Shariah, remedial rectification measures to resolve non-compliances and control mechanisms to avoid recurrences.

In ensuring the activities and operations of the group are Shariah compliant, the Shariah compliance review officer conducts review of BPMB Group's Islamic financial business activities as per the Shariah compliance review work plan approved by the Shariah Committee and the respective Boards.

(c) Group Risk Management

In view Shariah Non-Compliance (SNC) risk is in itself an operational risk, **Shariah Risk Management (SRM)** forms part of the Group's Operational Risk Management (ORM) Framework. The SRM Control Function as outlined by the SGF BNM is undertaken by Group Risk Management's Operational Risk Function to facilitate a systematic and consistent approach in managing SNC risk.

The Strategy, Governance Structure, tools, methodologies and procedures in managing SNC risks have been established. In order to facilitate the process owners in understanding and identifying SNC risks, a SNC risks catalogue has been established and incorporated into the ORM Framework.

Designated business/operations staff are appointed to facilitate the implementation of SNC risk management within their respective Function. The designated staff were provide with training on SNC risks

and the tools to manage them, namely, Risk Control Self-Assessment (RCSA), Shariah Non-Compliance Reporting and Key Risk Indicator. SNC RCSA is performed at least on annual basis, whereby SNC risks and the adequacy of controls in-placed to mitigate those risks were being identified and measured by the process owners.

SNC risk awareness was also included in the BPMB Group's risk awareness programme to be conducted regularly with a view to increase the level of awareness on SNC risks.

(d) Group Audit & Examination

Group Audit & Examination (GAE), which undertakes **Shariah audit**, reports independently to both the Board Audit Committee and the Shariah Committee. The Shariah audit provides independent assurance on the effectiveness of the internal control systems and related policies and procedures implemented by BPMB Group to govern the conduct of its Islamic financial business operations and activities. In general, the scope of Shariah audit is established in line with the areas stipulated in the SGF BNM as well as accepted auditing standards.

Evaluation on the governance, risk management, controls and compliance with Shariah rules and principles is carried out by adopting GAE's audit methodology which is in line with the Institute of Internal Auditors (IIA) standard. Where appropriate, recommendations for improvements and enhancements are made and thereafter reported to the Shariah Committee.



21 JANUARY 2016



21 JANUARY

Group Risk function organised a Risk Awareness Group Challenge. The challenge was aimed to create risk awareness amongst staff. Puan Siti Rohani Atan, the Chief Risk Officer officiated the event.



23 JANUARY 2016

23 JANUARY

Bank Pembangunan and GMV work together organising a CSR programme to help fishermen community in Jerlun, Kedah.



28 JANUARY

The Managing President/Group Managing Director, Encik Mohammed Rafidz Ahmed Rasiddi presented the Bank's 2016 direction during the first quarter Townhall.

2016 CORPORATE HIGHLIGHTS



28 JANUARY 2016

27 FEBRUARY

Global Maritime Ventures together with Bank Pembangunan surrender a fully furnished house to Encik Saidon of Kg. Ulu Tiram, Johor. Encik Sofian Mohd. Ariff, Chief Operating Officer, officiated the ceremony.

28 FEBRUARY

Handing over ceremony of Rumah Ngaji@Kampung Orang Asli at Kampung orang Asli Simpang Arang, Johor.



27 FEBRUARY 2016



28 FEBRUARY 2016



16 MARCH

The Finance Minister II, YB Datuk Seri Johari Abdul Ghani, had an official visit to the Bank for a briefing session that was presented by Encik Mohammed Rafidz Ahmed Rasiddi, President/Group Managing Director.



19 MARCH

Friendly golf tournament between BPMB and Ministry of Finance held at The Datai, Langkawi.

8 APRIL

Four members of the board who have completed their services were celebrated at a dinner held at Sama Sama Hotel KLIA. In his speech, Chairman, Tan Sri Dato' Seri Dr. Wan Abdul Aziz Wan Abdullah conveyed his sincere appreciation for their outstanding services and also presenting token on behalf of the Bank.

25 APRIL

Business and Investment Banking function organised a briefing session to the members of Malaysian Shipowners' Association (MASA). The Executive Vice President/Head, Business & Investment Banking, Encik Zainul Bahrin, conducted the briefing which was held at the Bank's auditorium.

1 MAY

Kelab Sukan dan Rekreasi organised its Family Day that held at the Lotus Desaru Beach Resort, Kota Tinggi, Johor.

1 MAY

Encik Mohammed Rafidz Ahmed Rasiddi, President/Group Managing Director consented to present business title presentation to Majlis Agama Islam Johor.

2016 CORPORATE HIGHLIGHTS

26 MAY

BPMB had signed a Corporate Integrity Pledge (CIP) together with five other Development Financial Institutions (DFIs). The event was witnessed by the former Second Minister of Finance, YB Dato' Seri Ahmad Husni Mohamad Hanadzlah.



28 MAY

A total of 75 flood victims of Pulau Kundur, received contributions from the Bank at an event held at Sekolah Kebangsaan Pulau Kundur, Kota Bharu, Kelantan. Tan Sri Dato' Seri Dr. Wan Abdul Aziz Wan Abdullah and Encik Mohammed Rafidz Ahmed Rasiddi have presented the donations on behalf of the Bank.

29 MAY

BPMB Chairman, Tan Sri Dato' Seri Dr. Wan Abdul Aziz Wan Abdullah attended and handed over Rumah Ngaji@Penjara at Penjara Pengkalan Chepa, Kelantan. Tan Sri Chairman also presented the business title for the state of Kelantan on behalf of the Bank.

30 MAY

Handing over ceremony of Rumah Ngaji@Penjara at Penjara Marang and Penjara Dungun, Terengganu.



16 JUNE 2016



16 JUNE 2016



2 JUNE

GMV organised an appreciation dinner for Dato' Abdul Rahim Abu Bakar held at the Thirty8 Restaurant, Grand Hyatt Kuala Lumpur. Also in attendance was Encik Muhammad Azraini Abdul Hamid, GMV Chief Executive Officer and its board members.

16 JUNE

Encik Mohd. Yazid Safuan, Senior Vice President I/Head, Treasury had represented BPMB to present business tithe to Majlis Agama Islam Melaka.

16 JUNE

The Chief Minister of Sabah, YAB Datuk Seri Musa Haji Aman, had received the business tithe on behalf of Pusat Zakat Sabah. BPMB was represented by Encik Mohammed Rafidz Ahmed Rasiddi.

24 JUNE

Encik Mohammed Rafidz Ahmed Rasiddi, President/Group Managing Director, had presented BPMB business tithe to the state of Selangor.

27 JUNE

Global Maritime Ventures Berhad (GMVB) held its 23rd Annual General Meeting.

28 JUNE

Y.Bhg. Tan Sri Dato' Seri Dr. Wan Abdul Aziz Wan Abdullah, Chairman of BPMB, had presented the business tithe for the state of Wilayah Persekutuan. The event was held at Sama Sama Hotel KLIA together with iftar feast with orphans, tahfiz and single mother. Also present was Encik Mohammed Rafidz Ahmed Rasiddi.



24 JUNE 2016



27 JUNE 2016



28 JUNE 2016

2016 CORPORATE HIGHLIGHTS



1 JULY

Tengku Abdullah Ibni Sultan Ahmad Shah, the Tengku Mahkota Pahang, had received the business tithe on behalf of Pusat Pungutan Zakat Pahang. The event was held at Istana Abdul Aziz, Kuantan.



1 JULY 2016



3 JULY 2016

3 JULY

Datuk Patinggi Tan Sri Datuk Amar Haji Adenan Satem, the former Chief Minister of Sarawak had received the business tithe on behalf of Tabung Baitulmal Sarawak in an iftar feast held at Shangri-La Hotel, Putrajaya. BPMB was represented by the Chairman, Tan Sri Dato' Seri Dr. Wan Abdul Aziz Wan Abdullah.

16-17 JULY

200 students from six primary schools around Kuala Lumpur participated in Seminar Bimbingan Peperiksaan UPSR. The programme was jointly organised with Unit Pendidikan Berita Harian and held at Dewan Bestari, UniKL.

25 JULY

Staff was treated at a Hari Raya Celebration. In addition to the array of traditional delicacies, various activities were held in conjunction with the feast.



25 JULY 2016



16 JULY 2016

28 JULY

BPMB Corporate Raya Celebration held at Mandarin Oriental, Kuala Lumpur. The event was hosted by the President/Group Managing Director, Encik Mohammed Rafidz Ahmed Rasiddi.



28 JULY 2016



17 AUGUST 2016



17 AUGUST

The Management and Board Members paid a visit to two projects undertaken by the bank's client situated in Batu Gajah and Ipoh, Perak.



4 SEPTEMBER 2016

24 AUGUST

For the first time, Bank organised a seminar “Bank Pembangunan Infrastructure Forum (BPIF)”, held at Pullman Hotel, Kuching. The one day seminar was aimed to raise BPMB’s profile in the banking industry, to gain publicity, to build brand image and attract potential clients.

4 SEPTEMBER

Encik Mohammed Rafidz Ahmed Rasiddi had presented the business tithe for the state of Terengganu. The event was held at Istana Syarqiyyah, Bukit Chendering, Terengganu.



8 SEPTEMBER 2016

8 SEPTEMBER

15 BPMB runners were among 2,022 participants who joint Bursa Bull Charge 2016. BPMB also appeared as one of the Ongole Package sponsors with the total sponsorship of RM58,000.00. The annual event managed to raise a total of RM1.9 million for charity.

6 OCTOBER

200 students participated in Seminar Bimbingan Peperiksaan SPM. The two day programme was jointly organised with Unit Pendidikan Berita Harian and held at the Dewan Bestari, UniKL.



24 AUGUST 2016



6 OCTOBER 2016

2016 CORPORATE HIGHLIGHTS

12 OCTOBER

Handing over ceremony of Rumah Ngaji@Kampung Orang Asli at Kampung orang Asli Bukit Payung, Melaka.



12 OCTOBER 2016

26 OCTOBER

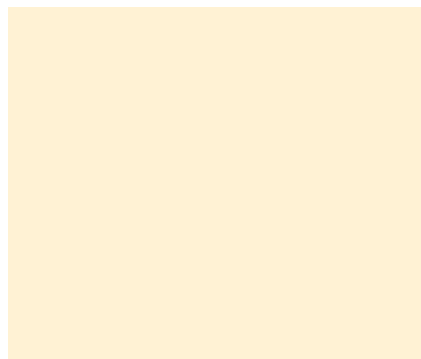
Ustaz Mohamad Salihin Deris, Senior Vice President II/Head, Shariah Advisory has presented the business tithe to the state of Pulau Pinang.



26 OCTOBER 2016



4 NOVEMBER 2016



9 NOVEMBER 2016



25 NOVEMBER 2016

4 NOVEMBER

Yang di-Pertuan Besar of Negeri Sembilan, Tuanku Muhriz ibni Almarhum Tuanku Munawir, has consented to receive business tithe for the state of Negeri Sembilan. The ceremony took place at Istana Seri Menanti, Kuala Pilah. BPMB was represented by the President/Group Managing Director, Encik Mohammed Rafidz Ahmed Rasiddi.

9 NOVEMBER

Bank participated in the Kayuhan MAIPs Peduli organised by Majlis Agama Islam dan Adat Istiadat Melayu Perlis. The Bank's team was led by Encik Mohammed Rafidz Ahmed Rasiddi. Later that night, Encik Mohammed Rafidz presented the business tithe to the state of Perlis to the DYT Raja Muda Perlis, Tuanku Syed Faizuddin Putra ibni Tuanku Syed Sirajuddin Jamalullail.

25 NOVEMBER

Datuk Syeikh Ghazali Yaacob, Secretary of the Department of State Zakat Kedah had received the business tithe for the state of Kedah. The event was held in conjunction with the handing over of Rumah Ngaji@Penjara at Penjara Sungai Petani, Kedah.



11 DECEMBER

BPMB contributed to the *Jom Kembali ke Sekolah* programme organised by Pusat Khidmat Masyarakat Titiwangsa. The event was held at Dewan Utama, Masjid Kampung Baru and was graced by YB Datuk Johari Abdul Ghani, Minister of Finance II.

17 DECEMBER

YB Haji Abdul Rahman Mohd. Redza, the Linggi Assemblyman and Encik Mohammed Rafidz Ahmed Rasiddi, had presented donation to orphans, single mother, masjid and surau around DUN Linggi. The event was held at Masjid Jamek Pasir Panjang, Port Dickson. Also present was Encik Mohd. Yazid Safuan, Senior Vice President/Head, Group Treasury and Encik Noor Azmi Nakim, Senior Vice President I/ Head, Credit Operations.

20 DECEMBER

Friendly golf tournament between BPMB and Ministry of Finance held at TPC, Kuala Lumpur.



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FINANCIAL STATEMENTS



DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Bank is principally engaged to provide medium to long term credit and financing facilities under both Conventional and Islamic financial business to finance infrastructure projects, maritime, oil & gas, technology and capital intensive industries in manufacturing as well as other identified sectors in line with the country's development policy.

Other information relating to the subsidiaries are disclosed in Note 46 to the financial statements.

RESULTS

	Group	Bank
	RM'000	RM'000
Profit from continuing operations, net of tax	121,315	52,156
Profit from discontinued operations, net of tax	109,838	-
Profit for the financial year	231,153	52,156
Attributable to:		
Equity holders of the Bank	218,135	52,156
Non-controlling interests	13,018	-
	231,153	52,156

There were no material transfers to or from reserves, allowances or provisions during the financial year other than those disclosed in Notes 8, 9, 35 and 36 and the statement of changes in equity to the financial statements.

In the opinion of the directors, the results of the operations of the Group and of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature except for significant events during the year as disclosed in Note 10 to the financial statements.

DIVIDENDS

No dividend was declared or paid since 31 December 2015.

At the forthcoming Annual General Meeting, a final tax exempt dividend in respect of the financial year ended 31 December 2016, of 3.25% on 3,078,724,049 ordinary shares, amounting to a dividend payable of RM100,000,000 (3.25 sen net per ordinary share) will be proposed for the shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2017.

DIRECTORS' REPORT (CONT'D.)

DIRECTORS

The names of the directors of the Bank in office since the beginning of the financial year to the date of this report are:

Tan Sri Dato' Sri Dr. Wan Abdul Aziz bin Wan Abdullah	
Datuk Engku Nor Faizah Engku Atek	
Datuk Wan Azhar bin Wan Ahmad	
Mohammed Rafidz bin Ahmed Rasiddi	
Datuk Jamaludin bin Nasir	(appointed on 8 December 2016)
Datuk Seri Hashmuddin bin Mohammad	(appointed on 23 January 2017)
Shaharuddin bin Zainuddin	(appointed on 13 February 2017)
Musa bin Abdul Malek	(appointed on 13 February 2017)
Suffian bin Baharuddin	(appointed on 13 February 2017)
Zainul Rahim bin Mohd Zain	(ceased with effect from 8 March 2016)
Rosli bin Abdullah	(ceased with effect from 8 March 2016)
Dato' Abd Rahman bin Md Khalid	(ceased with effect from 8 March 2016)
Dato' Ir. Hj. Mohamad bin Husin	(ceased with effect from 8 March 2017)
Dato' Kapt. Haji Ahmad bin Othman	(ceased with effect from 8 March 2017)

The names of the directors of the subsidiaries of the Bank since the beginning of the financial year to the date of this report are:

(i) Global Maritime Ventures Berhad	
Raja Datuk Zaharaton binti Raja Zainal Abidin	
Mohammed Rafidz bin Ahmed Rasiddi	
Datin Rashidah binti Mohd Sies	
Datuk Wan Azhar bin Wan Ahmad	
Darawati Hussain binti Dato' Seri Abdul Latiff	(appointed on 27 June 2016)
Mohamad Rafi bin Shahzada	(appointed on 27 June 2016)
Dato' Kapt. Haji Ahmad bin Othman	(resigned on 8 March 2017)
Rosli Bin Abdullah	(resigned on 8 March 2016)
Taufiq Ahmad @ Ahmad Mustapha bin Ghazali	(resigned on 27 June 2016)
Dato' Abdul Rahim bin Abu Bakar	(resigned on 3 July 2016)
(ii) Pembangunan Leasing Corporation Sdn Bhd	
Mohammed Rafidz bin Ahmed Rasiddi	
Datuk Wan Azhar bin Wan Ahmad	(appointed on 17 March 2016)
Mohamad Rafi bin Shahzada	(appointed on 1 March 2017)
Rosli bin Abdullah	(resigned on 8 March 2016)
Dato' Abd Rahman bin Md Khalid	(resigned on 8 March 2016)
Dato' Ir. Hj. Mohamad bin Husin	(resigned on 8 March 2017)
(iii) SME GAF	
Datuk Wan Azhar bin Wan Ahmad	(appointed on 28 April 2016)
Mohammed Rafidz bin Ahmed Rasiddi	(appointed on 8 March 2016)
Afidah binti Mohd Ghazali	
Rosli bin Abdullah	(resigned on 8 March 2016)

DIRECTORS' REPORT (CONT'D.)

DIRECTORS (CONT'D.)

The names of the directors of the subsidiaries of the Bank since the beginning of the financial year to the date of this report are: (Cont'd.)

(iv) Emerald Upline Sdn Bhd

Fauziah Hanim binti Baharin
Azmahnor binti Siarap @ Abdul Wahab

(v) Maju Nominees (Tempatan) Sdn Bhd

Mohd Yazid bin Safuan
Roslina binti Mohamed

(vi) BPMB Urus Harta Sdn Bhd

Fauziah Hanim binti Baharin
Afidah binti Mohd Ghazali
Mohd Nor bin Abd. Razak

(appointed on 30 August 2016)

(resigned on 30 August 2016)

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during the year, did there subsist any arrangement to which the Bank was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors, or the fixed salary of a full time employee of the Bank as shown in Notes 33 and 34 to the financial statements) by reason of a contract made by the Bank or a related corporation with any 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.

DIRECTORS' INTEREST

According to the register of directors' shareholdings, none of the directors in office at the end of the financial year had any interest in shares in the Bank or its related corporations during the financial year.

INDEMNITIES TO DIRECTORS, OFFICERS OR AUDITORS

For the financial year ended 31 December 2016, The Group and the Bank had not given any indemnities to the directors and officers. However, the directors and officers were covered by the insurance coverage amounting to RM418,720.

To the extent permitted by law, the Bank has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

DIRECTORS' REPORT (CONT'D.)

RATING BY EXTERNAL RATING AGENCIES

Details of the Bank's ratings are as follows:

Rating agency	Date	Rating classification	Rating
MARC Rating	19 August 2016	Financial Institution Rating	AAA
MARC Rating	19 August 2016	Islamic Commercial Papers and/or Conventional Commercial Papers Programme of up to RM2.0 billion in nominal value	MARC-1
RAM Rating	29 December 2016	Financial Institution Rating	AAA
RAM Rating	29 December 2016	RM7 billion Conventional Medium-Term Notes Programme and Islamic Murabahah Medium-Term Notes Programme	AAA

BUSINESS OUTLOOK

The global economy is projected to expand at a slower pace in 2017 mainly due to uncertain economic prospects in the Eurozone, China and some major emerging economies that offset the benefits of lower oil prices. Simultaneously, the downside risk to economic growth is expected to increase for Malaysia in view of continued moderation in domestic demand, generally weak recovery in commodity prices and weakening Ringgit. Against the backdrop of challenging economic and banking environment in Malaysia, the Group and the Bank will continue to provide financing to the mandated sectors. The Group and the Bank will remain prudent, maintain strong corporate governance and implement sound risk management policies to ensure a sustainable growth.

OTHER STATUTORY INFORMATION

- (a) Before the income statements, statements of comprehensive income and statements of financial position of the Group and of the Bank were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Bank inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Bank misleading.

DIRECTORS' REPORT (CONT'D.)

OTHER STATUTORY INFORMATION

- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate.
- (d) 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 which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group or of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Group or of the Bank which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Bank to meet their obligations as and when they fall due other than those incurred in the normal course of business; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Bank for the financial year which this report is made.

SIGNIFICANT EVENTS

Significant events are disclosed in Note 10 to the financial statements.

SUBSEQUENT EVENT

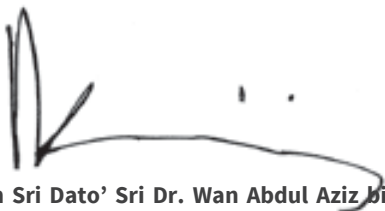
Subsequent event is disclosed in Note 45 to the financial statements.

AUDITORS

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

Auditors' remunerations are disclosed in Note 32 (iv) to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the Board of Directors dated 31 May 2017.



Tan Sri Dato' Sri Dr. Wan Abdul Aziz bin Wan Abdullah
Kuala Lumpur, Malaysia



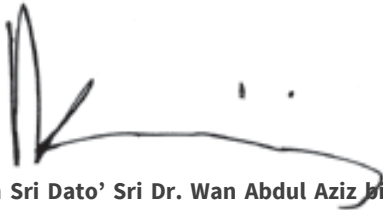
Mohammed Rafidz bin Ahmed Rasiddi

STATEMENT BY DIRECTORS

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

We, Tan Sri Dato' Sri Dr. Wan Abdul Aziz bin Wan Abdullah and Mohammed Rafidz bin Ahmed Rasiddi, being two of the directors of Bank Pembangunan Malaysia Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 74 to 232 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia, so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2016 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Board of Directors dated 31 May 2017.



Tan Sri Dato' Sri Dr. Wan Abdul Aziz bin Wan Abdullah
Kuala Lumpur, Malaysia



Mohammed Rafidz bin Ahmed Rasiddi

STATUTORY DECLARATION

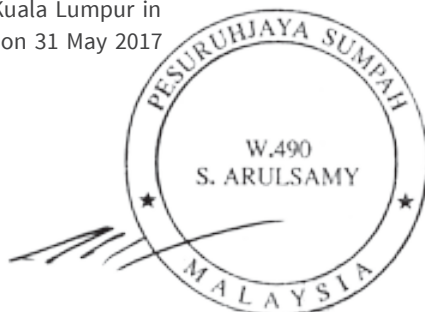
PURSUANT TO SECTION 251 (1) (B) OF THE COMPANIES ACT, 2016 AND SECTION 73 (1) (E) OF THE DEVELOPMENT FINANCIAL INSTITUTION ACT, 2002

We, Shaharuddin bin Zainuddin and Mohammed Rafidz bin Ahmed Rasiddi, the Director and President/Group Managing Director, respectively, of the Bank who are primarily being responsible for the financial management of Bank Pembangunan Malaysia Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 74 to 232 are to the best of our knowledge and belief, correct and we make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur in the Federal Territory on 31 May 2017



Shaharuddin bin Zainuddin



Before me,



Mohammed Rafidz bin Ahmed Rasiddi

16 - Tingkat Bawah Jalan Pudu,
55100 Kuala Lumpur.

SHARIAH COMMITTEE'S REPORT

In the Name of Allah, The Compassionate, The Most Merciful
Praise be to Allah and peace be upon His messenger, his family and his companions.

Assalamualaikum Warahmatullahi Wabarakatuh

To the shareholders, depositors and customers of Bank Pembangunan Malaysia Berhad (“the Bank”):

INTRODUCTION

In carrying out the roles and the responsibilities of the Shariah Committee of the Bank as prescribed in the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia and in compliance with our terms of appointment, we hereby submit the Shariah Committee Report for the financial year ended 31 December 2016.

Management's Responsibility

The Management of the Bank shall at all times be responsible for ensuring that the Bank's aims and operations, business affairs and activities in relation to its Islamic financial business are conducted in accordance with Shariah.

Shariah Committee's Responsibility

The Shariah Committee of the Bank shall be responsible to form an independent opinion, based on our review of the aims and operations, business, affairs and activities in relation to the Islamic financial business of the Bank and to produce this report.

The Shariah Committee of the Bank is assisted by the Shariah compliance and research functions which are established to carry out the specified roles under the Shariah governance requirements. These functions are carried out by Group Shariah, Group Risk Management, Group Compliance, and Group Audit & Examination. Generally, the roles of these functions include conducting Shariah research and providing Shariah advisory, acting as the Shariah Committee's secretariat, managing Shariah non-compliance risks, conducting Shariah review and Shariah audit in relation to Islamic financial business of the Bank.

During the financial year, there were twelve (12) meetings held by the Shariah Committee of the Bank in which we reviewed and deliberated on, among others, the products and services, transactions, processes and documents which were presented to us by the Bank. In performing our roles and responsibilities, we had obtained all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has complied with Shariah. Accordingly, we have also assessed the work carried out by Shariah review and Shariah audit for this purpose.

SIGNIFICANT DEVELOPMENTS & ACTIVITIES

Among the key developments and activities during the financial year are the approval of a new product for revolving financing based on *tawarruq* contract, implementation of Shariah endorsement and concurrence certificate for credit proposals, enhancement of main governance processes to improve oversight by Shariah Committee, visit to a commodity supplier of crude palm oil, deliberation on the initiatives for the strategic roadmap for conversion of conventional facilities into Shariah compliant facilities and strengthening of Shariah related functions with injection of new Shariah talents with the required qualification and experience.

SHARIAH COMMITTEE'S REPORT (CONT'D.)

SIGNIFICANT DEVELOPMENTS & ACTIVITIES (CONT'D.)

The following are the other major developments and initiatives in relation to Shariah governance that took place during the financial year:

a. Shariah Research

The review process undertaken by staff in Group Shariah on the documents for Shariah Committee's approval, deliberation and information as well as providing Shariah advisory to internal stakeholders and endorsement to the proposals was carried out on an on-going basis. The documents include the credit proposals, draft guidelines and procedures, draft legal documentation and marketing decks.

Apart from that, Group Shariah had also conducted Shariah research and study on a number of Shariah issues. These issues had been identified from time to time in the course of advising the stakeholders within the Bank or based on the request made by us. Throughout the financial year, Group Shariah had prepared a number of Shariah research for Shariah Committee's deliberation covering among others, the following main issues:

- 1) Zakat for *Asnaf Fi-Sabilillah*
- 2) Screening Methodology For Islamic Facilities

b. Shariah Risk Management

During the financial year, we note that the Bank has strengthened its implementation of Shariah risk management. A number of initiatives have been carried out by Group Risk Management, which include Shariah Risk and Control Self-Assessment ("RCSA"), revision of Shariah Non-Compliance Risk Catalogue and enhancement of Shariah Non-Compliance Reporting Procedure.

The Shariah RCSA has been conducted by the designated Operational Risk Liaison Officers at each business and support function. The purpose of the Shariah RCSA is to identify and assess the Shariah non-compliance risk inherent in the products, business and operations, and recommend necessary action to mitigate Shariah non-compliance ("SNC").

In addition, the Shariah Non-Compliance Risk Catalogue has been revised to reflect current changes in regulatory and operational requirements. It serves as a user guide for all staff of the Bank in understanding the Shariah non-compliance risks which exist in the daily operations in operationalising the various types of Shariah contracts. Besides, the Shariah Non-Compliance Reporting Procedure has also been updated to address the regulatory requirements in handling and reporting of SNC event upon detection.

c. Shariah Review

Group Compliance, through its dedicated Shariah Compliance team continued to play a vital role in ensuring that the activities and operations in relation to Islamic financial business carried out by the Bank do not contravene Shariah. The scope generally covers the Bank's business operation, including end to end product development process, level of Shariah compliance as well as remedial rectifications measures to resolve SNC.

SHARIAH COMMITTEE'S REPORT (CONT'D.)

SIGNIFICANT DEVELOPMENTS & ACTIVITIES (CONT'D.)

c. Shariah Review (Cont'd.)

During financial year 2016, there were 24 Shariah review assignments which were presented and deliberated by Shariah Committee as follows:

- 1) Review on *Bai' Dayn* Facility
- 2) Review on *Bai' Dayn* Facility for PLC
- 3) Review on *Bai' Murabahah* Facility
- 4) Review on *Ijarah* Facility for PLC
- 5) Review on *Ijarah Muntahiah Bitamlik* Facility
- 6) Review on *Ijarah Thumma Al-Bai'* Facility
- 7) Review on *Istisna'* Facility
- 8) Review on *Kafalah* Facility
- 9) Review on *Tawarruq* Deposit Facility
- 10) Review on *Tawarruq* Financing Facility
- 11) Review on Advertisement Materials
- 12) Review on BPMB's Shariah Governance Framework
- 13) Review on Financial Reporting
- 14) Review on Investment in Securities
- 15) Review on Islamic Financing Collateral
- 16) Review on Marketing Materials
- 17) Review on Money Market Activities
- 18) Review on Payment of Rebate and Fee Charges
- 19) Review on Publication of BPMB's Sukuk Information
- 20) Review on Staff Understanding on Islamic Products
- 21) Review on *Tabung Tazkiyah* Amwal (Zakat Fund)
- 22) Review on *Tabung Tazkiyah* A'mal (Charity Fund)
- 23) Review on Training Materials
- 24) Review on Utilisation of Islamic Fund

Additionally, the Shariah Committee had also noted several initiatives to strengthen the roles of Shariah Compliance team which include among others, the enhancement of Shariah review procedures, compilation of relevant Shariah Advisory Council Resolutions and Shariah Committee meeting decisions (from 2000 until 2016) in order to have a complete internal Shariah resolutions inventory.

The appointment of new designated compliance officers ("DCOs") at the respective functional lines had also been extended to cover Shariah compliance matters including reports of SNC issues and subject matter expert at the respective functions. Continuous training and expert advice are provided to DCOs to ensure that the DCOs are equipped with the necessary pre-requisite knowledge and understanding.

d. Shariah Audit

The performance of audit to ensure a sound and effective internal control system for Shariah compliance in the Bank is within the responsibility of Group Audit & Examination. This is to enable Group Audit & Examination, to provide an independent assessment and objective assurance on the degree of Shariah compliance in relation to the Bank's business operations to the Shariah Committee.

SHARIAH COMMITTEE'S REPORT (CONT'D.)

SIGNIFICANT DEVELOPMENTS & ACTIVITIES (CONT'D.)

d. Shariah Audit (Cont'd.)

In 2016, the Shariah Committee noted that Group Audit & Examination adopts an audit approach where Shariah coverage is embedded within audits on specialised areas.

Among the prominent initiatives introduced by Group Audit & Examination in 2016 to enhance the Shariah governance structure and process are as follows:

- 1) Revision of the Internal Audit Charter to include the reporting line of Group Audit & Examination to the Shariah Committee.
- 2) Revision of the audit methodology.

Besides the above initiative, issues arising from the audit on the following areas were presented to the Shariah Committee:

- 1) Audit on Shariah Advisory & Product Development.
- 2) Audit on Group Finance.
- 3) Audit of BPMB's Compliance with Bank Negara Malaysia (BNM) Guidelines on Product Transparency and Disclosure.

INITIATIVES ON TRAINING & AWARENESS

During the year, we note that two (2) knowledge-sharing sessions, four (4) refresher sessions and six (6) in-house training programs on Islamic financial business were organised for the staff of the Bank. A total of 178 staff attended these refresher sessions and in-house training programs.

In addition, in line with the Bank's aspiration to become a full-fledged Islamic development financial institution (FFIDFI), we note that all business and credit-related staff are required to undergo the Islamic Certified Credit Executive (i-CCE) certification program. The i-CCE consists of 2 modules, i.e. Shariah & Ethics in Islamic Finance and Fundamentals of Credit Operations, with a total of fourteen (14) training days. For the first batch which commenced end of 2016, 20 staff had now completed Module 1 of the i-CCE and is expected to complete Module 2 by mid-2017.

For all non-credit related staff and non-executives of the Group, a Shariah awareness program entitled 'Fundamentals and Application of Shariah in Islamic Finance' has commenced and will continue until August 2017. For year 2016, two (2) groups of 42 staff had attended.

Apart from the in-house training organised, 62 staff attended various Islamic finance and Shariah-related training programs and seminars externally and overseas, whereas four (4) Shariah Committee members attended various Islamic finance and Shariah-related courses and seminars organised by various training providers such as International Shariah Research Academy for Islamic Finance ("ISRA"), Association of Shariah Advisor in Islamic Finance Malaysia ("ASAS") and Securities Commission. In addition, during the year, one (1) staff from Group Audit & Examination has attained the Associate Qualification in Islamic Finance ("AQIF") certification.

SHARIAH NON-COMPLIANT EVENTS

During the financial year 2016, we confirm that there was no incident of Shariah non-compliance event.

SHARIAH COMMITTEE'S REPORT (CONT'D.)

ZAKAT ON BUSINESS & CHARITY FUNDS

During the financial year the zakat has been computed using the growth capital computation method at the rate of 2.5775% in accordance with the approved guidelines and decisions by the Shariah Committee. The method of computation for the year has been revised to be more aligned with *Manual Pengurusan Zakat Perbankan* issued by the *Jabatan Wakaf, Zakat dan Haji (JAWHAR) Jabatan Perdana Menteri*.

Of the total amount of zakat payable, 7/8 of the amount is distributed by the Bank to the states' zakat authorities in Malaysia based on the data on the poverty level of the respective states as reported by the Department of Statistics of Malaysia, whereas the balance of 1/8 of the amount is distributed by the Bank directly to eligible beneficiaries (*asnaf*).

Throughout the year, we also note that the Bank has carried out the distribution of the following in accordance with the internal guidelines and as approved by us:

- a) The zakat fund has been distributed to the eligible *asnaf*; and
- b) The charity fund has been distributed to the eligible recipients.

SHARIAH OPINION

We had also reviewed the audited financial statements of the Bank's Islamic financial business for the financial year and confirmed that the financial statements are in compliance with Shariah.

Based on the above, in our opinion:

1. The contracts, transactions and dealings entered into by the Bank in relation to its Islamic financial business during the financial year ended 31 December 2016 that were reviewed by us, are in compliance with Shariah;
2. The computation and distribution of business zakat are in compliance with Shariah; and
3. The distribution of charity fund are in compliance with Shariah.

We, being two of the members of the Shariah Committee of Bank Pembangunan Malaysia Berhad, do hereby confirm that on behalf of the Shariah Committee, to the best of our knowledge and belief, the aims and operations, business, affairs and activities of the Bank in relation to its Islamic financial business for the financial year ended 31 December 2016 have been conducted in conformity with Shariah.

We bear witness only to what we know, and we could not well guard against the unseen! (Surah Yusuf, verse:81)

We beg Allah the Almighty to grant us all the Success and Straight-Forwardness and Allah Knows Best.

Signed on behalf of the Committee in accordance with a resolution of the Shariah Committee dated 31 May 2017.



Assistant Prof. Dr. Miszairi Sitiris
Member of the Committee



Assoc. Prof. Dr. Noraini Mohd Ariffin
Member of the Committee

Kuala Lumpur, Malaysia
31 May 2017

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF BANK PEMBANGUNAN MALAYSIA BERHAD
(INCORPORATED IN MALAYSIA)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Bank Pembangunan Malaysia Berhad, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Bank, and income statements, statements of other 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 74 to 232.

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

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 audit 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.

Information other than the financial statements and auditors' report thereon

The directors of the Bank are responsible for the other information. The other information comprises the Directors' Report 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 on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Bank and take appropriate action.

INDEPENDENT AUDITORS' REPORT (CONT'D.)

TO THE MEMBERS OF BANK PEMBANGUNAN MALAYSIA BERHAD
(INCORPORATED IN MALAYSIA)

Responsibilities of the directors for the financial statements

The directors of the Bank are responsible for the preparation of 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, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the 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.

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:

- 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.
- 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 the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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 the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the 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 the Bank to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT (CONT'D.)

TO THE MEMBERS OF BANK PEMBANGUNAN MALAYSIA BERHAD
(INCORPORATED IN MALAYSIA)

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

- 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.
- 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.



Ernst & Young

AF: 0039

Chartered Accountants

Kuala Lumpur, Malaysia

31 May 2017



Muhammad Syarizal Bin Abdul Rahim

No. 03157/01/2019 J

Chartered Accountant

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
ASSETS					
Cash and short term deposits	4	1,295,499	1,419,525	1,028,268	1,126,210
Deposits and placements with financial institutions	5	-	51,672	-	-
Financial investments – available-for-sale (“AFS”)	6	3,697,485	2,099,063	3,693,962	2,094,592
Financial investments – held-to-maturity (“HTM”)	7	185,744	184,489	185,722	184,467
Loans, advances and financing	8	21,210,083	22,757,349	21,006,098	22,572,456
Other assets	9	318,440	230,968	208,108	167,999
Investments in subsidiaries	10	-	-	389,051	480,859
Interest in associates	11	3,582	3,328	-	-
Interest in joint ventures	12	33,424	39,911	-	-
Property, plant and equipment	13	83,206	94,030	82,635	92,649
Prepaid land leases	14	883	917	883	917
Investment properties	15	1,563	4,074	1,155	839
Intangible assets	16	9,224	8,824	8,385	8,185
Deferred tax assets	17	18,127	8,938	13,205	6,026
		26,857,260	26,903,088	26,617,472	26,735,199
Assets classified as held for sale	44	2,886	394,541	-	367
Assets of a subsidiary classified as held for sale	10(c)	846	-	-	-
Subsidiary classified as held for sale	10(c)	-	-	636	-
Total assets		26,860,992	27,297,629	26,618,108	26,735,566
LIABILITIES					
Deposits from customers	18	9,750,551	7,752,319	9,750,551	7,752,319
Deposits and placements from financial institutions	19	10,002	445,640	10,002	445,640
Bills and acceptance payable	2.2(l)	-	1,742,193	-	1,742,193
Other liabilities	20	109,444	217,696	62,130	59,384
Redeemable notes	21	5,920,316	4,352,888	5,920,316	4,352,888
Borrowings	22	2,943,584	4,613,383	2,943,584	4,443,632
Infrastructure support fund	23	306,579	337,126	306,579	337,126
Deferred income	24	234,011	239,420	234,011	239,420
Deferred tax liabilities	17	2,990	9,478	-	-
Liabilities of a subsidiary classified as held for sale	10(c)	215	-	-	-
Total liabilities		19,277,692	19,710,143	19,227,173	19,372,602

STATEMENTS OF FINANCIAL POSITION (CONT'D.)

AS AT 31 DECEMBER 2016

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK					
Share capital	25	3,078,724	3,078,724	3,078,724	3,078,724
Reserves	26	4,472,770	4,483,477	4,312,211	4,284,240
		7,551,494	7,562,201	7,390,935	7,362,964
Non-controlling interests		31,806	25,285	-	-
Total equity		7,583,300	7,587,486	7,390,935	7,362,964
Total equity and liabilities		26,860,992	27,297,629	26,618,108	26,735,566
Commitments and contingencies	40(a)	8,351,414	5,138,298	8,136,425	4,805,553

The accompanying notes form an integral part of the financial statements

INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
CONTINUING OPERATIONS:					
Interest income	28	1,105,528	1,283,596	1,074,871	1,251,680
Interest expense	29	(459,257)	(521,272)	(458,933)	(521,728)
Net interest income		646,271	762,324	615,938	729,952
Net income from Islamic financial business	49	258,992	143,385	253,367	136,895
Non-interest income	30	45,123	36,271	30,461	27,342
Compensation from the Government	31	30,547	30,196	30,547	30,196
Net income		980,933	972,176	930,313	924,385
Overhead expenses	32	(110,084)	(113,642)	(88,202)	(84,567)
Allowance for impairment losses of loans, advances and financing	35	(639,572)	(393,131)	(600,034)	(421,392)
Allowance for impairment losses on other assets	36	(24,894)	(39,894)	(116,419)	(190,306)
Writeback of/(provision for) corporate guarantee		7,060	(9,860)	-	-
Operating profit		213,443	415,649	125,658	228,120
Share of loss of associates and joint ventures		(5,880)	(9,235)	-	-
Profit before taxation and zakat from continuing operations		207,563	406,414	125,658	228,120
Taxation	37	(68,443)	(114,980)	(58,947)	(90,626)
Zakat		(17,805)	(21,669)	(14,555)	(19,795)
Profit from continuing operations, net of tax		121,315	269,765	52,156	117,699
DISCONTINUED OPERATIONS:					
Gain on deconsolidation of discontinued operations	10(b)	440,370	-	-	-
Impairment on amount due from discontinued operation	9(ii)	(210,781)	-	-	-
Loss from discontinued operations	10(d)	(119,751)	(282,431)	-	-
Profit/(loss) from discontinued operations, net of tax		109,838	(282,431)	-	-
Net profit/(loss) for the year		231,153	(12,666)	52,156	117,699

The accompanying notes form an integral part of the financial statements

INCOME STATEMENTS (CONT'D.)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
ATTRIBUTABLE TO:					
<u>Equity holders of the Bank</u>					
Profit for the year from continuing operations		119,281	293,439	52,156	117,699
Profit/(loss) for the year from discontinued operations		98,854	(282,431)	-	-
Profit for the year attributable to equity holders of the Bank		218,135	11,008	52,156	117,699
<u>Non-controlling interests</u>					
Profit/(loss) for the year from continuing operations		2,034	(23,674)	-	-
Profit for the year from discontinued operations		10,984	-	-	-
Profit/(loss) for the year attributable to non-controlling interests of the Bank		13,018	(23,674)	-	-
		231,153	(12,666)	52,156	117,699
Earnings per share attributable to the equity holders of the Bank:					
Basic earnings per share (sen)	39				
- from continuing operations		3.87	9.53		
- from discontinued operations		3.21	(9.17)		
		7.08	0.36		

The accompanying notes form an integral part of the financial statements

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit/(loss) for the year	231,153	(12,666)	52,156	117,699
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:				
Exchange difference on translation of foreign operations				
– translation during the year	4,859	120,064	–	–
– transferred to profit or loss	(215,292)	–	–	–
Net unrealised loss on revaluation of financial investments				
– AFS, net of tax				
– fair value adjustment during the year	(24,906)	(50,585)	(24,185)	(50,788)
– transferred to profit or loss	–	(2,075)	–	(2,075)
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods	(235,339)	67,404	(24,185)	(52,863)
Total comprehensive (loss)/income for the financial year, net of tax	(4,186)	54,738	27,971	64,836
Total comprehensive (loss)/income attributable to:				
Equity holders of the Bank	(10,707)	76,894	27,971	64,836
Non-controlling interests	6,521	(22,156)	–	–
	(4,186)	54,738	27,971	64,836

The accompanying notes form an integral part of the financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

GROUP	Note	Attributable to equity holders of the Bank								
		Non-distributable			Exchange		Distributable		Non-controlling	Total
		Share capital	Capital reserve	Statutory reserve	Unrealised AFS reserve	translation reserve/(deficit)	retained profits	Total	interest	Total equity
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2016		3,078,724	1,000	1,897,676	2,185	163,160	2,419,456	7,562,201	25,285	7,587,486
Reclassification	50	-	-	-	16,316	-	(16,316)	-	-	-
At 1 January 2016, restated		3,078,724	1,000	1,897,676	18,501	163,160	2,403,140	7,562,201	25,285	7,587,486
Total comprehensive (loss)/ income for the financial year		-	-	-	(24,906)	(203,936)	218,135	(10,707)	6,521	(4,186)
Transfer to statutory reserve		-	-	13,039	-	-	(13,039)	-	-	-
At 31 December 2016		3,078,724	1,000	1,910,715	(6,405)	(40,776)	2,608,236	7,551,494	31,806	7,583,300
At 1 January 2015		3,078,724	1,000	1,868,251	54,845	44,614	2,474,873	7,522,307	47,441	7,569,748
Reclassification	50	-	-	-	16,316	-	(16,316)	-	-	-
At 1 January 2015, restated		3,078,724	1,000	1,868,251	71,161	44,614	2,458,557	7,522,307	47,441	7,569,748
Total comprehensive (loss)/ income for the financial year		-	-	-	(52,660)	118,546	11,008	76,894	(22,156)	54,738
Transfer to statutory reserve		-	-	29,425	-	-	(29,425)	-	-	-
Dividends paid	38	-	-	-	-	-	(37,000)	(37,000)	-	(37,000)
At 31 December 2015		3,078,724	1,000	1,897,676	18,501	163,160	2,403,140	7,562,201	25,285	7,587,486

The accompanying notes form an integral part of the financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

BANK	Note	Non-distributable			Distributable retained profits	Total
		Share capital	Statutory reserve	Unrealised AFS reserve		
		RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2016		3,078,724	1,897,676	1,982	2,384,582	7,362,964
Reclassification	50	-	-	16,316	(16,316)	-
At 1 January 2016, restated		3,078,724	1,897,676	18,298	2,368,266	7,362,964
Total comprehensive (loss)/income for the financial year		-	-	(24,185)	52,156	27,971
Transfer to statutory reserve		-	13,039	-	(13,039)	-
At 31 December 2016		3,078,724	1,910,715	(5,887)	2,407,383	7,390,935
At 1 January 2015		3,078,724	1,868,251	54,845	2,333,308	7,335,128
Reclassification	50	-	-	16,316	(16,316)	-
At 1 January 2015, restated		3,078,724	1,868,251	71,161	2,316,992	7,335,128
Total comprehensive (loss)/income for the financial year		-	-	(52,863)	117,699	64,836
Transfer to statutory reserve		-	29,425	-	(29,425)	-
Dividends paid	38	-	-	-	(37,000)	(37,000)
At 31 December 2015		3,078,724	1,897,676	18,298	2,368,266	7,362,964

The accompanying notes form an integral part of the financial statements

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash flows from operating activities				
Profit before taxation and zakat from continuing operations	207,563	406,414	125,658	228,120
Profit before taxation and zakat from discontinued operations	109,890	(281,582)	-	-
Profit before taxation and zakat	317,453	124,832	125,658	228,120
Adjustment for:				
Share of loss of joint ventures	5,880	9,235	-	-
Depreciation of property, plant and equipment (Note 32(ii) and 10(b))	4,134	59,790	3,409	4,238
Amortisation of prepaid lease rental (Note 32(ii))	34	40	34	40
Depreciation of investment properties (Note 32(ii))	192	175	51	63
Amortisation of intangible assets (Note 32(ii) and 10(b))	3,891	19,462	3,720	3,606
Net (gain)/loss on disposal of property, plant and equipment (Note 30(c))	(205)	266	(196)	386
Net loss on disposal of prepaid land lease (Note 30(c))	-	218	-	218
Net gain on disposal of investment properties (Note 30(c))	-	(741)	-	(741)
Net gain on sale of financial investments - AFS (Note 30(b) and 49(k))	(7,680)	(2,075)	(7,680)	(2,075)
Dividend income:				
Financial investments - AFS (Note 30(b))	(7,800)	(9,146)	(7,800)	(9,087)
Accretion of discount less amortisation of premium of financial investments (Note 28 and 49(k))	(26,516)	(24,613)	(26,516)	(24,613)
Impairment allowance/(written back) for:				
Financial investments - AFS (Note 36)	-	(800)	-	-
Financial investments - HTM (Note 36)	25,279	21,166	25,279	21,166
Vessels (Note 10(b))	-	200,974	-	-
Investment in subsidiaries (Note 36)	-	-	91,172	172,884
Interest in JVs (Note 36)	-	6,950	-	-
Advance to joint ventures (Note 36)	-	12,566	-	-
Amount due from associates (Note 36)	-	457	-	-
Trade receivables (Note 36)	1,103	12,498	-	-
(Writeback of)/provision for corporate guarantee	(7,060)	9,860	-	-
Property, plant and equipment written off (Note 32(iv))	157	18	11	-
Unrealised loss/(gain) on foreign exchange (Note 30(c))	879	(2,378)	879	224
Individual allowance (Note 35):				
Individual allowance made	716,895	241,257	687,648	217,221
Individual allowance written back	(115,905)	(75,853)	(95,771)	(37,937)
Transferred from collective allowance	350,922	64,260	350,922	64,260
Transferred to collective allowance	(22,317)	(21,933)	(22,317)	(21,933)
Balance carried forward	1,239,336	646,485	1,128,503	616,040

STATEMENTS OF CASH FLOWS (CONT'D.)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash flows from operating activities (cont'd.)				
Balance brought forward	1,239,336	646,485	1,128,503	616,040
Collective allowance (Note 35):				
Collective allowance made	111,939	272,260	73,225	272,356
Collective allowance written back	(5,178)	(14,748)	-	(9,473)
Transferred from individual allowance	22,317	21,933	22,317	21,933
Transferred to individual allowance	(350,922)	(64,260)	(350,922)	(64,260)
Bad debts and financing written off (Note 35 and 36)	8,970	1,402	8,641	1,402
Bad debts and financing recovered (Note 35)	(77,181)	(31,469)	(73,741)	(22,459)
Zakat (Note 49(q))	(17,805)	(21,653)	(14,555)	(19,795)
Individual allowance made during the year against ISF (Note 31)	(9,334)	(11,060)	(9,334)	(11,060)
Collective allowance written back during the year against ISF (Note 31)	7	-	7	-
Recoverable from loan written off against ISF (Note 31)	4,059	2,030	4,059	2,030
Financial investment impairment made during the year against ISF (Note 31)	(25,279)	(21,166)	(25,279)	(21,166)
Compensation from the Government (Note 28 and Note 49(k))	(136,381)	(130,051)	(136,381)	(130,051)
Operating profit before working capital changes	764,548	649,703	626,540	635,497
Decrease/(increase) in operating assets:				
Deposits and placements with financial institutions	-	677,667	-	677,667
Loans, advances and financing	809,019	1,639,976	974,693	1,558,296
Other assets	82,156	(24,153)	53,912	14,603
	891,175	2,293,490	1,028,605	2,250,566
Increase/(decrease) in operating liabilities:				
Deposits from customers	1,998,232	2,085,540	1,998,232	2,085,540
Deposit and placements from financial institutions	(435,638)	145,130	(435,638)	145,130
Other liabilities	(102,601)	(215,738)	(94,874)	15,405
	1,459,993	2,014,932	1,467,720	2,246,075
Cash generated from operating activities	3,115,716	4,958,125	3,122,865	5,132,138
Income taxes paid	(80,768)	(113,196)	(70,547)	(118,333)
Zakat paid	(20,488)	(13,201)	(19,602)	(12,211)
Net cash generated from operating activities	3,014,460	4,831,728	3,032,716	5,001,594

STATEMENTS OF CASH FLOWS (CONT'D.)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash flows from investing activities				
Financial investments – AFS (Note 30(b))	7,800	9,146	7,800	9,087
Purchase of financial investments – AFS	(2,328,700)	(1,418,416)	(2,328,700)	(1,418,416)
Purchase of property, plant and equipment (Note 13)	(1,851)	(12,416)	(1,791)	(1,454)
Purchase of intangible assets (Note 16)	(4,291)	(1,618)	(3,920)	(1,618)
Net cash outflow on deconsolidation of a subsidiary	(7,397)	–	–	–
Proceeds from disposal/maturity of financial investments – AFS	717,675	587,288	717,675	587,288
Proceeds from maturity of financial investments – HTM	–	78,916	–	78,916
Proceeds from disposal of property, plant and equipment	6,657	1	6,657	–
Proceeds from disposal of investment properties	–	1,410	–	1,410
Net cash used in investing activities	(1,610,107)	(755,689)	(1,602,279)	(744,787)
Cash flows from financing activities				
Net repayments of long-term loans	(1,249,800)	(5,034,233)	(1,249,800)	(5,034,233)
Net (repayment of)/receipt from bills and acceptance payables	(1,742,193)	1,742,193	(1,742,193)	1,742,193
Net (repayment of)/receipt from revolving credit	(255,042)	250,000	(255,042)	250,000
Net receipt from/(repayment of) redeemable notes	1,595,883	(1,614,393)	1,595,883	(1,614,393)
Proceeds from Government compensation	122,773	115,895	122,773	115,895
Dividends paid	–	(37,000)	–	(37,000)
Net cash used in financing activities	(1,528,379)	(4,577,538)	(1,528,379)	(4,577,538)
Net decrease in cash and cash equivalents	(124,026)	(501,499)	(97,942)	(320,731)
Cash and cash equivalents at beginning of financial year	1,419,525	1,921,024	1,126,210	1,446,941
Cash and cash equivalents at end of financial year	1,295,499	1,419,525	1,028,268	1,126,210
Cash and cash equivalents comprise:				
Cash and short term deposits (Note 4)	1,295,499	1,419,525	1,028,268	1,126,210

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016

1. CORPORATE INFORMATION

Bank Pembangunan Malaysia Berhad (“the Bank”) is a public limited liability company, incorporated and domiciled in Malaysia.

The registered office of the Bank is located at Level 16, Menara Bank Pembangunan, Bandar Wawasan, No. 1016, Jalan Sultan Ismail, 50250 Kuala Lumpur.

The holding and ultimate holding company of the Bank is the Minister of Finance (Incorporated) (“MOF (Inc.)”) a corporate body established under the Minister of Finance (Incorporation) Act 1957 in Malaysia.

The Bank is principally engaged to provide medium to long term credit and financing facilities under both Conventional and Islamic financial business principles to finance infrastructure projects, maritime, oil & gas, technology and capital intensive industries in manufacturing as well as other identified sectors in line with the country’s development policy. The principal activities of the subsidiary companies are as disclosed in Note 46.

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Board of Directors on 31 May 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Preparation

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

The financial statements incorporate those activities relating to Islamic Financial Business, which have been undertaken by the Group. Islamic Financial Business refers generally to the business or activity of granting of financing in accordance with Shariah.

The Group and the Bank present the statements of financial position in order of liquidity. An analysis regarding the recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 47(c).

The financial statements of the Group and of the Bank have been prepared under the historical cost basis unless otherwise indicated in the summary of significant accounting policies below. The financial statements are presented in Ringgit Malaysia (“RM”) and all values are rounded to the nearest thousand (“RM’000”) except where otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of Significant Accounting Policies****(a) Subsidiaries and basis of consolidation****(i) Subsidiaries**

Subsidiaries are entities over which the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee i.e. existing rights that give in the current ability to direct the relevant activities of the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its return.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether Group has power over an investee, including:

- The contractual arrangements with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. In the Bank's separate financial statements, investments in subsidiaries are stated at cost less any impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(h). On disposal of such investments, the difference between the net disposal proceeds and their carrying amounts is included in the income statement. Dividends received from subsidiaries are recorded as a component of revenue in the Bank's separate income statement.

The consolidated financial statements comprise the financial statements of the Group and the Bank as at and for the financial year ended 31 December of each year.

(ii) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the reporting date. The financial statements of the subsidiaries are prepared for the same reporting date as the Bank.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of Significant Accounting Policies (cont'd.)****(a) Subsidiaries and basis of consolidation (cont'd.)****(ii) Basis of consolidation (cont'd.)**

Non-controlling interests (“NCI”) represent the portion of profit or loss and net assets in subsidiaries not owned, directly or indirectly by the Bank. NCI are presented separately in the consolidated income statements and statements of comprehensive income and within equity in the consolidated statement of financial position, but separate from parent shareholders’ equity. Total comprehensive income is allocated against the interest of NCI, even if this results in a deficit balance. Acquisition of NCI are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognised as equity.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts;
- Derecognises the carrying amount of any non-controlling interest in the former subsidiary;
- Derecognises the cumulative foreign exchange translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained in the former subsidiary;
- Recognises any surplus or deficit in the profit or loss; and
- Reclassifies the parent’s share of components previously recognised in other comprehensive income to profit or loss or retained earnings, if required in accordance with other MFRSs.

All of the above will be accounted for from the date when control is lost.

(iii) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of Significant Accounting Policies (cont'd.)****(a) Subsidiaries and basis of consolidation (cont'd.)****(iii) Business combinations and goodwill (cont'd.)**

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of MFRS 139 Financial Instruments: Recognition and Measurement ("MFRS 139"), is measured at fair value with changes in fair value recognised either in profit or loss or as a change to Other Comprehensive Income ("OCI"). If the contingent consideration is not within the scope of MFRS 139, it is measured in accordance with the appropriate MFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for NCI, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed off, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(b) Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture ("JV") is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the JV. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Group has interests in JVs that is disclosed in Note 12.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and JV are accounted for using the equity method.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(b) Investment in associates and joint ventures (cont'd.)

Under the equity method, the investment in an associate or a JV is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or JV since the acquisition date. Goodwill relating to the associate or JV is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or JV. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or JV, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or JV are eliminated to the extent of the interest in the associate or JV.

The aggregate of the Group's share of profit or loss of an associate and a JV is shown on the face of the income statements outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or JV.

The financial statements of the associate or JV are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or JV. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or JV is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or JV and its carrying value, then recognises the loss as share of loss of an associate or JV.

Upon loss of significant influence over the associate or joint control over the JV, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or JV upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

In the Bank's separate financial statements, investments in associates and JV are accounted for at cost less impairment losses. On disposal of such investment, the difference between the net disposal proceeds and the carrying amount is included in profit or loss.

(c) Foreign currency transactions

(i) Functional and presentation currency

The individual financial statements of each entity in the Group 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 also the Bank's functional currency.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of Significant Accounting Policies (cont'd.)****(c) Foreign currency transactions (cont'd.)****(ii) Foreign currency transactions**

Transactions in foreign currencies are measured in the respective functional currencies of the Group and the Bank and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translation of monetary items at the reporting date are recognised in the income statements except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to the income statement of the Group and on disposal of the foreign operation.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in the income statements for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

(iii) Foreign operations

The assets and liabilities of foreign operations are translated into RM at the rate of exchange ruling at the reporting date and income and expenses are translated at exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to OCI. On disposal of a foreign operation, the cumulative amount recognised in OCI and accumulated in the separate component of equity, is reclassified from equity to income statement (as a reclassification) when the gain or loss on disposal is recognised.

(d) Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, 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.

Subsequent to recognition, plant and equipment and furniture and fixtures are measured at cost less accumulated depreciation and accumulated impairment losses. The policy for recognition and measurement of impairment is in accordance with Note 2.2(h), below. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group and the Bank recognise such parts as individual assets with specific useful lives and depreciation, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of Significant Accounting Policies (cont'd.)****(d) Property, plant and equipment (cont'd.)**

Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statements as incurred.

The carrying values of property, plant and equipment are reviewed for impairment when events or change in circumstances indicate that the carrying value may not be recoverable.

Freehold land has an unlimited useful life and therefore is not depreciated. Building-in-progress are also not depreciated as these assets are not available for use. Depreciation of other property, plant and equipment is provided for on a straight-line basis over the estimated useful life, as follows:

Leasehold land and buildings	19 – 50 years
Vessels	5 – 30 years
Furniture and equipment	3 – 10 years
Partitioning, installation and renovations	3 – 20 years
Motor vehicles	5 – 8 years
Dry-docking expenses	2.5 – 5 years

The residual values, useful life and depreciation method are reviewed at each financial year end and adjusted prospectively if appropriate.

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

(e) Investment properties

Investment properties principally comprise properties held for long term rental yields or capital appreciation or both and which are not occupied by the Group and the Bank. Investment property is carried at cost less accumulated depreciation and any impairment losses. The policy for recognition and measurement of impairment is in accordance with Note 2.2(h), below.

Freehold land is not depreciated. Freehold building is depreciated at an annual rate of 2%, calculated on a straight line basis to write off the cost of each building over the estimated useful life.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria is met and excludes the cost of day-to-day servicing of that property.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statements in the year in which they arise.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of Significant Accounting Policies (cont'd.)****(f) Intangible assets**

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible asset are assessed to be either finite or infinite. Intangible assets with finite lives are amortised on straight line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. The amortisation expense on intangible asset with finite lives is recognised in the income statements in the expense category consistent with the function of the intangible asset.

Computer softwares were acquired separately and are amortised on a straight line basis over the useful lives of 3 – 5 years.

(g) Leases**(i) Classification**

A lease is recognised as a finance lease if it transfers substantially to the Group and the Bank all the risks and rewards incidental to ownership. Leases of land and building are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating leases, with the following exceptions:

- Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and
- Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease.

(ii) Finance lease – the Group as lessee

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the statement of financial position as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practical to determine; otherwise, the Bank's incremental borrowing rate is used. Any initial direct costs are also added to the carrying amount of such assets.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the income statements over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2.2(d).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(g) Leases (cont'd.)

(iii) Operating lease – the Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and building element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

(iv) Operating lease – the Group as lessor

Assets leased out under operating leases are presented on the statements of financial position according to the nature of the assets. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(h) Impairment of non-financial assets

The Group and the Bank assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group and the Bank make an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its 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 ("CGU")).

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis. Impairment losses are recognised in income statements.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in income statements. Impairment loss on goodwill is not reversed in a subsequent period.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of Significant Accounting Policies (cont'd.)****(i) Financial assets****Initial recognition and subsequent measurement**

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Bank become a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group and the Bank determine the classification of their financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss ("FVTPL"), loans/financing and receivables, financial investments – held-to-maturity ("HTM") investments and financial investment – available-for-sale ("AFS").

The classification of financial assets at initial recognition depends on the purpose and the management's intention for which the financial assets were acquired and their characteristics. The Group and the Bank determine the classification of financial assets at initial recognition, in which the details are disclosed below.

Included in financial assets are the following:**(i) Financial assets at FVTPL**

Financial assets are classified as financial assets at FVTPL if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in the income statements. Net gains or net losses on financial assets at FVTPL do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at FVTPL are recognised separately in the income statements as part of other losses or other income.

Regular way purchases and sales of financial assets held-for-trading are recognised on settlement date.

The Group and the Bank did not have any embedded derivatives during the years ended 31 December 2016 and 2015.

(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.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less allowance for impairment. Interest income on loans and receivables is recognised as "interest income" in the income statements. Impairment losses on loans and receivables are recognised in the income statements as "allowances for impairment on loans, advances and financing".

Loans stocks in organisations set up for socio-economic purposes which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are classified as receivables.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of Significant Accounting Policies (cont'd.)****(i) Financial assets (cont'd.)****(iii) Financing and receivables**

Financing and receivables consist of Murabahah, Tawarruq, Ijarah (includes Ijarah Muntahiyah bi Tamlik and Ijarah Thummal Bai'), Istisna', Kafalah, Bai' Bithaman Ajil and Bai' 'Inah. These contracts, except for Kafalah, are recognised at amortised cost, including direct and incremental transaction costs using effective profit method. These contracts are stated at net of unearned income and any amounts written off and/or impaired.

Definition of Shariah concept:

- (a) Murabahah: It refers to a sale and purchase of an asset where the acquisition cost and the mark-up are disclosed to the purchaser. The sale price is payable by the purchaser usually on deferred terms.
- (b) Tawarruq: It basically consists of two sale and purchase contracts. The first involves the sale of an asset by a seller to a purchaser on a deferred basis. Subsequently, the purchaser of the first sale will sell the same asset to a third party on a cash and spot basis.
- (c) Ijarah: It refers to a contract that transfers ownership of a permitted usufruct and/or service for a specified period in exchange for a specified consideration. It includes variations of this contract i.e. Ijarah Muntahiyah bi Tamlik and Ijarah Thummal Bai', where it is accompanied with an option to transfer the ownership of the leased asset to the lessee at the end of the lease period via acceptable means of ownership transfer. For financial reporting purpose the Ijarah contract meets the definition of finance lease.
- (d) Istisna': It refers to a contract which a seller sells to a purchaser an asset which is yet to be constructed, built or manufactured according to agreed specifications and delivered on an agreed specified future date at an agreed pre-determined sale price.
- (e) Kafalah: It refers to a contract where the guarantor conjoins the guaranteed party in assuming the latter's specified liability for a specified period.
- (f) Bai' Bithaman Ajil: It refers to a sale contract where the sale price is deferred and paid gradually during the specified period.
- (g) Bai' 'Inah: It refers to an arrangement that involves sale of an asset to the purchaser on a deferred basis and subsequent purchase of the asset at a cash price lower than the deferred sale price or vice versa, and which complies with the specific requirements.

(iv) Financial investments – HTM

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as financial investments – HTM when the Group and the Bank have the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, financial investments – HTM are measured at amortised cost using the effective interest/profit method, less impairment. Interest/profit income on financial investments – HTM is recognised as “interest income” or “profit income” in the income statements. Impairment losses on financial investments – HTM are recognised in income statements as “impairment on financial investments – HTM”.

Regular way of purchases and sales of financial investments – HTM are recognised on settlement date.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(i) Financial assets (cont'd.)

(v) Financial investment – AFS

Financial investments – AFS are financial assets that are designated as available for sale or are not classified in any of the three preceding categories. Financial investments – AFS include financial assets that are intended to be held for an indefinite period of time, which may be sold in response to liquidity needs or changes in market condition.

After initial recognition, AFS financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in OCI, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest/profit method are recognised in the income statements. The cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest/profit income calculated using the effective interest/profit method is recognised in the income statements. Dividends on an AFS equity instrument are recognised in profit or loss when the Group's and the Bank's right to receive payment is established.

If a financial investment – AFS is determined to be impaired, the cumulative gain or loss recognised in OCI is recognised in the income statements.

Regular way of purchases and sales of financial assets that require delivery of assets within the period is generally established by regulation or convention in the marketplace concerned.

Fair value determination

For financial instruments measured at fair value, the fair value is determined by reference to quoted market prices or by using valuation models. The fair value of financial instruments traded in active markets are based on quoted market price or dealer price quotation.

For all other financial assets, fair value is determined using appropriate valuation techniques. In such cases, the fair values are estimated using discounted cash flow models, based on observable data in respect of similar financial instruments and using inputs (such as yield curve) existing at the reporting date.

Derecognition

Financial instruments are derecognised when the risks and rewards associated with the instruments are substantially transferred, cancelled or expired. Upon derecognition, the difference between the carrying amount of the instruments and the consideration received/paid, less the cumulative gain or loss that has been recognised in the equity are taken to the income statements.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(j) Impairment of financial assets

The Group and the Bank assess at each statements of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an 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.

Evidence of impairment may 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 or 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 impairment policies on the financial assets are summarised as follows:

(i) Loans and receivables

Classification of impaired loans, advances and financing

The Group and the Bank classify a loan, advance or financing as impaired when there is objective evidence that the loan is impaired. In addition, the Group and the Bank also comply with Bank Negara Malaysia's Guidelines on Classification and Impairment Provision for Loans/Financing which states that, based on repayment conduct, a loan or financing should be classified as impaired (see belows):

- Where the principal or interest/profit or both is past due more than 90 days or 3 months. In the case of revolving facilities, the facility shall be classified as impaired where the outstanding amount remains in excess of the approved limit for a period of more than 90 days or 3 months.

Declassification of an impaired account shall be supported by a credit assessment of the repayment capabilities, cash flow and financial position of the borrower.

Impairment – individual allowance ("IA")

The Group and the Bank first assess individually whether objective evidence of impairment exists individually for loans, advances and financing that are individually significant, 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, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of Significant Accounting Policies (cont'd.)****(j) Impairment of financial assets (cont'd.)****(i) Loans and receivables (cont'd.)**Impairment – individual allowance (“IA”) (cont'd.)

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). 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 income statements. Where appropriate, the calculation of the present value of the estimated future cash flows of a collateralised loans or receivable reflect the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. Interest/profit income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest/profit used to discount the future cash flows for the purpose of measuring the impairment loss. The interest/profit income is recorded as part of ‘interest/profit income’ in the income statements.

Impairment – collective allowance (“CA”)

Loans, advances and financing and receivables that have been assessed individually and found not to be impaired are then assessed collectively, to determine whether allowance should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

As allowed by MFRS 139 in deriving the CA estimates, the Bank makes reference to the publicly available data particularly relating to Probability of Default (“PD”) and Loss Given Default (“LGD”) estimates as benchmarks. These estimates are mapped and calibrated to the Bank’s loan, advances and financing portfolios using equivalent and comparable credit rating as references. The derived PD and LGD are then adjusted by management to reflect the effects of current conditions.

Impairment – write-off accounts

Loans together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group and the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statements.

(ii) Financial investments – HTM

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

Where there is objective evidence of impairment, an impairment loss is recognised as the difference between the amortised cost and the present value of the estimated future cash flows, less any impairment previously recognised.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(j) Impairment of financial assets (cont'd.)

(iii) Financial investments – AFS

The Group and the Bank assess at each reporting date whether an objective evidence that financials investment classified as AFS is impaired.

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

For debt instruments, impairment is assessed based on the same criteria as other AFS financial investments. Where impairment losses have been previously recognised in the income statements and there is a subsequent increase in the fair value of the debt instruments that can be objectively related to a credit event occurring after the impairment loss was recognised in the income statements, the impairment loss is reversed through income statements.

(k) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities are recognised in the statement of financial position when, and only when, the Group and the Bank become a party to the contractual provisions of the financial instrument.

Financial liabilities are recognised at amortised cost. Financial liabilities measured at amortised cost include deposits from customers, debt securities issued and other borrowed funds.

(l) Bills and acceptance payable

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

(m) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Bank after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of Significant Accounting Policies (cont'd.)****(n) Employee benefits**

Short term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short term cash bonus if the Group and the Bank have a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group's and the Bank's contribution to the Employees Provident Fund are charged to the income statements in the year to which they relate. Once the contributions have been paid, the Group and the Bank have no further payment obligations.

(o) Government grants

Government grants are recognised at their fair value in the statements of financial position where there is a reasonable assurance that the grants will be received and all attaching conditions will be complied with. The Government grants are presented in the statements of financial position as "infrastructure support fund" ("ISF") and "deferred income".

ISF relates to fund received from the Government to cover the potential risk of loan/financing default, any allowance for impairment losses, write-off and other liquidity requirements that may arise. It is also to cover the contingent liabilities of Bank i.e guarantees, standby credits and performance bonds.

Deferred income comprises claims received in relation to profit rate differentials on financing of Government infrastructure project.

Grants that compensate the Group and the Bank for expenses incurred are recognised as income over the period necessary to match the grants on a systematic basis to the costs that it is intended to compensate.

(p) Provisions

Provisions are recognised when the Group and the Bank have a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(q) Contingent liabilities

Contingent liabilities consist of secured guarantees given to third parties on behalf of borrowers. Contingent liabilities are disclosed in the notes to the accounts, unless the possibility of an outflow of resources embodying economic benefits is remote.

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

(r) Disposal groups, assets held for sale and discontinued operation

Non-financial assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary.

Immediately before classification as held for sale, the measurement of the non-current assets (or all the assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable MFRSs. Then, on initial classification as held for sale, non-financial assets or disposal groups (other than investment properties, deferred tax assets, employee benefits assets and financial assets) are measured in accordance with MFRS 5: Non-current Assets Held for Sale and Discontinued Operations; that is at the lower of carrying amount and fair value less costs to sell. Any differences are included in the income statements.

A component of the Group is classified as a discontinued operation when the criteria to be classified as held for sale have been met or it has been disposed and such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resell.

(s) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the Bank and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

(i) Interest/profit and similar income

For all financial instruments measured at amortised cost, interest/profit bearing financial assets classified as AFS and financial instruments designated at FVTPL, interest/profit income is recorded using the effective interest/profit rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, repayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest/profit rate, but not future credit losses.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of Significant Accounting Policies (cont'd.)****(s) Revenue (cont'd.)****(i) Interest/profit and similar income (cont'd.)**

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

(ii) Islamic income recognition

Income from financing and receivables is recognised in the income statements using the effective profit method. The effective profit rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. The calculation of the effective profit rate includes all contractual terms of the financial instruments and includes any fees incremental costs that are directly attributable to the instruments and are an integral part of the effective profit rate.

Sale-based Financing (Murabahah, Tawarruq, Istisna', Bai' Bithaman Ajil and Bai' 'Inah)

Income are accrued on monthly basis on the cost outstanding at the prevailing effective profit rate over the duration of the financing.

Lease-based Financing (Ijarah, Ijarah Muntahiyah bi Tamlik and Ijarah Thummal Bai')

Ijarah income is recognised on the effective profit rate of the cost of the leased asset over the leased period.

Fee income

Fee-based income from charging administrative fees such processing fee, arrangement fee, facility fee and upfront fee is recognised on an accrual basis. Fee-based income is also derived from provision of guarantee based on kafalah contract.

(iii) Income recognition for leasing, hire purchase financing, pre-factoring and factoring

Income earned on leasing and hire purchase confirming and factoring financing is recognised based on the effective interest/profit method.

(iv) Dividend income

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

(v) Charter hire income

Charter hire fees are accounted for on accrual basis.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of Significant Accounting Policies (cont'd.)****(t) Income Taxes****(i) Current tax**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in the income statements except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

(ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affect neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future, and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

Deferred tax relating to items recognised outside the income statements is recognised outside the income statements. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.2 Summary of Significant Accounting Policies (cont'd.)****(u) Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand, bank balances and deposit placements with original maturity less than one month held for the purpose of meeting short term commitments and readily convertible into cash without significant risk of changes in value.

2.3 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2016, the Group and the Bank adopted the following new and amended MFRSs and IC Interpretation mandatory for annual financial periods beginning on or after 1 January 2016.

Description	Effective for annual period beginning on or after
Annual Improvements to MFRSs 2012 – 2014 Cycle	1 January 2016
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants	1 January 2016
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 127: Equity Method in Separate Financial Statements	1 January 2016
Amendments to MFRS 101: Disclosure Initiatives	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception	1 January 2016
MFRS 14 Regulatory Deferral Accounts	1 January 2016

The adoption of the above standards and interpretations did not have any significant effect on the financial performance and position of the Group and of the Bank.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.4 Standards Issued but not yet Effective**

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and the Bank's financial statements are disclosed below. The Group and the Bank intend to adopt these standards, if applicable, when they become effective.

Description	Effective for annual period beginning on or after
MFRS 107 Disclosures Initiatives (Amendments to MFRS 107)	1 January 2017
MFRS 112 Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)	1 January 2017
MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 16 Leases	1 January 2019
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

The directors expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application except as discussed below.

MFRS 9 Financial Instruments

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

(i) Classification and measurement

MFRS 9 has three measurement categories – amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investment in equity instruments is required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest/profit. For financial liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statement of profit or loss, unless this creates an accounting mismatch.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.4 Standards Issued but not yet Effective (cont'd.)****MFRS 9 Financial Instruments****(ii) Impairment**

The impairment requirements apply to financial assets measured at amortised cost and fair value through other comprehensive income and certain loan commitments as well as financial guarantee contracts. At initial recognition, allowance for impairment is required for expected credit losses ("ECL"). In the event of a significant increase in credit risk, allowance for impairment is required for ECL resulting from all possible default events over the expected life of the financial instrument. The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date.

(iii) Hedge accounting

The requirements per general hedge accounting have been simplified for hedge effectiveness testing and may result in more designation of hedged items for accounting purposes.

MFRS 15 Revenue from Contracts with Customers

The Group is currently assessing the impact of MFRS 15 and plans to adopt the new standard on the required effective date.

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

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

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

MFRS 16 Leases

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**2.4 Standards Issued but not yet Effective (cont'd.)****MFRS 16 Leases (cont'd.)**

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group plans to assess the potential effect of MFRS 16 on its financial statements in year 2017.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements involved making certain estimates, assumptions and that affect the accounting policies applied and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimate is revised and in any future periods affected. Significant areas of estimation, uncertainty and critical judgments used in applying accounting policies that have significant effect on the amount recognised in the financial statements include the following:

3.1 Judgments

In the process of applying the Group's and the Bank's accounting policies, management has made the following judgments which has the most significant effect and the amounts recognised in the financial statements.

(a) Impairment of financial investments portfolio (Note 6, Note 7 and Note 36)

The Group and the Bank review the financial investments portfolio of financial investments – AFS and HTM at each reporting date to assess whether there is any objective evidence that the investment is impaired. If there are indicators or objective evidence, the investments are subject to impairment review.

In carrying out the impairment review, the following management's judgment are required:

- (i) Determination whether the investment is impaired based on certain indicators such as, amongst others, prolonged decline in fair value, significant financial difficulties of the issuer or obligors, the disappearance of an active trading market and deterioration of the credit quality of the issuers or obligors; and
- (ii) Determination of "significant" or "prolonged" requires judgment and management evaluation on various factors, such as historical fair value movement, the duration and extent of reduction in fair value.

(b) Impairment of loans, advances and financing (Note 8 and Note 35)

The Group and the Bank assess at the end of each reporting period whether there is objective evidence that a loan is impaired. Loans and advances that are individually significant are assessed individually. Those not individually significant are grouped together based on similar credit risks and assessed as a portfolio.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONT'D.)**3.1 Judgments (cont'd.)****(c) Impairment of investment in subsidiaries (Note 10), interest in associates (Note 11) and JVs (Note 12)**

The Group and the Bank assess whether there is any indication that an investment in subsidiaries, interest in associates and JVs may be impaired at each reporting date.

If indicators are present, these investments are subjected to impairment review which comprises a comparison of the carrying amount of the investment and the investment's estimated recoverable amount.

Judgments made by management in the process of applying the Group's accounting policies in respect of investment in subsidiaries, interest in an associates and JVs are as follows:

- (i) The Group and the Bank determine whether its investments are impaired following certain indications of impairment such as, amongst others, prolonged shortfall between market value and carrying amount, significant changes with adverse effects on the investment and deteriorating financial performance of the investment due to observed changes and in the economic environment; and
- (ii) Depending on their nature and the location in which the investments relate to, judgments are made by management to select suitable methods of valuation such as, amongst others, discounted future cash flows or estimated fair value based on quoted market price of the most recent transactions.

(d) Impairment of vessels (Note 13, Note 36 and Note 44)

The Group and the Bank assess whether there is any indication that the vessels may be impaired at each reporting date. If indicators are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the assets and the assets' recoverable amount.

3.2 Estimates

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimate is revised and in any future periods affected. Significant areas of estimation, uncertainty and critical judgments used in applying accounting policies that have significant effect on the amount recognised in the financial statements include the following:

(a) Allowance for impairment of loans, advances and financing (Note 8 and Note 35)

Management makes certain assumptions to estimate the recoverable amount of the loans, advances and financing once a suitable method of valuation is selected.

Amongst factors considered are the Group's and the Bank's aggregate exposure to the borrower, the net realisable value of the underlying collateral value, the viability of the customer's business model and the capacity to generate sufficient cash flow to service debt obligations and the aggregate amount and ranking of all other creditor claims. The actual amount of the future cash flows and their timing may differ from the estimates used by management and consequently may cause actual losses to differ from the impairment made.

Collective assessment is performed on loans, advances and financing which the Group and the Bank have determined that no objective evidence of impairment exists based on individual assessment. These loans, advances and financing are then assessed collectively, to determine whether allowance should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONT'D.)

3.2 Estimates (cont'd.)

(a) Allowance for impairment of loans, advances and financing (Note 8 and Note 35) (cont'd.)

In deriving the collective allowance estimates, the Bank makes reference to the publicly available data particularly relating to Probability of Default ("PD") and Loss Given Default ("LGD") as benchmarks. The derived PD and LGD are then adjusted for by the management where deemed necessary.

For the subsidiaries involved in leasing and factoring business, future cash flows in a group of loans, advances and financing that are collectively evaluated for impairment are estimated based on the historical loss experience of those of the subsidiaries. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period during on which the historical loss experience is based on and to remove the effects of conditions in the historical period that do not currently exist.

(b) Allowance for impairment of financial investments portfolio (Note 6 and Note 7)

If there is objective evidence that an impairment loss has been incurred for financial investments – HTM, the amount of the loss is measured as the difference between the carrying amount and the present value of the estimated cash flows discounted at the original effective yield of the securities.

For financial investments – AFS, when there is evidence of impairment, the cumulative loss (which is measured as the difference between the acquisition cost and the current fair value, less any accumulated impairment loss on that investment previously recognised in the income statements) that had been recognised in other comprehensive income is reclassified from equity to income statements. Impairment losses on equity investments are not reversed through the income statements; increases in the fair value after impairment are recognised in other comprehensive income.

For quoted equity securities, its impairment losses are not reversed subsequent to its recognition until such equities are disposed.

In the case of debt instruments classified as financial investments AFS, the impairment is assessed based on the same criteria as financial investments HTM. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any accumulated impairment loss on that investment previously recognised in the income statements.

(c) Fair value estimation of financial investments – AFS (Note 6)

The fair value of securities that are not traded in an active market are determined using valuation techniques based on assumptions of market conditions existing at the reporting date, including reference to quoted market prices and independent dealer quotes for similar securities and discounted cash flows method.

(d) Allowance for impairment of investment in subsidiaries (Note 10), interest in associates (Note 11) and JVs (Note 12)

Once a suitable method of valuation is selected, management makes certain assumptions concerning the future to estimate the recoverable amount of the specific individual investment. These assumptions and other key sources of estimation uncertainty at the reporting date, may have a significant risk of causing a material adjustment to the carrying amounts of the investments within the next financial year. Depending on the specific individual investment, assumptions made by management may include, amongst others, assumptions on expected future cash flows, revenue growth, terminal value, discount rate used for purposes of discounting future cash flows which incorporates the relevant risks and expected future outcome based on certain past trends.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONT'D.)**3.2 Estimates (cont'd.)****(d) Allowance for impairment of investment in subsidiaries (Note 10), interest in associates (Note 11) and JVs (Note 12) (cont'd.)**Sensitivity to changes in assumptions

Management believes that no reasonably expected possible change in the key assumptions described above would cause the carrying amounts of the investments to materially exceed their recoverable amounts.

(e) Allowance for impairment of vessels (Note 13, Note 36 and Note 44)

An asset's recoverable amount RA is the higher of the asset's value-in-use ("VIU") amount and fair value less costs to sell ("FVLCTS"). Estimating a VIU amount requires management to make an estimate of the expected future cash flows from vessels and also to choose a suitable discount rate in order to calculate to present value of those cash flows. The FVLCTS of the assets are determined by an independent professional valuer. The valuer has utilised market approach in valuing the assets.

(f) Deferred tax (Note 17) and Income taxes (Note 37)

Significant judgment is required in estimating the provision for income taxes. There are many transactions and interpretations of tax law for which the final outcome will not be established until some time later. Liabilities for taxation are recognised based on estimates of whether additional taxes will be payable. The estimation process includes seeking advice on the tax treatments where appropriate. Where the final liability for taxation is different from the amounts that were initially recorded, the differences will affect the income tax and deferred tax provisions in the period in which the estimate is revised or the final liability is established.

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

4. CASH AND SHORT TERM DEPOSITS

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash and balances with other financial institutions	23,357	35,381	7,840	2,698
Money at call and deposit placements maturing within one month	1,272,142	1,384,144	1,020,428	1,123,512
	1,295,499	1,419,525	1,028,268	1,126,210

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

5. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Licensed banks	-	51,672	-	-

6. FINANCIAL INVESTMENTS - AFS

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At fair value				
Money market instruments:				
Government investment issues	1,305,405	872,906	1,305,405	872,906
Quoted securities:				
(In Malaysia)				
Shares	133,205	152,548	129,682	148,077
Unit trust funds	201,073	201,199	201,073	201,199
	334,278	353,747	330,755	349,276
Unquoted securities:				
(In Malaysia)				
Loan stock, at cost	-	727	-	727
Private debt securities	2,057,802	871,683	2,057,802	871,683
	2,057,802	872,410	2,057,802	872,410
	3,697,485	2,099,063	3,693,962	2,094,592

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

7. FINANCIAL INVESTMENTS – HTM

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At amortised cost				
Money market instruments:				
Cagamas	5,037	5,036	5,037	5,036
Unquoted securities:				
(In Malaysia)				
Private debt securities	527,365	500,832	527,365	500,832
Loan stock	22	22	-	-
	527,387	500,854	527,365	500,832
Less: Accumulated impairment losses	(346,680)	(321,401)	(346,680)	(321,401)
	180,707	179,453	180,685	179,431
	185,744	184,489	185,722	184,467

Indicative market values of the financial investments – HTM are as follows:

	Group and Bank	
	2016 RM'000	2015 RM'000
Cagamas	5,029	5,066
Unquoted private debt securities	248,204	221,664

The movements of the accumulated impairment losses are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	321,401	300,235	321,401	300,235
Provision during the financial year (Note 36)	25,279	21,166	25,279	21,166
At 31 December	346,680	321,401	346,680	321,401

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

8. LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Loans, advances and financing to industries:				
Government guaranteed	4,342,616	5,532,712	4,342,616	5,532,712
Others	19,772,635	19,537,708	19,482,973	19,215,784
	24,115,251	25,070,420	23,825,589	24,748,496
Loans, advances and financing to others:				
Staff financing	8,562	10,313	8,562	10,313
Loan to subsidiaries	-	-	-	86,030
	8,562	10,313	8,562	96,343
Gross loans, advances and financing	24,123,813	25,080,733	23,834,151	24,844,839
Allowance for impairment on loans, advances and financing:				
Individual allowance	(2,238,529)	(1,426,339)	(2,163,480)	(1,352,430)
Collective allowance	(675,201)	(897,045)	(664,573)	(919,953)
	(2,913,730)	(2,323,384)	(2,828,053)	(2,272,383)
Net loans, advances and financing	21,210,083	22,757,349	21,006,098	22,572,456

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

8. LOANS, ADVANCES AND FINANCING (CONT'D.)

(i) Loans, advances and financing analysed by type are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Bai' Bithaman Ajil	203,699	306,160	195,342	291,788
Bai' 'Inah	52,009	74,049	52,009	74,049
Bridging financing	15,869	18,894	13,456	12,421
Factoring	60,078	44,432	-	-
Hire purchase	144,047	151,565	-	-
Istisna'	3,997,381	5,446,683	3,997,381	5,456,490
Ijarah Muntahiyah bi Tamlik	160,956	166,890	124,918	121,450
Infra support loan	-	29,273	-	29,273
Leasing	22,745	37,812	-	-
Murabahah	25,778	53,715	25,778	53,715
Revolving financing	2,546	4,762	-	-
Revolving working capital	253,146	373,292	253,146	373,292
Staff financing	8,562	10,313	8,562	10,313
Tawarruq	4,685,853	1,036,178	4,676,970	1,022,199
Term loan	14,491,144	17,326,260	14,486,589	17,399,394
Working capital	-	455	-	455
Gross loans, advances and financing	24,123,813	25,080,733	23,834,151	24,844,839
Allowance for impairment on loans, advances and financing:				
Individual allowance	(2,238,529)	(1,426,339)	(2,163,480)	(1,352,430)
Collective allowance	(675,201)	(897,045)	(664,573)	(919,953)
Net loans, advances and financing	21,210,083	22,757,349	21,006,098	22,572,456

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

8. LOANS, ADVANCES AND FINANCING (CONT'D.)

(ii) Loans, advances and financing analysed by type of customers are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Domestic business enterprises	24,115,251	25,070,420	23,825,589	24,834,526
Individuals	8,562	10,313	8,562	10,313
	24,123,813	25,080,733	23,834,151	24,844,839

(iii) Loans, advances and financing analysed by interest/profit rate sensitivity are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Fixed rate:				
Housing loans/financing	16,919	21,303	8,562	10,313
Hire purchase receivables	144,047	162,819	-	-
Other fixed rate loans/ financing	15,196,777	14,078,585	15,059,519	14,016,500
Variable rate:				
Cost plus	3,100,511	2,507,152	3,100,511	2,507,152
Other variable rates	5,665,559	8,310,874	5,665,559	8,310,874
	24,123,813	25,080,733	23,834,151	24,844,839

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

8. LOANS, ADVANCES AND FINANCING (CONT'D.)

(iv) Loans, advances and financing analysed by industry are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Agriculture, hunting and forestry	5,756	6,997	-	-
Construction	11,019,192	11,531,521	10,993,823	11,520,391
Education	2,046,551	1,876,913	2,046,551	1,876,913
Electricity, gas and water supply	2,252,403	2,326,972	2,252,091	2,326,660
Finance, insurance and business	65,335	23,812	-	-
Hotel and restaurants	1,408,715	1,263,526	1,408,715	1,263,526
Housing	8,562	10,313	8,562	10,313
Manufacturing	552,400	543,639	538,971	474,015
Marine related	84,378	99,186	84,378	99,186
Materials technology	14,840	14,234	14,840	14,234
Medical and pharmaceuticals	43,371	41,917	43,371	41,917
Mining and quarrying	433	1,422	-	-
Other community, social and personal service activities	208,605	201,090	205,403	149,335
Public administration and defence	38,308	45,268	38,308	45,268
Real estate, renting and business activities	592,730	963,547	489,596	884,704
Shipping	1,434,745	1,552,401	1,434,745	1,638,431
Shipyard	201,369	193,748	201,369	193,748
Transport, storage and communication	4,146,120	4,384,227	4,073,428	4,306,198
	24,123,813	25,080,733	23,834,151	24,844,839

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

8. LOANS, ADVANCES AND FINANCING (CONT'D.)

(v) The maturity structure of loans, advances and financing is as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Maturity within one year	4,508,249	4,925,097	4,480,690	4,901,056
One year to three years	5,159,757	4,995,772	5,028,630	4,920,670
Three years to five years	2,523,188	3,649,022	2,422,710	3,496,719
Over five years	11,932,619	11,510,842	11,902,121	11,526,394
	24,123,813	25,080,733	23,834,151	24,844,839

(vi) Loans, advances and financing analysed by geographical distribution are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Within Malaysia	24,123,813	25,080,733	23,834,151	24,844,839

(vii) Movements in impaired loans, advances and financing are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	2,794,395	3,000,149	2,796,826	2,950,738
Impaired during the financial year	1,468,056	688,169	1,324,965	660,068
Reclassified as non-impaired	(17,817)	(38,546)	-	(36,982)
Recovered during the financial year	(508,180)	(114,529)	(467,084)	(65,255)
Amount written off	(113,330)	(740,848)	(113,330)	(711,743)
At 31 December	3,623,124	2,794,395	3,541,377	2,796,826
Gross impaired loans as a % of gross loans, advances and financing	15.02%	11.14%	14.86%	11.26%

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

8. LOANS, ADVANCES AND FINANCING (CONT'D.)

(viii) Impaired loans, advances and financing analysed by industry are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Construction	453,960	315,216	447,170	312,162
Education	77,551	76,853	77,551	76,853
Electricity, gas and water supply	118,783	111,166	118,783	111,166
Finance, insurance and business	2,641	550	-	-
Hotel and restaurants	484,304	446,259	474,029	432,520
Manufacturing	361,988	359,076	339,415	326,627
Marine related	84,378	98,732	84,378	98,732
Materials technology	14,841	14,234	14,841	14,234
Medical and pharmaceuticals	43,371	41,917	43,371	41,917
Other community, social and personal service activities	8,809	15,996	-	-
Real estate, renting and business activities	5,731	369,577	-	351,766
Shipping	1,339,807	722,210	1,339,807	808,240
Shipyards	639	14,660	-	14,660
Transport, storage and communication	626,321	207,949	602,032	207,949
	3,623,124	2,794,395	3,541,377	2,796,826

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

8. LOANS, ADVANCES AND FINANCING (CONT'D.)

(ix) Movements in the allowance for impairment of loans, advances and financing are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Individual allowance ("IA")				
At 1 January	1,426,339	1,957,260	1,352,430	1,842,562
Allowance made during the financial year	707,561	230,197	678,314	206,161
Allowance made during the year against ISF	9,334	11,060	9,334	11,060
Amount written back in respect of recoveries	(115,905)	(75,853)	(95,771)	(37,937)
Amount transferred from from CA	350,922	64,260	350,922	64,260
Amount transferred to CA	(22,317)	(21,933)	(22,317)	(21,933)
Amount written off	(117,405)	(738,652)	(109,432)	(711,743)
At 31 December	2,238,529	1,426,339	2,163,480	1,352,430
Collective allowance ("CA")				
At 1 January	897,045	681,860	919,953	699,397
Allowance made during the financial year	111,946	272,260	73,232	272,356
Allowance made during the year against ISF	(7)	-	(7)	-
Amount written back	(5,178)	(14,748)	-	(9,473)
Amount transferred to IA	(350,922)	(64,260)	(350,922)	(64,260)
Amount transferred from IA	22,317	21,933	22,317	21,933
At 31 December	675,201	897,045	664,573	919,953

9. OTHER ASSETS

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Sundry receivables, deposits and prepayments	(i)	361,424	93,830	40,643	12,005
Less: Allowance for doubtful debts	(ii)	(215,421)	(23,364)	(601)	(706)
		146,003	70,466	40,042	11,299
Amount due from subsidiaries		-	-	726	1,603
Amount receivable from Government in respect of compensation for:					
Infrastructure projects		46,819	46,956	46,819	46,956
Foreign exchange differences		85,361	85,361	85,361	85,361
Tax recoverable		40,257	28,185	35,160	22,780
		318,440	230,968	208,108	167,999

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

9. OTHER ASSETS (CONT'D.)

- (i) Included in the sundry receivables, deposits and prepayments of the Group is an amount due from Syarikat Borcos Shipping Sdn Bhd (“Borcos”), a former subsidiary of Global Maritime Ventures Berhad (“GMVB”) amounting to RM290,179,000. Due to the deconsolidation of Borcos, as disclosed in Note 10(b), the amount due from Borcos is now treated as sundry receivables due from third party.
- (ii) Allowance for doubtful debts

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	23,364	7,624	706	1,035
Provided during the financial year:				
– Trade receivables	-	12,498	-	-
– Associates	-	457	-	-
Impairment on amount due from discontinued operation	210,781	-	-	-
Recovered during the financial year	(18,651)	(329)	(32)	(329)
Exchange differences	-	3,114	-	-
Amount written off	(73)	-	(73)	-
At 31 December	215,421	23,364	601	706

10. INVESTMENTS IN SUBSIDIARIES

	Bank	
	2016 RM'000	2015 RM'000
Unquoted shares, at cost	924,686	924,686
Additional capital contribution due to waiver of debt	68,750	68,750
	993,436	993,436
Less: Allowance for impairment on investments in subsidiaries	(603,749)	(512,577)
	389,687	480,859
Less: Transfer to subsidiary classified as held for sale, net of impairment allowance (Note 10(c))	(636)	-
	389,051	480,859
Movement of allowance for impairment:		
As at 1 January	512,577	339,693
Amount provided during the year	91,172	172,884
At 31 December	603,749	512,577

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

10. INVESTMENTS IN SUBSIDIARIES (CONT'D.)**(a) Subsidiary with significant non-controlling interest**

The summarised financial information of Global Maritime Ventures Berhad (“GMVB”) which have significant non-controlling interests to the Group is set out below. The summarised financial information presented below is the amount before inter-company elimination:

(i) Summarised statement of financial position

	GMVB	
	2016 RM'000	2015 RM'000
Non current assets	30,024	40,198
Current assets	225,034	673,721
Total assets	255,058	713,919
Non current liabilities	-	71
Current liabilities	3,821	359,218
Total liabilities	3,821	359,289
Net assets	251,237	354,630
Equity attributable to the owners of the company	243,813	345,116
Carrying value of non-controlling interests	7,424	9,514

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

10. INVESTMENTS IN SUBSIDIARIES (CONT'D.)**(a) Subsidiary with significant non-controlling interest (cont'd.)**

(ii) Summarised statement of comprehensive income

	GMVB	
	2016 RM'000	2015 RM'000
Continuing operations:		
Revenue	-	121
Cost of sales	-	(359)
Other income	17,321	14,533
Administrative expenses	(7,903)	(52,040)
Finance costs	(4)	(3)
Share of loss of joint ventures and associates	(5,880)	(9,235)
Profit/(loss) before taxation	3,534	(46,983)
Income tax	(6,416)	(5,957)
Zakat	(1,050)	(16)
Loss for the financial year	(3,932)	(52,956)
Discontinued operations:		
Gain on deconsolidation of discontinued operations	440,370	-
Impairment on amount due from discontinued operations	(210,781)	-
Loss from discontinued operations	(119,746)	(275,946)
Profit/(loss) from discontinued operations, net of tax	109,843	(275,946)
Net profit/(loss) for the year	105,911	(328,902)
Other comprehensive (loss)/income		
Foreign currency translation reserve transferred:		
- transferred to profit or loss	(215,292)	-
- to be reclassified to profit or loss in subsequent period	5,988	122,911
	(209,304)	122,911
Total comprehensive loss for the financial year	(103,393)	(205,991)
Profit/(loss) for the year attributable to:		
Equity holders of the parent	106,031	(328,772)
Non-controlling interest	(120)	(130)
	105,911	(328,902)
Total comprehensive loss attributable to the owners of the company	(101,303)	(207,380)
Total comprehensive (loss)/profit attributable to the non-controlling interests	(2,090)	1,389
	(103,393)	(205,991)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

10. INVESTMENTS IN SUBSIDIARIES (CONT'D.)**(a) Subsidiary with significant non-controlling interest (cont'd.)**

(iii) Summarised statement of cash flows

	GMVB	
	2016 RM'000	2015 RM'000
Net cash used in operating activities	(72,048)	(6,111)
Net cash used in investing activities	(3,064)	(9,618)
Net cash used in financing activities	(23,218)	(182,489)
Net decrease in cash and cash equivalents	(98,330)	(198,218)
Effects of foreign exchange rate changes	328	38
Cash and cash equivalents at beginning of financial year	209,987	408,167
Cash and cash equivalents at the end of the financial year	111,985	209,987

(b) Creditors Voluntary Liquidation

On 22 December 2016, Borcos was placed under Creditors Voluntary Liquidation ("CVL") and the Group has lost control over Borcos and its subsidiaries ("Borcos Group"). As a result, Borcos Group's assets and liabilities have been deconsolidated from the Group's consolidated financial statements and its results are presented separately in the income statements as "Discontinued operations".

Details of the financial position of Borcos Group on the date of the deconsolidation were as follows:

	Total RM'000
Assets	
Asset held for sale	304,507
Cash and bank balances	7,397
Trade and other receivables	838
Amount due to holding company	64
Tax recoverable	45
	312,851
Liabilities	
Borrowings	(228,845)
Trade and other payables	(308,954)
Deferred tax liabilities	(4)
	(537,803)
Net liabilities	(224,952)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

10. INVESTMENTS IN SUBSIDIARIES (CONT'D.)**(b) Creditors Voluntary Liquidation (cont'd.)**

Details of the financial position of Borcos Group on the date of the deconsolidation were as follows: (cont'd.)

	At the date of deconsolidation RM'000
Net identifiable liabilities disposed	224,952
Reclassification of foreign exchange reserve to profit or loss	215,292
Transfer from non-controlling interest	126
Gain on deconsolidation	440,370
The effect of the deconsolidation on cash flow is as follows:	
Cash and bank balances of Borcos	(7,397)
Cash outflow to the Group on deconsolidation	(7,397)
Included in results from operating activities are:	
Depreciation of property, plant and equipment	30,644
Amortisation of intangible assets	15,511
Impairment allowance for vessels	200,974

(c) Disposal of a subsidiary

On 23 November 2016, the Bank has accepted the offer from Intrasyd Sdn Bhd, to acquire the Bank's interest in Pembangunan Ekuiti Sdn Bhd ("PESB") at Net Tangible Assets ("NTA") as at 31 December 2016. The proposed disposal of the subsidiary is expected to be completed in 2017. As at 31 December 2016, the assets and liabilities of the subsidiary have been presented in the statements of financial position as "Assets of a subsidiary classified as held for sale" and "Liabilities of a subsidiary classified as held for sale" and its result is presented separately on the income statements as "Discontinued operations".

(i) Subsidiary classified as held for sale

	Bank
	2016 RM'000
<u>Cost</u>	
At 1 January	-
Transferred from investment in subsidiaries	1,747
At 31 December	1,747
<u>Accumulated allowance for impairment losses on investment in subsidiary</u>	
At 1 January	-
Transferred from investment in subsidiaries	1,111
At 31 December	1,111
Net carrying amount (Note 46)	636

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

10. INVESTMENTS IN SUBSIDIARIES (CONT'D.)**(c) Disposal of a subsidiary (cont'd.)****(ii) Statement of financial position disclosure**

The major classes of assets and liabilities of a subsidiary classified as held for sale as at 31 December 2016 are as follows:-

GROUP	Carrying amount 31.12.2016 RM'000
Assets:	
Cash and bank balances	842
Tax recoverable	4
Total assets	846
Liabilities:	
Payables	215

(iii) Statement of cash flow disclosure

	2016 RM'000
Cash outflow from operating activities	(3)
Cash inflow from investing activities	24
Cash and cash equivalents at beginning of financial year	821
Cash and cash equivalents at the end of the financial year	842

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

10. INVESTMENTS IN SUBSIDIARIES (CONT'D.)**(d) Discontinued operations**

The result from discontinued operation for the financial year ended 31 December 2016 is as follows:

	Borcoss RM'000	PESB RM'000	2016 RM'000
Interest income	88	19	107
Interest expense	(12,598)	-	(12,598)
Net interest income	(12,510)	19	(12,491)
Non-interest income	16,366	-	16,366
Net income	3,856	19	3,875
Overhead expenses	(28,818)	(19)	(28,837)
Allowance for impairment losses on other assets	(94,737)	-	(94,737)
Loss before taxation	(119,699)	-	(119,699)
Tax expense	(47)	(5)	(52)
Loss, net of tax	(119,746)	(5)	(119,751)
	Borcoss RM'000	PESB RM'000	2015 RM'000
Interest income	85	19	104
Interest expense	(21,864)	-	(21,864)
Net interest income	(21,779)	19	(21,760)
Non-interest income	90,460	-	90,460
Net income	68,681	19	68,700
Overhead expenses	(136,748)	(62)	(136,810)
Allowance for impairment losses on other assets	(213,472)	-	(213,472)
Loss before taxation	(281,539)	(43)	(281,582)
Tax expense	(845)	(4)	(849)
Loss, net of tax	(282,384)	(47)	(282,431)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

11. INTEREST IN ASSOCIATES

	Group	
	2016 RM'000	2015 RM'000
At cost:		
Unquoted ordinary shares	74,975	74,975
Less: Result from deconsolidation exercise	(343)	-
	74,632	74,975
Group's share of post acquisition reserve	3,282	3,028
	77,914	78,003
Less: Accumulated impairment losses	(74,675)	(74,675)
Add: Result from deconsolidation exercise	343	-
	(74,332)	(74,675)
	3,582	3,328

(i) Details of the associates incorporated in Malaysia are as follows:

Name of Associates (incorporated in Malaysia)	Effective interest held by the Group		Principal Activities
	2016 %	2015 %	
Held through GMVB, a subsidiary: Wawasan Bulk Services Sdn Bhd	27.0	27.0	Ship management
Held through Syarikat Borcos Shipping Sdn Bhd Berkat Perkapalan Sdn Bhd *	-	44.1	Dormant
Held through SME Growth Accelerated Fund Sdn Bhd ("SME GAF"), a subsidiary: Ambang Wibawa Sdn Bhd *	26.0	26.0	Dormant
Cantuman Wawasan Sdn Bhd *	26.0	26.0	Dormant
Internexia Sdn Bhd *	26.0	26.0	Dormant
MS Time Ventures Sdn Bhd *	26.0	26.0	Dormant
Nano C Sdn Bhd *	26.0	26.0	Dormant
Profound Kestrel Laboratories Sdn Bhd *	49.0	49.0	Dormant
Schiffs & Industries Tehcnic Sdn Bhd *	26.0	26.0	Dormant
Wellad Communications Sdn Bhd *	26.0	26.0	Dormant

* Audited by firms of auditors other than Ernst & Young, Malaysia.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

11. INTEREST IN ASSOCIATES (CONT'D.)

The summarised financial statements of the associates not adjusted for the proportion of ownership interest held by the Group are as follows:

(a) Summarised statement of financial position

	Group	
	2016 RM'000	2015 RM'000
Total assets	38,245	45,058
Total liabilities	26,303	33,966
(b) Summarised statement of comprehensive income		
Revenue	3,524	3,781
Profit for the financial year	773	409
(c) Reconciliation of the summarised financial information		
Net assets at 1 January	11,092	9,482
Profit for the financial year	773	409
Other comprehensive income	77	1,201
Net assets at 31 December	11,942	11,092
Interests in joint ventures	30%	30%
Carrying value of Group's interest in associates	3,582	3,328

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

12. INTEREST IN JVS

	Group	
	2016 RM'000	2015 RM'000
At cost:		
Unquoted ordinary shares	53,979	53,979
Group's share of post acquisition deficit	(9,182)	(3,048)
Less: Accumulated impairment losses	(18,585)	(18,585)
	26,212	32,346
Advances to JVs:		
within 1 year	5,057	23,260
1 year to 2 years	10,202	4,122
2 years to 5 years	15,303	5,457
More than 5 years	24,995	23,071
Less: Allowance for doubtful debts	(48,345)	(48,345)
	7,212	7,565
	33,424	39,911

The advances to JVs bear an interest of 2.4% to 7.0% (2015: 2.4% to 7.0%) per annum and are repayable on a quarterly basis over a period of 10 years.

(i) Details of the JVs are as follows:

Name of JVs (incorporated in Malaysia)	Effective interest held by the Group		Principal Activities
	2016 %	2015 %	
Held through GMVB, a subsidiary:			
Alam Eksplorasi (M) Sdn Bhd ^	36.00	36.00	Ship-owning, ship operator, ship agency, chartering and other related to shipping industry
Alam Synergy I (L) Inc ^	36.00	36.00	Ship-owning, ship operator and charter hire of vessel
Alam Synergy II (L) Inc ^	36.00	36.00	Ship-owning, ship operator and charter hire of vessel
Alam Synergy III (L) Inc ^	36.00	36.00	Ship-owning, ship operator and charter hire of vessel
Baycorp Ship Management Sdn Bhd #	36.00	36.00	Ship management

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

12. INTEREST IN JVS (CONT'D.)

(i) Details of the JVs are as follows: (cont'd.)

Name of JVs (incorporated in Malaysia)	Effective interest held by the Group		Principal Activities
	2016 %	2015 %	
Held through GMVB, a subsidiary: (cont'd.)			
Formasi Cekal Sdn Bhd #	36.00	36.00	Ship-owning, ship operator and undertake all kinds of contract to carry merchant goods
Gagasan Ked Sdn Bhd #	54.00	54.00	Ship-owning
Gagasan Paha Sdn Bhd #	54.00	54.00	Ship-owning
Global BMesra Sdn Bhd @	44.10	44.10	Ship-owning and freighting
Global BMesra Dua Sdn Bhd @	44.10	44.10	Ship-owning and freighting
Global Bikhlas Sdn Bhd @	44.10	44.10	Ship-owning and freighting
Sea Weasel Limited	44.10	44.10	Ship-owning and freighting

^ Collectively known as Alam Group

Collectively known as Gagasan Group

@ Collectively known as Global Group

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

12. INTEREST IN JVS (CONT'D.)

The aggregate current assets, non-current assets, current liabilities and results of the JVs are as follows:

(a) Summarised statement of financial position

	2016 RM'000	2015 RM'000
Assets:		
Non current assets	97,204	204,069
Current assets	55,385	186,728
Total assets	152,589	390,797
Liabilities:		
Non current liabilities	59,824	174,061
Current liabilities	199,694	242,169
Total liabilities	259,518	416,230
Net liabilities	(106,929)	(25,433)

(b) Summarised statement of comprehensive income

	2016 RM'000	2015 RM'000
Revenue	19,690	55,669
Cost of sales	(27,174)	(54,766)
Gross profit	(7,484)	903
Other income	7,824	35,530
Administrative expenses	(60,218)	(5,095)
Operating expenses	(13,286)	(43,216)
Loss from operations	(73,164)	(11,878)
Finance costs	(8,271)	(19,153)
Loss before taxation	(81,435)	(31,031)
Taxation	(60)	(67)
Loss for the financial year	(81,495)	(31,098)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

12. INTEREST IN JVS (CONT'D.)

The aggregate current assets, non-current assets, current liabilities and results of the JVs are as follows: (cont'd.)

(c) Reconciliation of the summarised financial information

	2016 RM'000	2015 RM'000
Net assets at 1 January	(25,434)	5,665
Loss for the year	(81,495)	(31,098)
Net (liabilities)/assets at 31 December	(106,929)	(25,433)
Interests in joint ventures	47,826	6,130
Carrying value of Group's interest in joint ventures	(59,103)	(19,303)
Less: Cumulative unrecognised losses b/f	(51,649)	(54,612)
Share of unrecognised (losses)/gain for the year	(33,666)	2,963
Net carrying value of Group's interest in joint ventures	26,212	32,346

13. PROPERTY, PLANT AND EQUIPMENT

GROUP	Freehold land RM'000	Leasehold land and buildings RM'000	Furniture and equipment RM'000	Motor vehicle RM'000	Mechanical and electricals RM'000	Vessels RM'000	Capital work-in progress RM'000	Dry- docking expenses RM'000	Total RM'000
2016									
Cost									
At 1 January	18,373	78,912	36,358	2,111	39,003	-	2,163	-	176,920
Additions	-	-	1,370	-	-	-	481	-	1,851
Disposals/write-off	-	(7,165)	(5,393)	(547)	(9)	-	-	-	(13,114)
Reclassification	-	-	(215)	-	-	-	(1,924)	-	(2,139)
At 31 December	18,373	71,747	32,120	1,564	38,994	-	720	-	163,518
Accumulated depreciation									
At 1 January	-	11,678	31,224	1,785	38,203	-	-	-	82,890
Charge for the financial year	-	1,486	2,199	201	248	-	-	-	4,134
Disposals/write-off	-	(614)	(5,542)	(547)	(9)	-	-	-	(6,712)
At 31 December	-	12,550	27,881	1,439	38,442	-	-	-	80,312
Net carrying amount	18,373	59,197	4,239	125	552	-	720	-	83,206

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

13. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

GROUP	Freehold land RM'000	Leasehold land and buildings RM'000	Furniture and equipment RM'000	Motor vehicle RM'000	Mechanical and electricals RM'000	Vessels RM'000	Capital work-in progress RM'000	Dry- docking expenses RM'000	Total RM'000
2015									
Cost									
At 1 January	20,383	80,327	37,506	3,657	38,914	801,633	18,630	67,214	1,068,264
Additions	-	-	1,426	-	28	46	10,916	-	12,416
Disposals/write-off	(387)	-	(844)	(95)	-	-	-	-	(1,326)
Effect of movements in exchange rates	-	-	906	-	-	187,502	(1,626)	10,337	197,119
Reclassification	(5)	430	921	4	61	12,209	(25,757)	12,137	-
Transfer to assets held for sale	(1,618)	(1,845)	(3,557)	(1,455)	-	(1,001,390)	-	(89,688)	(1,099,553)
At 31 December	18,373	78,912	36,358	2,111	39,003	-	2,163	-	176,920
Accumulated depreciation									
At 1 January	-	10,925	33,234	2,964	37,462	136,358	-	11,194	232,137
Charge for the financial year	-	1,677	2,605	148	741	43,238	-	11,381	59,790
Disposals/write-off	-	-	(843)	(95)	-	-	-	-	(938)
Effect of movements in exchange rates	-	-	(764)	-	-	22,369	-	13,573	35,178
Transfer to assets held for sale	-	(924)	(3,008)	(1,232)	-	(201,965)	-	(36,148)	(243,277)
At 31 December	-	11,678	31,224	1,785	38,203	-	-	-	82,890
Accumulated impairment losses									
At 1 January	-	-	-	-	-	211,499	-	-	211,499
Charge for the financial year	-	-	-	-	-	200,974	-	-	200,974
Transfer to assets held for sale	-	-	-	-	-	(462,101)	-	-	(462,101)
Effect of movements in exchange rates	-	-	-	-	-	49,628	-	-	49,628
At 31 December	-	-	-	-	-	-	-	-	-
Net carrying amount	18,373	67,234	5,134	326	800	-	2,163	-	94,030

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

13. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

BANK	Freehold land RM'000	Buildings RM'000	Furniture and equipment RM'000	Mechanical and electricals RM'000	Motor vehicles RM'000	Renovation RM'000	Capital work-in progress RM'000	Total RM'000
2016								
Cost								
At 1 January	18,203	78,782	31,991	39,004	1,336	-	2,163	171,479
Additions	-	-	490	-	-	820	481	1,791
Disposals/write-off	-	(7,165)	(4,943)	(9)	(530)	-	-	(12,647)
Reclassification	-	-	-	-	-	-	(1,924)	(1,924)
At 31 December	18,203	71,617	27,538	38,995	806	820	720	158,699
Accumulated depreciation								
At 1 January	-	11,646	27,729	38,204	1,251	-	-	78,830
Charge for the financial year	-	1,484	1,557	248	82	38	-	3,409
Disposals/write-off	-	(710)	(4,926)	(9)	(530)	-	-	(6,175)
At 31 December	-	12,420	24,360	38,443	803	38	-	76,064
Net carrying amount	18,203	59,197	3,178	552	3	782	720	82,635

BANK	Freehold land RM'000	Buildings RM'000	Furniture and equipment RM'000	Mechanical and electricals RM'000	Motor vehicles RM'000	Capital work-in progress RM'000	Total RM'000	
2015								
Cost								
At 1 January		19,190	78,182	31,019	38,914	1,339	2,615	171,259
Additions		-	-	943	27	-	484	1,454
Disposals/write-off		(387)	-	(844)	-	(3)	-	(1,234)
Reclassification		(600)	600	873	63	-	(936)	-
At 31 December		18,203	78,782	31,991	39,004	1,336	2,163	171,479
Accumulated depreciation								
At 1 January		-	10,071	26,787	37,462	1,119	-	75,439
Charge for the financial year		-	1,575	1,785	742	136	-	4,238
Disposals/write-off		-	-	(843)	-	(4)	-	(847)
At 31 December		-	11,646	27,729	38,204	1,251	-	78,830
Net carrying amount		18,203	67,136	4,262	800	85	2,163	92,649

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

14. PREPAID LAND LEASES

	Group and Bank	
	2016 RM'000	2015 RM'000
Cost		
At 1 January	1,662	2,012
Disposals	-	(350)
At 31 December	1,662	1,662
Depreciation		
At 1 January	745	838
Charge for the financial year	34	40
Disposals	-	(133)
At 31 December	779	745
Carrying amount	883	917

15. INVESTMENT PROPERTIES

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cost				
At 1 January	7,510	8,817	2,149	3,226
Disposals	-	(925)	-	(695)
Transfer (to)/from assets held for sale (Note 44)	(2,519)	(382)	367	(382)
Transfer from property, plant and equipment	215	-	-	-
At 31 December	5,206	7,510	2,516	2,149
Depreciation and impairment loss				
At 1 January	4,125	4,059	1,310	1,287
Charge for the financial year	192	175	51	63
Disposals	-	(94)	-	(25)
Transfer to assets held for sale (Note 44)	-	(15)	-	(15)
Adjustment	15	-	-	-
At 31 December	4,332	4,125	1,361	1,310

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

15. INVESTMENT PROPERTIES (CONT'D.)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Accumulated impairment losses				
At 1 January/31 December	(689)	(689)	-	-
Carrying amount	1,563	4,074	1,155	839
Included in the above are:				
Buildings	1,563	4,074	1,155	839

- (i) The Directors of the Group and the Bank estimated the fair values of the investment properties of the Group and the Bank to be RM11,080,000 (2015: RM11,320,000) and RM3,830,000 (2015: RM4,250,000) respectively based on comparison with indicative market value stated in the Property Market Report 2016 (2015: Property Market Report 2014).

16. INTANGIBLE ASSETS

GROUP	Computer software RM'000	Contract based related intangibles RM'000	Goodwill RM'000	Total RM'000
2016				
Cost				
At 1 January	28,477	62,089	76,664	167,230
Addition	2,367	-	-	2,367
Transfer from property, plant and equipment (Note 13)	1,924	-	-	1,924
Deconsolidation of a subsidiary	-	(62,089)	(76,664)	(138,753)
At 31 December	32,768	-	-	32,768
Amortisation				
At 1 January	19,653	62,089	-	81,742
Amortisation charged	3,891	-	-	3,891
Amount written off due to deconsolidation of a subsidiary	-	(62,089)	-	(62,089)
At 31 December	23,544	-	-	23,544
Accumulated impairment losses				
At 1 January	-	-	76,664	76,664
Deconsolidation of a subsidiary	-	-	(76,664)	(76,664)
At 31 December	-	-	-	-
Carrying amount	9,224	-	-	9,224

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

16. INTANGIBLE ASSETS (CONT'D.)

GROUP	Computer software RM'000	Contract based related intangibles RM'000	Goodwill RM'000	Total RM'000
2015				
Cost				
At 1 January	26,859	62,089	76,664	165,612
Additions	1,618	-	-	1,618
At 31 December	28,477	62,089	76,664	167,230
Amortisation				
At 1 January	15,701	46,579	-	62,280
Amortisation charged	3,952	15,510	-	19,462
At 31 December	19,653	62,089	-	81,742
Accumulated impairment losses				
At 1 January/31 December	-	-	76,664	76,664
Carrying amount	8,824	-	-	8,824

Contract based related intangibles

Contract based related intangibles relate to the customer contracts that were acquired in business combinations. The intangibles are in respect of contracts that will expire by 2017; and is amortised on a straight line basis up to expiry. The subsidiary of the Bank has fully amortised the intangible assets as its Petronas license has been revoked, where all of the existing contracts has been suspended.

BANK	2016 Computer software RM'000	2015 Computer software RM'000
Cost		
At 1 January	24,937	23,319
Additions	3,920	1,618
At 31 December	28,857	24,937
Amortisation		
At 1 January	16,752	13,146
Amortisation charged	3,720	3,606
At 31 December	20,472	16,752
Carrying amount	8,385	8,185

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

17. DEFERRED TAX ASSETS/(LIABILITIES)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	(540)	(17,217)	6,026	(12,538)
Recognised in income statement	7,487	(876)	(779)	943
Recognised in equity	8,186	17,553	7,958	17,621
Deconsolidation of subsidiaries	4	-	-	-
At 31 December	15,137	(540)	13,205	6,026
Presented after appropriate offsetting as follows:				
Deferred tax assets	18,127	8,938	13,205	6,026
Deferred tax liabilities	(2,990)	(9,478)	-	-
	15,137	(540)	13,205	6,026

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

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

Deferred tax assets

	Loan loss and allowances RM'000	Unrealised AFS reserve RM'000	Other temporary differences RM'000	Total RM'000
GROUP				
At 1 January 2016	2,978	(6,167)	13,835	10,646
Recognised in income statement	1,784	-	506	2,290
Recognised in equity	-	8,186	-	8,186
Deconsolidation of subsidiaries	-	-	4	4
At 31 December 2016	4,762	2,019	14,345	21,126
At 1 January 2015	5,269	(23,720)	15,759	(2,692)
Recognised in income statement	(2,291)	-	(1,924)	(4,215)
Recognised in equity	-	17,553	-	17,553
At 31 December 2015	2,978	(6,167)	13,835	10,646

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

17. DEFERRED TAX ASSETS/(LIABILITIES) (CONT'D.)

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows: (cont'd.)

Deferred tax liabilities

GROUP	Loan loss and allowances RM'000	Property, plant and equipment RM'000	Total RM'000
At 1 January 2016	(3,545)	(7,641)	(11,186)
Recognised in income statement	(2,375)	7,572	5,197
At 31 December 2016	(5,920)	(69)	(5,989)
At 1 January 2015	-	(14,525)	(14,525)
Recognised in income statement	(3,545)	6,884	3,339
At 31 December 2015	(3,545)	(7,641)	(11,186)

Deferred tax assets

BANK	Unrealised AFS reserve RM'000	Other temporary differences RM'000	Total RM'000
At 1 January 2016	(6,099)	12,281	6,182
Recognised in income statement	-	506	506
Recognised in equity	7,958	-	7,958
At 31 December 2016	1,859	12,787	14,646
At 1 January 2015	(23,720)	11,880	(11,840)
Recognised in income statement	-	401	401
Recognised in equity	17,621	-	17,621
At 31 December 2015	(6,099)	12,281	6,182

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

17. DEFERRED TAX ASSETS/(LIABILITIES) (CONT'D.)

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows: (cont'd.)

Deferred tax liabilities

BANK	Property, plant and equipment RM'000
At 1 January 2016	(156)
Recognised in income statement	(1,285)
At 31 December 2016	(1,441)
At 1 January 2015	(698)
Recognised in income statement	542
At 31 December 2015	(156)

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2016 RM'000	2015 RM'000
Other deductible temporary differences	-	25,479
Unutilised tax losses	-	307,760
Unabsorbed capital allowances	-	136,124
	-	469,363

The unutilised tax losses and unabsorbed capital allowances of the Group are available for offsetting against future taxable profits subject to no substantial change in shareholdings under the Income Tax Act, 1967 and guidelines issued by the tax authority.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

18. DEPOSITS FROM CUSTOMERS

	Group and Bank	
	2016 RM'000	2015 RM'000
Fixed deposits and negotiable instruments of deposits:		
One year or less	9,750,551	7,752,319
(a) The deposits are sourced from the following types of deposit:		
Tawarruq	9,750,551	7,752,319
(b) The deposits are sourced from the following types of customers:		
Business enterprises	1,232,673	2,412,391
Government and statutory bodies	8,517,878	5,339,928
	9,750,551	7,752,319
(c) The deposits maturity structure are as follows:		
Less than six months	7,713,416	6,928,880
Six months to one year	2,037,135	823,439
	9,750,551	7,752,319

19. DEPOSITS AND PLACEMENTS FROM FINANCIAL INSTITUTIONS

	Group and Bank	
	2016 RM'000	2015 RM'000
Licensed banks	10,002	445,640
(a) The deposits maturity structure are as follows:		
Less than six months	10,002	445,640

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

20. OTHER LIABILITIES

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Provision for taxation		1,747	1,369	-	-
Zakat payables		19,339	22,671	17,137	21,807
Trade creditors		7,949	22,193	-	-
Sundry creditors and accruals		80,409	102,303	44,993	37,577
Provision for corporate guarantees	(i)	-	69,160	-	-
		109,444	217,696	62,130	59,384

- (i) Corporate guarantees payable in prior year was related to amounts due to certain banks as a result of payment default by certain joint ventures, which a subsidiary of the Group has provided corporate guarantees on the loan facilities granted to the joint ventures.

The movements of the provision for corporate guarantees are as follows:

	Group	
	2016 RM'000	2015 RM'000
At 1 January	69,160	59,300
Provision during the financial year	-	9,860
Recovered during the financial year	(69,160)	-
At 31 December	-	69,160

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

21. REDEEMABLE NOTES

	Note	Group and Bank	
		2016 RM'000	2015 RM'000
Redeemable non-guaranteed notes			
Medium term note	(i)	404,695	808,743
Medium term notes – Murabahah	(ii)	1,511,090	–
		1,915,785	808,743
Redeemable guaranteed notes			
Medium term notes – Murabahah	(iii)	3,041,671	3,041,671
Medium term notes	(iv)	510,718	–
		3,552,389	3,041,671
Infrastructure note – nominal value	(v)	455,733	506,473
Less: Unaccreted discount		(3,591)	(3,999)
		452,142	502,474
		5,920,316	4,352,888

- (i) This note carries coupon rate of 6.30% per annum and is for tenure of 15 years. The note will mature in April 2021.
- (ii) These notes were issued on 4 November 2016 and carry coupon rates ranging between 4.50% to 4.95% per annum and are for tenures of 10 to 19 years. These notes will mature in November 2026, 2031 and 2035 respectively.
- (iii) These notes carry coupon rates ranging between 4.19% to 4.85% per annum and for tenures of 7 to 20 years. These notes will mature in September 2021, 2024, 2029 and 2034 respectively.
- (iv) These notes were issued on 22 January 2016 and carry coupon rates ranging between 4.52% to 5.08% per annum and for tenures of 7 to 15 years. These notes will mature in January 2023 and 2031.
- (v) This note has a maturity of 25 years with nominal value of RM450,000,000 (2015: RM500,000,000), which carries a coupon rate of 7.20% (2015: 7.20%) per annum. The note will mature in October 2025.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

22. BORROWINGS

GROUP	Note	31 December 2016		31 December 2015	
		Due after twelve months RM'000	Due within twelve months RM'000	Due after twelve months RM'000	Due within twelve months RM'000
Loans from Employees Provident Fund ("EPF")					
Unsecured:	22(a)				
Principal		2,500,000	-	2,500,000	1,000,000
Interest		-	28,267	-	30,715
		2,500,000	28,267	2,500,000	1,030,715
Other loans					
Unsecured:	22(b)				
Principal		250,000	156,249	406,248	489,912
Interest		-	9,068	-	16,757
		250,000	165,317	406,248	506,669
Other loans					
Secured:	22(c)				
Principal		-	-	-	169,751
		2,750,000	193,584	2,906,248	1,707,135
Total borrowings			2,943,584		4,613,383
BANK					
Loans from EPF					
Unsecured:	22(a)				
Principal		2,500,000	-	2,500,000	1,000,000
Interest		-	28,267	-	30,715
		2,500,000	28,267	2,500,000	1,030,715
Other loans					
Unsecured:	22(b)				
Principal		250,000	156,249	406,248	489,912
Interest		-	9,068	-	16,757
		250,000	165,317	406,248	506,669
		2,750,000	193,584	2,906,248	1,537,384
Total borrowings			2,943,584		4,443,632

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

22. BORROWINGS (CONT'D.)**(a) Loan from EPF**

		Group and Bank Principal	
	Note	2016 RM'000	2015 RM'000
Loan 1	22(a)(i)	2,000,000	2,000,000
Loan 2	22(a)(ii)	500,000	500,000
Loan 3	22(a)(iii)	-	1,000,000
		2,500,000	3,500,000

- (i) The loan is repayable in 5 equal instalments over a period of 5 years, commencing 2019.
- (ii) The loan is repayable in 10 equal instalments over a period of 5 years, commencing 2024.
- (iii) The loan was drawdown on 5 December 2011 and is repayable via bullet repayment in December 2016. This facility was settled during the current financial year.

All the above loans are guaranteed by the Government of Malaysia and bear interest at rates of 4.518% to 5.225% (2015: 3.746% to 5.225%) per annum.

(b) Other Loans – unsecured:

		Group and Bank Principal	
	Note	2016 RM'000	2015 RM'000
Loan from:			
Japan Bank of International Cooperation	22(b)(i)	56,249	196,160
Pension Trust Fund Council (“PTFC”)	22(b)(ii)	350,000	450,000
Bank of Tokyo Mitsubishi Malaysia Berhad	22(b)(iii)	-	250,000
		406,249	896,160

Included in other loan – unsecured are:

- (i) The IT7 Loan from Japan Bank for International Cooperation (“JBIC”) amounting to RM56,248,500 (¥1,750,000,000) [2015: RM196,160,569 (¥6,102,936,000)] out of total loan facility of RM1,747,580,000 (¥59,000,000,000). This is guaranteed by Government of Malaysia and will mature in March 2017.
- (ii) The Loan from PTFC amounting to RM350,000,000 (2015: RM450,000,000) is repayable in 10 instalments over a period of 6 years, commencing from 2015. This loan will mature in 2020.
- (iii) The Revolving Credit (“RC”) Facility from Bank of Tokyo Mitsubishi Malaysia Berhad amounting to RM250,000,000 was drawdown in 2015 and settled during the current financial year.

The interest rate on other loans – unsecured range from 1.84% to 5.875% (2015: 1.84% to 5.875%) per annum during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

22. BORROWINGS (CONT'D.)**(c) Other Loans – secured:**

	Note	Group Principal	
		2016 RM'000	2015 RM'000
Islamic financing facility	22(c)(i)	-	88,310
Term loans	22(c)(i)	-	77,719
Finance lease liabilities	22(c)(ii)	-	99
Overdrafts	22(c)(iii)	-	3,623
		-	169,751

In prior year, these facilities relates to borrowings undertaken by Borcos:

(i) Islamic financing facility and term loans

The Islamic financing facility and term loans bear profit/interest of 4.10% to 7.85% per annum, repayable monthly and secured by the following:

- (i) negative pledges over the leasehold land of a subsidiary of the Bank;
- (ii) equitable assignment of contract with customers;
- (iii) statutory mortgages over the vessels of the Group; and
- (iv) jointly and severally guaranteed by the Directors of the Group.

(ii) Finance lease liabilities

The hire purchase liabilities bear flat interest rate of 2.50% per annum.

(iii) Overdrafts

Bank overdrafts are denominated in RM, bear interest of 7.0% to 7.5% per annum and secured by deposit placed with licensed banks.

As Borcos has been placed under CVL and the Group has lost control over Borcos, as disclosed in Note 10(b), the borrowings have been derecognised from the Group's consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

23. INFRASTRUCTURE SUPPORT FUND (“ISF”)

	Note	Group and Bank	
		2016 RM'000	2015 RM'000
ISF – Novated loan			
At 1 January/31 December	(i)	303,974	303,974
Infrastructure Support Fund	(ii)		
At 1 January		33,152	63,348
IA made during the financial year against ISF (Note 30)		(9,334)	(11,060)
ISF for CA written back (Note 30)		7	–
Impairment of financial investments made during the financial year against ISF (Note 30)		(25,279)	(21,166)
Recoverable from loan written off against ISF (Note 30)		4,059	2,030
At 31 December		2,605	33,152
		306,579	337,126

- (i) The amount relates to financial assistance given by the Government of Malaysia upon novation of loans and the related borrowing to finance the loans to the Bank. The Fund will be utilised to cover any future losses, costs and expenses incurred by the Bank upon the final settlement of the loans.
- (ii) The amount relates to funds received from the Government to cover losses arising from loan/financing default, any allowance for impairment losses, write-off and other liquidity requirements that may arise from loans given for government infrastructure projects.

24. DEFERRED INCOME

	Group and Bank	
	2016 RM'000	2015 RM'000
At 1 January	239,420	243,977
Utilised during the financial year	(5,409)	(4,557)
At 31 December	234,011	239,420

Deferred income relates to amount received from the government for interest rate differentials on a loan given for a government infrastructure project.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

25. SHARE CAPITAL

	Number of shares		Amount	
	2016 '000	2015 '000	2016 RM'000	2015 RM'000
GROUP AND BANK				
Authorised:				
Ordinary shares of RM1.00 each	10,000,000	10,000,000	10,000,000	10,000,000
Issued and fully paid:				
Ordinary shares of RM1.00 each	3,078,724	3,078,724	3,078,724	3,078,724

26. RESERVES

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Non-distributable:					
Capital reserve	26 (i)	1,000	1,000	-	-
Statutory reserve	26 (ii)	1,910,715	1,897,676	1,910,715	1,897,676
Unrealised AFS reserve	26 (iii)	(6,405)	18,501	(5,887)	18,298
Exchange translation reserve	26 (iv)	(40,776)	163,160	-	-
		1,864,534	2,080,337	1,904,828	1,915,974
Distributable:					
Retained profits	27	2,608,236	2,403,140	2,407,383	2,368,266
		4,472,770	4,483,477	4,312,211	4,284,240

- (i) The capital reserve of the Group arose from the capitalisation of bonus issue in certain subsidiaries in previous financial years.
- (ii) The statutory reserves are maintained in compliance with the requirements of Section 39 of Development Financial Institution Act 2002 ("the Act") and are not distributable as cash dividends. Under the Act, the Bank is required to transfer at least 25% of its profit after tax, as the statutory reserves is more than 50% but less than 100% of its paid up capital.
- (iii) Unrealised AFS reserve represents the cumulative fair value changes, net of tax, of AFS financial assets until they are disposed of or impaired.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

26. RESERVES (CONT'D.)

Movements of the AFS reserve are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	2,185	54,845	1,982	54,845
Reclassification (Note 50)	16,316	16,316	16,316	16,316
At 1 January, restated	18,501	71,161	18,298	71,161
Unrealised loss on fair value changes	(33,092)	(68,138)	(32,143)	(68,409)
Realised gain transferred to profit or loss	-	(2,075)	-	(2,075)
Transfer to deferred tax	8,186	17,553	7,958	17,621
At 31 December	(6,405)	18,501	(5,887)	18,298

(iv) The exchange translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

27. RETAINED EARNINGS

The retained earnings of the Bank can be distributed as dividends under the single-tier system.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

28. INTEREST INCOME

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Loans, advances and financing	933,561	1,082,885	911,014	1,064,372
Compensation from the Government	120,092	115,034	120,092	115,034
Money at call and deposit placements with financial institutions	35,327	45,027	27,217	31,624
Financial investments – AFS	17,047	22,311	17,047	22,311
Financial investments – HTM	-	4,483	-	4,483
	1,106,027	1,269,740	1,075,370	1,237,824
Accretion of discount less amortisation of premium	(499)	13,856	(499)	13,856
	1,105,528	1,283,596	1,074,871	1,251,680
Of which:				
Interest income earned on impaired loans, advances and financing	52,616	72,599	52,354	72,599

29. INTEREST EXPENSE

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Deposits from customers	149,571	108,791	149,571	108,790
Deposits and placements from financial institutions	5,443	6,307	5,443	6,113
Bills and acceptance payable	33,632	27,789	33,632	27,789
Borrowings	176,388	290,358	176,388	292,794
Redeemable notes	85,327	86,242	85,327	86,242
Others	8,896	1,785	8,572	-
	459,257	521,272	458,933	521,728

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

30. NON-INTEREST INCOME

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(a) Other operating income:				
Charter hire income	-	1,478	-	-
	-	1,478	-	-
(b) Investment income:				
Net gain on sale of:				
Financial investments				
- AFS	-	800	-	800
Gross dividends from:				
Financial investments				
- AFS	7,800	9,146	7,800	9,087
	7,800	9,946	7,800	9,887
(c) Other income:				
Fee income	24,907	17,010	20,184	14,539
Rental income:				
- Subsidiaries	-	-	825	824
- Others	2,167	2,289	2,051	2,172
Gain/(loss) on disposal of property, plant and equipment	205	(266)	196	(386)
Loss on disposal of prepaid land lease	-	(218)	-	(218)
Gain on disposal of investment property	-	741	-	741
Gain/(loss) on foreign exchange				
Realised	290	91	-	-
Unrealised	(879)	2,378	(879)	(224)
Others	10,633	2,822	284	7
	37,323	24,847	22,661	17,455
Total non-interest income	45,123	36,271	30,461	27,342

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

31. COMPENSATION FROM/(TO) THE GOVERNMENT

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
IA made during the financial year against ISF	9,334	11,060	9,334	11,060
CA written back during the financial year against ISF	(7)	-	(7)	-
Recoverable from loan written off against ISF	(4,059)	(2,030)	(4,059)	(2,030)
Financial investments impairment made during the financial year against ISF	25,279	21,166	25,279	21,166
	30,547	30,196	30,547	30,196

32. OVERHEAD EXPENSES

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Personnel costs	(i)	79,078	58,928	56,196	51,759
Establishment related expenses	(ii)	17,468	41,661	13,884	13,645
Promotion and marketing expenses	(iii)	2,316	3,935	2,316	3,901
General administrative expenses	(iv)	11,222	9,118	15,806	15,262
		110,084	113,642	88,202	84,567

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

32. OVERHEAD EXPENSES (CONT'D.)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(i) Personnel costs				
Salaries, allowances and bonuses	58,720	43,125	42,842	39,345
Non-executive Directors' fees and remuneration	2,350	1,757	1,696	1,398
Social security cost	322	311	238	204
Pension costs – Defined contribution plan	6,613	6,417	5,260	4,835
Compensation paid on loss of employment	3,803	–	–	–
Other staff related expenses	7,270	7,318	6,160	5,977
	79,078	58,928	56,196	51,759
(ii) Establishment related expenses				
Depreciation:				
Property, plant and equipment	4,134	29,146	3,409	4,238
Investment properties	192	175	51	63
Amortisation of:				
Prepaid lease rental	34	40	34	40
Intangible assets	3,891	3,951	3,720	3,606
Repairs and maintenance of property, plant and equipment	3,507	3,786	1,919	2,077
Information technology expenses	5,710	4,563	4,751	3,621
	17,468	41,661	13,884	13,645
(iii) Promotion and marketing expenses				
Advertisement and publicity	2,316	3,935	2,316	3,901
(iv) General administrative expenses				
General administrative expenses	9,148	7,716	14,900	14,662
Auditors' remuneration:				
– Statutory audit	1,180	840	424	373
– Non-audit services regulatory related services	56	15	30	15
– Other services	681	529	441	212
Property, plant and equipment written off	157	18	11	–
	11,222	9,118	15,806	15,262

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

33. DIRECTORS' FEES AND REMUNERATION

The total remuneration (including benefits-in-kind) of the Directors of the Bank are as follows:

	Remuneration received from the Bank							Remuneration received from Subsidiary Companies			
	Salary RM'000	Fees RM'000	Bonus RM'000	Pension cost RM'000	Other emoluments RM'000	Benefits- in-kind RM'000	Bank total RM'000	Fees RM'000	Other emoluments RM'000	Benefits- in-kind RM'000	Group total RM'000
2016											
Executive Director:											
Mohammed Rafidz bin Ahmed Rasiddi	821	-	90	100	36	9	1,056	-	-	-	1,056
	821	-	90	100	36	9	1,056	-	-	-	1,056
Non-Executive Directors:											
Tan Sri Dato' Sri Dr. Wan Abdul Aziz bin Wan Abdullah Zainul Rahim bin Mohd Zain	-	255	-	-	260	-	515	-	-	-	515
Rosli bin Abdullah Dato' Abdul Rahman bin Md Khalid	-	11	-	-	40	-	51	49	16	-	109
Datuk Engku Nor Faizah Engku Atek Dato' Ir. Hj. Mohamad bin Husin	-	8	-	-	31	-	39	14	6	-	59
Dato' Capt. Haji Ahmad bin Othman	-	57	-	-	137	-	194	-	-	-	194
Datuk Wan Azhar bin Wan Ahmad	-	57	-	-	210	-	267	66	55	-	388
Datuk Jamaludin Nasir	-	57	-	-	195	-	252	70	73	-	395
	-	60	-	-	267	-	327	180	125	-	632
	-	4	-	-	3	-	7	-	-	-	7
	-	517	-	-	1,179	-	1,696	379	275	-	2,350
Total	821	517	90	100	1,215	9	2,752	379	275	-	3,406

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

33. DIRECTORS' FEES AND REMUNERATION (CONT'D.)

The total remuneration (including benefits-in-kind) of the Directors of the Bank are as follows: (cont'd.)

	Remuneration received from the Bank							Remuneration received from Subsidiary Companies			Group total RM'000
	Salary RM'000	Fees RM'000	Bonus RM'000	Pension cost RM'000	Other emoluments RM'000	Benefits- in-kind RM'000	Bank total RM'000	Fees RM'000	Other emoluments RM'000	Benefits- in-kind RM'000	
2015											
Executive Director:											
Mohammed Rafidz bin Ahmed Rasiddi	423	-	-	49	18	4	494	-	-	-	494
	423	-	-	49	18	4	494	-	-	-	494
Non-Executive Directors:											
Tan Sri Dato' Sri Dr. Wan Abdul Aziz bin Wan Abdullah	-	198	-	-	140	-	338	-	-	-	338
Zainul Rahim bin Mohd Zain	-	36	-	-	150	-	186	-	-	-	186
Rosli bin Abdullah	-	36	-	-	164	-	200	152	94	-	446
Datuk Nozirah binti Bahari	-	34	-	-	152	-	186	-	-	-	186
Dato' Abdul Rahman bin Md Khalid	-	33	-	-	158	-	191	30	31	-	252
Datuk Engku Nor Faizah Engku Atek	-	33	-	-	38	-	71	-	-	-	71
Dato' Ir. Hj. Mohamad bin Husin	-	24	-	-	44	-	68	15	12	-	95
Dato' Capt. Haji Ahmad bin Othman	-	24	-	-	40	-	64	15	10	-	89
Datuk Wan Azhar bin Wan Ahmad	-	24	-	-	70	-	94	-	-	-	94
	-	442	-	-	956	-	1,398	212	147	-	1,757
Total	423	442	-	49	974	4	1,892	212	147	-	2,251

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

34. COMPENSATION TO KEY MANAGEMENT PERSONNEL

Key management personnel are defined as Directors of the Bank, executive and non-executive having authority and responsibility for planning, directing and controlling the activities of the Group and the Bank directly or indirectly. The remuneration and compensation of the Directors of the Bank during the financial year are as follows:

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Short term employee benefits' (excluding benefits-in-kind)	33	3,397	2,247	2,743	1,888

Included in the above are:

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Executive Director's remuneration (excluding benefits-in-kind)	33	1,047	490	1,047	490

35. ALLOWANCES FOR/(WRITEBACK OF) IMPAIRMENT LOSSES OF LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Individual allowances ("IA"):				
Made during the financial year	716,895	241,257	687,648	217,221
Written back	(115,905)	(75,853)	(95,771)	(37,937)
Transferred from CA	350,922	64,260	350,922	64,260
Transferred to CA	(22,317)	(21,933)	(22,317)	(21,933)
Balance carried forward	929,595	207,731	920,482	221,611

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

35. ALLOWANCES FOR/(WRITEBACK OF) IMPAIRMENT LOSSES OF LOANS, ADVANCES AND FINANCING (CONT'D.)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Balance brought forward	929,595	207,731	920,482	221,611
Collective allowances ("CA"):				
Made during the financial year	111,939	272,260	73,225	272,356
Written back	(5,178)	(14,748)	-	(9,473)
Transferred to IA	(350,922)	(64,260)	(350,922)	(64,260)
Transferred from IA	22,317	21,933	22,317	21,933
Bad debts and financing:				
Written off	9,002	1,684	8,673	1,684
Recovered	(77,181)	(31,469)	(73,741)	(22,459)
	639,572	393,131	600,034	421,392

36. ALLOWANCES FOR/(WRITEBACK OF) IMPAIRMENT LOSSES ON OTHER ASSETS

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Financial investments – AFS	-	(800)	-	-
Financial investments – HTM	25,279	21,166	25,279	21,166
Investments in subsidiaries	-	-	91,172	172,884
Amount due from subsidiaries	-	-	-	(3,462)
Interest in JVs	-	6,950	-	-
Advance to JVs	-	12,566	-	-
Interest in associates	(1,456)	(163)	-	-
Amount due from associates	-	457	-	-
Trade receivables	1,103	-	-	-
Amount due from resigned staff				
- written off	-	47	-	47
- written back	(32)	(329)	(32)	(329)
	24,894	39,894	116,419	190,306

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

37. TAXATION

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Income tax expense:				
Current income tax	76,598	111,511	54,740	90,713
(Over)/under provision in prior years	(668)	2,363	3,428	626
	75,930	113,874	58,168	91,339
Deferred tax expense:				
Origination and reversal of temporary differences	(9,452)	3,405	196	6,455
Under/(over) provision in prior year	1,965	(2,529)	583	(7,398)
	(7,487)	876	779	(943)
Real property gains tax paid/(refunded) on disposal of investment properties	-	230	-	230
	68,443	114,980	58,947	90,626

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

37. TAXATION (CONT'D.)

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

Reconciliation of effective taxation

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit before taxation and zakat	207,563	406,414	125,658	228,120
Tax using Malaysian tax rate of 24% (2015: 25%)	49,815	31,208	30,158	57,030
Income not subject to tax	(99,567)	(10,681)	(4,459)	(9,085)
Effect of share of result of JVs	-	155	-	-
Non-deductible expenses	82,459	40,441	29,237	49,223
Deferred tax assets not recognised during the year	34,439	53,818	-	-
Utilisation of previously unrecognised capital allowances and tax losses	-	(25)	-	-
	67,146	114,916	54,936	97,168
Under/(over) provision of deferred tax in prior years	1,965	(2,529)	583	(7,398)
(Over)/under provision of income tax in prior years	(668)	2,363	3,428	626
Real property gains tax paid on disposal of investment properties	-	230	-	230
Taxation	68,443	114,980	58,947	90,626

38. DIVIDENDS

Dividends recognised in the current year by the Bank are:

	2016		2015	
	Sen per share	Total amount RM'000	Sen per share	Total amount RM'000
Final 2014 ordinary, net of tax	-	-	1.20	37,000
	-	-	1.20	37,000

No dividend was declared or paid for the financial year ended 31 December 2015.

At the forthcoming Annual General Meeting, a final single tier tax exempt dividend in respect of the financial year ended 31 December 2016, of 3.25% on 3,078,724,049 ordinary shares, amounting to a dividend payable of RM100,000,000 (3.25 sen net per ordinary share) will be proposed for the shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

39. EARNINGS PER SHARE (“EPS”)

The basic EPS of the Group and the Bank are calculated by dividing the net profit for the financial year attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2016	2015
Profit/(loss) attributable to equity holders of the Bank (RM'000)		
– continuing operations	119,281	293,439
– discontinued operations	98,854	(282,431)
	218,135	11,008
Number of ordinary shares in issue ('000)	3,078,724	3,078,724
Basic EPS (sen) for:		
– continuing operations	3.87	9.53
– discontinued operations	3.21	(9.17)
	7.08	0.36

40. COMMITMENTS AND CONTINGENCIES

(a) Loan and financing related commitments and contingencies of the Group and the Bank which are not included in these financial statements are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Disbursement of loans to industries	7,036,816	3,792,729	6,821,827	3,459,984
Direct credit substitutes	–	27,170	–	27,170
Secured guarantees on behalf of borrowers given to third parties	1,314,598	1,318,399	1,314,598	1,318,399
	8,351,414	5,138,298	8,136,425	4,805,553

The above corporate guarantees issued by a subsidiary to financial institutions related to contingent liability on corporate guarantees based on the outstanding balances of the credit facilities granted to JVs.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

40. COMMITMENTS AND CONTINGENCIES (CONT'D.)

(b) Capital commitments of the Group and the Bank which are not included in these financial statements are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Capital expenditure:				
Approved but not contracted for	10,128	6,374	10,128	6,374
Approved but not contracted for investment	-	172,740	-	-

41. CAPITAL ADEQUACY**Capital management**Capital policy

The overall objective of capital management is to maintain a strong capital position in order to provide opportunities for business growth and to provide cushion for any potential losses. In line with this objective, the Bank views capital position as an important key barometer of financial health.

Regulatory capital

In order to support its mandated roles, the Bank must have strong and adequate capital to support its business activities on an on-going basis. In line with this objective, Bank Negara Malaysia has imposed several regulatory capital requirements whereby, the Bank must have an absolute minimum capital of RM300,000,000 and a minimum Risk Weighted Capital Ratio ("RWCR") of 8% at all times. The minimum capital funds refer to paid-up capital and reserves as defined in Section 3 of Development Financial Institution Act 2002.

In order to further strengthen the capital position of the Bank through a progressive and systematic building up of the reserve fund, the minimum RWCR under both normal and stress scenarios shall not be less than 20% and 12% respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

41. CAPITAL ADEQUACY (CONT'D.)**Capital management (cont'd.)**Regulatory capital (cont'd.)

The following table sets forth capital resources and capital adequacy for the Bank as at reporting date.

	Bank	
	2016 RM'000	2015 RM'000
Tier 1 capital		
Paid-up share capital	3,078,724	3,078,724
Other reserves	4,312,211	4,265,942
Total Tier 1 capital	7,390,935	7,344,666
Tier 2 capital		
Government support funds	540,590	576,546
Collective allowance*	647,023	823,305
Total Tier 2 capital	1,187,613	1,399,851
Total capital	8,578,548	8,744,517
Less: Investment in subsidiaries	(389,051)	(480,859)
Total capital base	8,189,497	8,263,658

* The eligible amount for Tier 2 capital is after excluding CA on impaired loans, advances and financing of the Bank.

Breakdown of risk-weighted assets in the various categories of risk-weights:

	Bank	
	2016 RM'000	2015 RM'000
20%	215,197	239,420
50%	1,694,456	821,641
100%	21,727,110	20,379,230
	23,636,763	21,440,291

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

41. CAPITAL ADEQUACY (CONT'D.)**Capital management (cont'd.)**Regulatory capital (cont'd.)

Without deducting proposed dividend:

	Bank	
	2016 %	2015 %
Core capital ratio	31.269	34.256
RWCR	34.647	38.543
After deducting proposed dividend:		
Core capital ratio	30.846	34.256
RWCR	34.224	38.543

Capital monitoring

The Bank's capital is closely monitored and actively managed. Besides the regulatory capital requirement of 8%, the Bank sets an internal capital requirement limit that would act as a buffer to the regulatory capital and as an indicator that affords the Bank a "well capitalised" status. Internal capital limit and regulatory capital requirement shall be closely monitored, regularly reviewed and reported to Management and Board of Directors.

42. OTHER CONTINGENCIES**Contingent liabilities not considered remote litigation (unsecured)****Subsidiary of the Bank**

A subsidiary is being sued by a client alleging that the subsidiary has failed to exercise due diligence and duty of care in foreclosing the client's collateral. The client alleged to have suffered significant loss and has applied the Interlocutory Injunction from the Court to refrain the subsidiary from foreclosing the remaining collateral value of RM3.0 million. Mediation which was conducted on 5 February 2015 failed to reach an amicable settlement. Full trial held from 20 March 2017 to 23 March 2017, with 4 witnesses testified before the Court on behalf of the subsidiary. Trial has been concluded pending the submission of the bundle simultaneously by both parties before 30 May 2017 and the reply to the submission before 16 June 2017.

The defendant has closed the case on 23 March 2017. The Judge has given a date for both parties to file their submission simultaneously on 30 May 2017 and each parties has opportunity to reply to the other party submission on 16 January 2017. The decision date however, is yet to given by the Judge and will only be informed by Court at a later date.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

43. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

For the purpose of these financial statements, parties are considered to be related to the Group if the Group or the Bank has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Bank and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Government of Malaysia (“GOM”) is a shareholder with significant influence on the Bank, with direct shareholding of 99.99% (2015: 99.99%). GOM and entities directly controlled by GOM are collectively referred to as government-related entities to the Group and the Bank.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Bank either directly or indirectly. The key management personnel includes all the Directors of the Bank as disclosed in Note 34.

The Group has related party relationships with its substantial shareholders, subsidiaries, associates and key management personnel.

Related party transactions have been entered into in the normal course of business under normal trade terms. The Group established credit policies, pricing strategy and approval process for loans, which are independent of whether the counterparties are government-related entities or not. The significant related party transactions and balances of the Group and the Bank are as follows:

43.1 Significant balances and transactions with a significant shareholder(a) Significant balances with a significant shareholder

	Group and Bank	
	2016 RM'000	2015 RM'000
<u>Other assets</u>		
Amount receivable from Government in respect of compensation for:		
Foreign exchange differences	85,361	85,361
Infrastructure projects	46,819	46,956

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

43. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D.)

43.1 Significant balances and transactions with a significant shareholder (cont'd.)

(b) Significant transactions with a significant shareholder

	Group and Bank	
	2016 RM'000	2015 RM'000
<u>Conventional</u>		
Interest compensation from Government of Malaysia	120,092	115,034
Compensation from Government of Malaysia:		
– IA made during the financial year against ISF	9,334	11,060
– ISF for CA written back	(7)	–
– recoverable from loan written off against ISF	(4,059)	(2,030)
– impairment of financial investments made during the financial year against ISF	25,279	21,166
<u>Islamic</u>		
Profit compensation from Government of Malaysia	16,289	15,017
Fee income from Unit Kerjasama Awam Swasta (“UKAS”)	7,693	5,000

43.2 Significant balances and transactions with a significant shareholder’s linked companies and bodies

(a) Significant balances with a significant shareholder’s linked companies and bodies

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Assets				
Short term deposits	1,102,692	1,274,131	850,380	1,013,498
Deposits and placements with financial institution	–	51,672	–	–
Financial investments				
– AFS	3,667,451	1,986,905	3,663,793	1,982,433
Financial investments				
– HTM	185,744	184,489	185,722	184,467

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

43. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D.)**43.2 Significant balances and transactions with a significant shareholder's linked companies and bodies (cont'd.)**(a) Significant balances with a significant shareholder's linked companies and bodies (cont'd.)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Liabilities				
Deposits from customers	9,750,551	7,752,319	9,750,551	7,752,319
Deposits and placements from financial institutions	10,002	445,640	10,002	445,640
Redeemable notes	5,920,316	4,352,888	5,920,316	4,352,888
Bills and acceptance payable	-	1,742,193	-	1,742,193
Borrowings	2,887,055	3,991,868	2,887,055	3,991,868
ISF	306,579	337,126	306,579	337,126
Deferred income	234,011	239,420	234,011	239,420

(b) Significant transactions with a significant shareholder's linked companies and bodies

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<u>Conventional</u>				
Income				
Money at call and deposit placements with financial institutions	24,882	40,285	16,690	26,775
Financial investments				
– AFS	16,202	21,785	16,202	21,785
Financial investments				
– HTM	-	4,483	-	4,483
Amortisation of premium less accretion of discount	(499)	13,856	(499)	13,856
Dividend from Unit Trust	7,800	7,307	7,800	7,248
Rental income	2,175	2,289	2,051	2,172
Expenses				
Interest expense on:				
Deposits from customers and financial institutions	(155,014)	(115,098)	(155,014)	(114,904)
Borrowings	(187,147)	(302,807)	(176,388)	(283,379)
Redeemable notes	(33,632)	(86,242)	(33,632)	(86,242)
Bills and acceptance payable	(85,327)	(27,789)	(85,327)	(27,789)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

43. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D.)

43.2 Significant balances and transactions with a significant shareholder's linked companies and bodies (cont'd.)

(b) Significant transactions with a significant shareholder's linked companies and bodies (cont'd.)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<u>Islamic</u>				
Income				
Finance income from deposits and placements with financial institutions	21,507	28,098	20,133	27,529
Financial investments				
– AFS	92,198	24,733	92,198	24,733
Financial investments				
– HTM	4,264	1,942	4,264	1,942
Accretion of discount less amortisation of premium	27,015	10,757	27,015	10,757
Expenses				
Income attributable to the depositors:				
Deposits from customers and financial institutions	(213,343)	(176,810)	(213,343)	(176,810)
Redeemable notes	(161,596)	(160,430)	(161,596)	(160,430)

43.3 Significant balances and transactions with subsidiaries, associates and JVs

(a) Significant balances with subsidiaries, associates and JVs

	Bank	
	2016 RM'000	2015 RM'000
<u>Conventional</u>		
Loans to subsidiaries	18	47,647
Payment on behalf of subsidiary	708	1,603

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

43. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D.)**43.3 Significant balances and transactions with subsidiaries, associates and JVs (cont'd.)**(b) Significant transactions with subsidiaries, associates and JVs

	Bank	
	2016 RM'000	2015 RM'000
<u>Conventional</u>		
Income		
Interest income from loan to subsidiaries	-	2,969
Rental income from subsidiaries	825	824
Fee Income from subsidiaries	1,029	1,093
Expenses		
Management fee expense from subsidiaries	(12)	(12)
<u>Islamic</u>		
Income		
Profit from financing to subsidiaries	-	327

43.4 Significant balances and transactions with Group's related parties(a) Significant balances with the Group's related parties

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Other assets				
Trade receivables due from related parties	101,277	31,541	-	-
Other liabilities				
Trade payables due to related parties	2	187	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

43. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D.)**43.4 Significant balances and transactions with Group's related parties (cont'd.)**(b) Significant transactions with Group's related parties

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Income				
Dividend from quoted shares				
– AFS	-	1,839	-	1,839

The credit exposures above are based on paragraph 9.1 of BNM revised Guidelines on Credit Transactions and Exposures with related parties as follows:

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

Credit transactions and exposures to connected parties as disclosed above include the extension of credit facilities and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and loan commitments.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

44. ASSETS CLASSIFIED AS HELD FOR SALE

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
As at 1 January		394,541	18,534	367	-
Disposed during the financial year	(i)	-	(18,534)	-	-
Transfer from property, plant and equipment	(ii)	-	394,174	-	-
Transfer from/(to) investment properties	(iii)	2,519	367	(367)	367
Impairment of vessel		(89,667)	-	-	-
Deconsolidation of subsidiary		(304,507)	-	-	-
As at 31 December		2,886	394,541	-	367

- (i) The vessel was classified as non-current assets held for sale in 2013. Memorandum of Agreements were signed in 2014 between the purchaser and the subsidiary, however, the risks and rewards were not transferred to the purchaser as at 31 December 2014. All conditions precedent for the disposal were satisfied during the year.
- (ii) These vessels belong to Borcos Group and were classified under asset held for sale in prior year, as there was an active plan to identify buyers for disposal. During the year, the Group made an additional impairment of RM89,667,000 on the vessels. The amount was deconsolidated from the Group's financial statements as Borcos was placed under CVL on 22 December 2016, as disclosed in Note 10(b).
- (iii) The investment properties were classified as non-current assets held for sale in 2015. The Sales and Purchase Agreement was signed between the purchaser and the Bank in 2015. However, the sale agreement could not be perfected as the investment properties are on a reserve land and the state government did not approve the sale of the investment properties. The properties have been transferred back to investment properties of the Group and of the Bank.
- (iv) The investment property were classified as non-current assets held for sale during the year. Sales and Purchase Agreement was signed between the purchaser and the Group as at year end.

45. SUBSEQUENT EVENT

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

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

- (a) Removal of the authorised share capital; and
- (b) Shares of the Bank will cease to have par or nominal value.

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

46. COMPANIES IN THE GROUP

(a) The subsidiaries, all incorporated in Malaysia, are as follows:

Subsidiary	Effective interest held by the Bank		Principal Activities
	2016 %	2015 %	
BPMB Urus Harta Sdn Bhd	100.00	100.00	Dormant
Emerald Upline Sdn Bhd	100.00	100.00	Ship-owning
Global Maritime Ventures Berhad ("GMVB")	90.00	90.00	Venture capital investment
Maju Nominees (Tempatan) Sdn Bhd	100.00	100.00	Nominee for the holding company
Pembangunan Ekuiti Sdn Bhd	54.80	54.80	Dormant
Pembangunan Leasing Corporation Sdn Bhd	100.00	100.00	Lease, hire purchase financing, factoring, block discounting and investment holding
SME GAF	100.00	100.00	Venture capital investment

(b) Details of subsidiary companies of GMVB, all of which are incorporated in Malaysia, are as follows:

Subsidiary	Effective interest held by the Bank		Principal Activities
	2016 %	2015 %	
Mutiara Navigation Sdn Bhd	63.00	63.00	Dormant
Intan Navigation Sdn Bhd	63.00	63.00	Dissolved
Nilam Navigation Sdn Bhd	63.00	63.00	Dormant
Kasa Navigation Sdn Bhd	63.00	63.00	Dissolved
Mayang Navigation Sdn Bhd	63.00	63.00	Dissolved
Sari Navigation Sdn Bhd	63.00	63.00	Dormant

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

46. COMPANIES IN THE GROUP (CONT'D.)

(b) Details of subsidiary companies of GMVB, all of which are incorporated in Malaysia, are as follows: (cont'd.)

Subsidiary	Effective interest held by the Bank		Principal Activities
	2016 %	2015 %	
Tiara Navigation Sdn Bhd	63.00	63.00	Dissolved
Glory Incentive Sdn Bhd	90.00	90.00	Investment holding
GMV-ALAM Sdn Bhd	90.00	90.00	Investment holding
GMV-Bahtera Sdn Bhd	90.00	90.00	Investment holding
GMV-Borcos Sdn Bhd	90.00	90.00	Investment holding
GMV-Gagasan Sdn Bhd	90.00	90.00	Investment holding
GMV-Global Sdn Bhd	90.00	90.00	Investment holding
GMV-Efogen Sdn Bhd	90.00	90.00	Investment holding
GMV-Jasa Sdn Bhd	90.00	90.00	Investment holding
GMV-Omni Sdn Bhd	90.00	90.00	Investment holding
GMV-Regional Sdn Bhd	90.00	90.00	Dormant
GMV-Orkim Sdn Bhd	90.00	90.00	Investment holding
GMV-Offshore Sdn Bhd	90.00	90.00	Investment holding

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

46. COMPANIES IN THE GROUP (CONT'D.)

(c) Details of subsidiary companies of Glory Incentive Sdn Bhd (GISB), all of which are incorporated in Malaysia, are as follows:

Subsidiary	Effective interest held by the Bank		Principal Activities
	2016 %	2015 %	
Permata Navigation Sdn Bhd	63.00	63.00	Dormant
Gemala Navigation Sdn Bhd	63.00	63.00	Dormant
Ratna Navigation Sdn Bhd	63.00	63.00	Dormant
Kencana Navigation Sdn Bhd	63.00	63.00	Dormant
Ayu Navigation Sdn Bhd	63.00	63.00	Dormant

(d) Details of a subsidiary company of GMV-Borcors Sdn Bhd, which is incorporated in Malaysia, are as follows:

Subsidiary	Effective interest held by the Bank		Principal Activities
	2016 %	2015 %	
Syarikat Borcos Shipping Sdn Bhd @ *	-	90.00	Creditors' Voluntary Liquidation

(e) Details of subsidiary companies of Syarikat Borcos Shipping Sdn Bhd, all of which are incorporated in Malaysia (except for #), are as follows:

Subsidiary	Effective interest held by the Bank		Principal Activities
	2016 %	2015 %	
Wijaya Navigation Sdn Bhd	90.00	90.00	Dormant
Borcors Tasneem Offshore Ltd @	90.00	90.00	Vessel chartering
Borcors Firdaus Marine Offshore Ltd @	90.00	90.00	Vessel chartering
Borcors SSV Marine Offshore Ltd @	90.00	90.00	Vessel chartering

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

46. COMPANIES IN THE GROUP (CONT'D.)

- (e) Details of subsidiary companies of Syarikat Borcos Shipping Sdn Bhd, all of which are incorporated in Malaysia (except for #), are as follows: (cont'd.)

Subsidiary	Effective interest held by the Bank		Principal Activities
	2016 %	2015 %	
Borcos Franklin Offshore Mooring Sdn Bhd	45.90	45.90	Dormant
Cendana Lagenda Sdn Bhd @	90.00	90.00	Vessel chartering
P.T. Borcos Nusantarajaya # @	90.00	90.00	Vessel chartering

- (f) Details of a subsidiary company of GMV-Global Sdn Bhd, which is incorporated in Malaysia, are as follows:

Subsidiary	Effective interest held by the Bank		Principal Activities
	2016 %	2015 %	
Bahtera Berlian Sdn Bhd	100.00	100.00	Ship-management

- (g) Details of subsidiary companies of Pembangunan Leasing Corporation Sdn Bhd ("PLC"), all of which are incorporated in Malaysia, are as follows:

Subsidiary	Effective interest held by the Bank		Principal Activities
	2016 %	2015 %	
PLC Credit & Factoring Sdn Bhd	100.00	100.00	Hire purchase financing, confirming and factoring, insurance agency
BI Credit & Leasing Berhad	100.00	100.00	Credit and leasing

Incorporated in Indonesia. Audited by firms of auditors other than Ernst & Young, Malaysia.

@ The financial statements of the subsidiary for the financial year ended 31 December 2016 was prepared on a basis other than that of a going concern basis as it is the intention of the Company to cease operations upon disposal of the subsidiary's assets.

@ * Placed under creditors voluntary liquidation during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK

Financial risk management objectives and policies

The Group's and the Bank's financial risk management policies seek to enhance shareholder value. The Group and the Bank focus on the enterprise wide risk exposure, which include credit, market, liquidity and operational risk and seek to minimise potential adverse effects on the financial performance of the Group and the Bank. As part of the Group's and the Bank's strategy to integrate the management and control of risks across the various risk segments, a dedicated function known as the Group Risk Management had been established.

Financial risk management is carried out through risk assessment and reviews, internal control systems and adherence to Group financial risk management policies, which are reported to and approved by the Board of Directors. The Board also approves the treasury policies, which cover the management of these risks.

The main areas of financial risks faced by the Group are set out as follows:

(a) Credit risk

Credit risk is the potential loss of revenue, either principal or interest or both, arising from customers or counterparties' failure or unwillingness to honour their financial and contractual obligations when they are due. These obligations are from lending, placement and other activities undertaken by the Bank.

Credit risk management activities conducted by the Bank are within Credit Risk Management Framework approved by the Board of Directors. This includes risk identification, assessment, measurement and monitoring.

Credit risk is principally managed through the establishment of lending directions, risk appetite and policies and guidelines to enhance loan asset quality. Credit processes are structured to ensure adherence to credit policies and to establish impartiality in loan/financing origination, approval, documentation, disbursement and settlement.

All credit proposals are rated using an internal two dimensional credit rating system to measure each borrower's risk of default and facility risk. Only viable credit proposals with well-mitigated risk are considered for financing.

Credit reviews on existing customers are performed at least once a year and more frequent on watch-list accounts to proactively manage any delinquencies, maximise recoveries and to ensure timely recognition of asset impairment.

Prudential limits are established according to various categories such as customer and industry sector to minimise concentration risk. Single Customer Limit ("SCL") has been extended to capture the Group exposure to manage the Bank's and subsidiaries' concentration risk to common group of customers at group level.

Sector limit for commercial lending is being observed to monitor undesirable concentration which could expose the Bank to higher risk of lending. Meanwhile, counterparty limits are in place to control over exposure to a single financial institution.

Collateral is taken whenever possible to mitigate credit risk. The value of collateral is monitored periodically through updated valuation. Policies and processes are in place to monitor collateral value.

The overall credit risk management is subject to an ongoing process for reviewing and enhancement from time to time so as to be in line with regulatory requirements. Audit is periodically performed by the Group Internal Audit to ensure that credit policies and procedures are complied with.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)**(a) Credit risk (cont'd.)****(i) Credit exposure**

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
On balance sheet:					
Cash and short term deposits	4	1,295,499	1,419,525	1,028,268	1,126,210
Deposits and placements with financial institutions	5	-	51,672	-	-
Financial investments					
– AFS	6	3,697,485	2,099,063	3,693,962	2,094,592
Financial investments					
– HTM	7	185,744	184,489	185,722	184,467
Loans, advances and financing	8	21,210,083	22,757,349	21,006,098	22,572,456
Other assets	9	318,440	230,968	208,108	167,999
		26,707,251	26,743,066	26,122,158	26,145,724
Other assets not subject to credit risk		153,741	554,563	495,950	589,842
		26,860,992	27,297,629	26,618,108	26,735,566
Off balance sheet:					
Commitments and contingencies	40(a)	8,351,414	5,138,298	8,136,425	4,805,553
		35,212,406	32,435,927	34,754,533	31,541,119

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)

(a) Credit risk (cont'd.)

(ii) The following table sets out the credit risk concentration by economic sectors:

GROUP 2016	Short-term deposits, and placements with financial institutions	Financial investments -FVTPL	Financial investments -HTM	Financial investments -AFS	Loans, advances and financing	Other assets	Total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
	Agriculture, hunting and forestry	-	-	-	-	5,756	-	5,756
Construction	-	-	31,671	646,004	10,533,104	-	11,210,779	6,252,227
Education	-	-	-	-	1,932,235	-	1,932,235	194,692
Electrical, gas and water supply	-	-	100,368	266,438	2,008,155	-	2,374,961	119,500
Finance, insurance and business	1,295,499	-	53,705	2,085,999	57,048	-	3,492,251	195,964
Hotel and restaurants	-	-	-	-	1,192,330	-	1,192,330	610,067
Housing	-	-	-	-	8,330	-	8,330	-
Manufacturing	-	-	-	-	211,120	-	211,120	75,938
Marine related	-	-	-	-	-	-	-	-
Material technology	-	-	-	-	5,502	-	5,502	-
Medical and pharmaceuticals	-	-	-	-	13,596	-	13,596	-
Mining and quarrying	-	-	-	-	433	-	433	-
Other community, social and personal service activities	-	-	-	-	183,764	-	183,764	4,191
Public administration and defence	-	-	-	-	36,918	-	36,918	-
Real estate, renting and business activities	-	-	-	569,362	496,750	-	1,066,112	-
Shipping	-	-	-	129,682	807,841	-	937,523	3,775
Shipyard	-	-	-	-	199,517	-	199,517	-
Transport, storage and communications	-	-	-	-	3,517,684	-	3,517,684	895,060
Others	-	-	-	-	-	318,440	318,440	-
	1,295,499	-	185,744	3,697,485	21,210,083	318,440	26,707,251	8,351,414
Other assets not subject to credit risk	-	-	-	-	-	153,741	153,741	-
	1,295,499	-	185,744	3,697,485	21,210,083	472,181	26,860,992	8,351,414

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)**(a) Credit risk (cont'd.)****(ii) The following table sets out the credit risk concentration by economic sectors: (cont'd.)**

GROUP	Short-term deposits, and placements with financial institutions	Financial investments -FVTPL	Financial investments -HTM	Financial investments -AFS	Loans, advances and financing	Other assets	Total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2015								
Agriculture, hunting and forestry	-	-	-	-	6,258	-	6,258	-
Construction	-	-	31,693	452,728	11,001,231	-	11,485,652	3,682,098
Education	-	-	-	-	1,801,432	-	1,801,432	506,602
Electrical, gas and water supply	-	-	100,805	41,582	2,085,458	-	2,227,845	3,870
Finance, insurance and business	1,471,197	-	51,991	1,335,595	45,595	-	2,904,378	3,957
Hotel and restaurants	-	-	-	-	1,121,304	-	1,121,304	393,292
Housing	-	-	-	-	10,081	-	10,081	-
Manufacturing	-	-	-	-	198,266	-	198,266	286,465
Marine related	-	-	-	-	6,569	-	6,569	7,178
Material technology	-	-	-	-	6,028	-	6,028	-
Medical and pharmaceuticals	-	-	-	-	14,029	-	14,029	-
Mining and quarrying	-	-	-	-	883	-	883	595
Other community, social and personal service activities	-	-	-	-	174,775	-	174,775	14,067
Public administration and defence	-	-	-	-	44,790	-	44,790	9,763
Real estate, renting and business activities	-	-	-	121,081	874,394	-	995,475	-
Shipping	-	-	-	148,077	1,145,671	-	1,293,748	59,685
Shipyard	-	-	-	-	185,353	-	185,353	104,848
Transport, storage and communications	-	-	-	-	4,035,232	-	4,035,232	65,878
Others	-	-	-	-	-	230,968	230,968	-
	1,471,197	-	184,489	2,099,063	22,757,349	230,968	26,743,066	5,138,298
Other assets not subject to credit risk	-	-	-	-	-	554,563	554,563	-
	1,471,197	-	184,489	2,099,063	22,757,349	785,531	27,297,629	5,138,298

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)

Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(ii) The following table sets out the credit risk concentration by economic sectors: (cont'd.)

BANK 2016	Short-term deposits, and placements with financial institutions	Financial investments -HTM	Financial investments -AFS	Loans, advances and financing	Other assets	Total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Construction	-	31,671	646,004	10,530,173	-	11,207,848	6,247,845
Education	-	-	-	1,932,235	-	1,932,235	194,692
Electrical, gas and water supply	-	100,368	266,438	2,008,155	-	2,374,961	119,500
Finance, insurance and business	1,028,268	53,683	2,082,476	-	-	3,164,427	-
Hotel and restaurants	-	-	-	1,144,509	-	1,144,509	605,337
Housing	-	-	-	8,330	-	8,330	-
Manufacturing	-	-	-	202,034	-	202,034	71,347
Marine related	-	-	-	-	-	-	-
Material technology	-	-	-	5,502	-	5,502	-
Medical and pharmaceuticals	-	-	-	13,596	-	13,596	-
Other community, social and personal service activities	-	-	-	181,831	-	181,831	4,023
Public administration and defence	-	-	-	36,918	-	36,918	-
Real estate, renting and business activities	-	-	-	487,574	-	487,574	-
Shipping	-	-	129,682	807,841	-	937,523	3,775
Shipyards	-	-	569,362	199,517	-	768,879	-
Transport, storage and communications	-	-	-	3,447,883	-	3,447,883	889,906
Others	-	-	-	-	208,108	208,108	-
	1,028,268	185,722	3,693,962	21,006,098	208,108	26,122,158	8,136,425
Other assets not subject to credit risk	-	-	-	-	495,950	495,950	-
	1,028,268	185,722	3,693,962	21,006,098	704,058	26,618,108	8,136,425

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)**(a) Credit risk (cont'd.)****(ii) The following table sets out the credit risk concentration by economic sectors: (cont'd.)**

BANK	Short-term deposits, and placements with financial institutions	Financial investments -HTM	Financial investments -AFS	Loans, advances and financing	Other assets	Total	Commitments and contingencies
2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Construction	-	31,671	452,728	10,998,318	-	11,482,717	3,669,037
Education	-	-	-	1,801,432	-	1,801,432	489,529
Electrical, gas and water supply	-	100,805	41,582	2,085,457	-	2,227,844	1,875
Finance, insurance and business	1,126,210	51,991	1,331,124	-	-	2,509,325	-
Hotel and restaurants	-	-	-	1,086,789	-	1,086,789	188,732
Housing	-	-	-	10,081	-	10,081	-
Manufacturing	-	-	-	175,654	-	175,654	254,498
Marine related	-	-	-	6,568	-	6,568	7,178
Material technology	-	-	-	6,028	-	6,028	-
Medical and pharmaceuticals	-	-	-	14,030	-	14,030	-
Other community, social and personal service activities	-	-	-	148,589	-	148,589	13,163
Public administration and defence	-	-	-	44,790	-	44,790	9,763
Real estate, renting and business activities	-	-	121,081	874,394	-	995,475	-
Shipping	-	-	148,077	1,192,992	-	1,341,069	59,685
Shipyards	-	-	-	185,353	-	185,353	104,848
Transport, storage and communications	-	-	-	3,941,981	-	3,941,981	7,245
Others	-	-	-	-	167,999	167,999	-
	1,126,210	184,467	2,094,592	22,572,456	167,999	26,145,724	4,805,553
Other assets not subject to credit risk	-	-	-	-	589,842	589,842	-
	1,126,210	184,467	2,094,592	22,572,456	757,841	26,735,566	4,805,553

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)

(a) Credit risk (cont'd.)

(iii) Gross loans, advances and financing are rated based on internal rating by the Bank:

	2016				2015			
	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Total RM'000	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Total RM'000
GROUP								
High Quality	-	-	-	-	5,468,634	-	-	5,468,634
Upper-medium grade	4,355,971	1,040	-	4,357,011	413,354	2,568	-	415,922
Medium grade	5,271,679	22,485	-	5,294,164	7,250,580	37,222	-	7,287,802
Speculative	8,798,445	19,896	-	8,818,341	7,496,654	39,912	-	7,536,566
Considered speculative	1,814,995	10,366	-	1,825,361	1,520,567	45,115	-	1,565,682
Poor standing	205,812	-	-	205,812	11,732	-	-	11,732
Impaired	-	-	3,623,124	3,623,124	-	-	2,794,395	2,794,395
	20,446,902	53,787	3,623,124	24,123,813	22,161,521	124,817	2,794,395	25,080,733
BANK								
High Quality	-	-	-	-	5,468,634	-	-	5,468,634
Upper-medium grade	4,338,187	-	-	4,338,187	407,615	-	-	407,615
Medium grade	5,169,871	-	-	5,169,871	7,147,674	-	-	7,147,674
Speculative	8,756,730	-	-	8,756,730	7,417,715	33,652	-	7,451,367
Considered speculative	1,814,509	7,665	-	1,822,174	1,515,876	45,115	-	1,560,991
Poor standing	205,812	-	-	205,812	11,732	-	-	11,732
Impaired	-	-	3,541,377	3,541,377	-	-	2,796,826	2,796,826
	20,285,109	7,665	3,541,377	23,834,151	21,969,246	78,767	2,796,826	24,844,839

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)**(a) Credit risk (cont'd.)****(iv) Aging analysis of impaired and past due but not impaired loans, advances and financing**

Analysis of loans, advances and financing that are impaired and past due but not impaired based on the Group's and the Bank's internal credit rating system are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Impaired:				
0 month overdue	781,838	483,765	722,838	483,765
1 month overdue	133,926	37,938	129,586	37,660
2 months overdue	32,136	94,735	22,862	91,661
3 months overdue	425,781	15,921	418,694	12,826
> 3 months overdue	2,258,443	2,162,036	2,197,397	2,170,914
	3,632,124	2,794,395	3,541,377	2,796,826
Past due but not impaired:				
1 month overdue	37,784	39,338	6,706	5,554
2 months overdue	12,641	81,683	959	73,213
3 months overdue	3,362	3,796	-	-
	53,787	124,817	7,665	78,767

(v) Collateral and credit enhancement for loans, advances and financing

Collateral represents the asset pledged by a customer and/or a third party on behalf of the customer, in whole or in part, to secure a credit exposure and/or potential credit exposure with the Bank, and subject to seizure in the event of default. Collateral provides to the Bank with a secondary repayment source, i.e. a source of fund to help recover its investment if the customer is unable to repay the facility obtained from the Bank.

The Group and the Bank shall consider accepting the collateral based on its marketability, measurability, stability, transferability, speed in realising the collateral value, enforceability and free from encumbrances. The collateral amounts and types held by the Group and the Bank are as in the next page:

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)

(a) Credit risk (cont'd.)

(v) Collateral and credit enhancement for loans, advances and financing (cont'd.)

Collateral by amount

	2016				2015			
	Secured RM'000	Unsecured RM'000	Total RM'000	Total Estimated fair value of collateral RM'000	Secured RM'000	Unsecured RM'000	Total RM'000	Total Estimated fair value of collateral RM'000
GROUP								
Past due but not impaired	959	52,828	53,787	12,600	124,817	-	124,817	214,928
Impaired	2,344,054	1,279,070	3,623,124	4,058,422	2,024,751	769,644	2,794,395	3,536,523
	2,345,013	1,331,898	3,676,911	4,071,022	2,149,568	769,644	2,919,212	3,751,451
BANK								
Past due but not impaired	959	6,706	7,665	12,600	78,767	-	78,767	214,928
Impaired	2,344,054	1,197,323	3,541,377	4,058,422	2,005,316	791,510	2,796,826	3,536,523
	2,345,013	1,204,029	3,549,042	4,071,022	2,084,083	791,510	2,875,593	3,751,451

Collateral by type

	2016			2015		
	Properties, equipment and vessels RM'000	Cash RM'000	Total RM'000	Properties, equipment and vessels RM'000	Cash RM'000	Total RM'000
GROUP						
Past due but not impaired	12,600	-	12,600	214,928	-	214,928
Impaired	4,058,422	-	4,058,422	3,536,523	-	3,536,523
	4,071,022	-	4,071,022	3,751,451	-	3,751,451
BANK						
Past due but not impaired	12,600	-	12,600	214,928	-	214,928
Impaired	4,058,422	-	4,058,422	3,536,523	-	3,536,523
	4,071,022	-	4,071,022	3,751,451	-	3,751,451

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)**(a) Credit risk (cont'd.)****(vi) Restructured loans/financing**

Restructured loans/financing refer to the financial assets that would otherwise be past due or impaired where there are fundamental revision in the principal terms and conditions of the facilities. Restructuring shall be considered when the customer's business is still viable and is expected to remain viable after the restructuring. The total restructured loans/financing held by the Group and the Bank stood at RM9,262.2 million (2015: RM9,328.1 million).

(vii) Credit quality for treasury credit risk exposures

The table below shows treasury credit risk exposures by the current counterparties' rating:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<u>Financial investments – AFS</u>				
Sovereign	2,959,889	1,236,478	2,959,889	1,236,478
AAA	299,382	326,436	299,382	326,436
AA	30,383	112,162	30,383	112,162
BBB	73,553	69,513	73,553	69,513
Non-rated	334,278	354,474	330,755	350,003
	3,697,485	2,099,063	3,693,962	2,094,592
<u>Financial investments – HTM</u>				
Sovereign	149,036	147,759	149,014	147,759
AAA	5,037	5,037	5,037	5,037
B	31,671	31,671	31,671	31,671
Non-rated	-	22	-	-
	185,744	184,489	185,722	184,467

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)

(b) Market risk

(i) Foreign exchange risk

The Group and the Bank are exposed to foreign currency risk as a result of its borrowings made in currencies other than Ringgit Malaysia. The Group's and the Bank's policy in managing their exposure to foreign currency risks is by hedging through forward contract deals.

The net unhedged financial assets and financial liabilities of the Group and the Bank that are not denominated in its functional currency are as follows:

	Net financial assets/(liabilities) held in non-functional currencies	
	Ringgit Malaysia 2016 RM'000	Ringgit Malaysia 2015 RM'000
Functional currency of the Group		
Japanese Yen ("JPY")	4,167	(30,219)
United states dollar ("USD")	-	44,399
Singapore dollar ("SGD")	44,399	(6,997)
Functional currency of the Bank		
JPY	4,167	(30,219)

The table below shows the Group's and the Bank's foreign currency sensitivity based on reasonable possible movements in foreign exchange ("FX") rates.

	Strengthening/weakening in FX rate (+/-)	Effect on profit/loss		Effect on equity	
		Increase in FX rate 2016 RM'000	Decrease in FX rate 2015 RM'000	Increase in FX rate 2016 RM'000	Decrease in FX rate 2015 RM'000
GROUP					
USD	10	-	-	-	-
JPY	10	(417)	417	(417)	417
SGD	10	-	-	-	-
BANK					
JPY	10	(417)	417	(417)	417

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)**(b) Market risk (cont'd.)****(i) Foreign exchange risk (cont'd.)**

	Strengthening/ weakening in FX rate (+/-)	Effect on profit/loss		Effect on equity	
		Increase in FX rate 2016 RM'000	Decrease in FX rate 2015 RM'000	Increase in FX rate 2016 RM'000	Decrease in FX rate 2015 RM'000
GROUP					
USD	10	(4,434)	4,434	(4,434)	4,434
JPY	10	(3,022)	3,022	(3,022)	3,022
SGD	10	(700)	700	(700)	700
BANK					
JPY	10	(3,022)	3,022	(3,022)	3,022

(ii) Interest/profit rate risk

Interest/profit rate risk is the impact to earnings and economic value of the Group and the Bank due to fluctuations in interest/profit rates.

Interest/profit rate exposure arises from the differences in the maturities and repricing dates of assets, liabilities and off-balance sheet items. These mismatches are actively monitored and managed as part of the overall interest/profit rate risk management process which is conducted in accordance with the Group's policies as approved by the Board.

The Group and the Bank may be exposed to a loss in earnings due to the interest/profit rates structure of the balance sheet arising from interest/profit rates and yield curve changes. The sensitivity to interest/profit rates arises from the mismatches in the repricing rates, cash flows and other characteristic of the assets and their corresponding liability funding. The Group and the Bank manage their interest profit rate risk exposure through the use of fixed/floating rate debts and financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)

(b) Market risk (cont'd.)

(ii) Interest/profit rate risk (cont'd.)

The table below shows the Group's and the Bank's net interest/profit income sensitivity based on possible parallel shift in interest profit rate.

	Group			
	Impact on profit 2016 RM'000	Impact on profit 2015 RM'000	Impact on equity 2016 RM'000	Impact on equity 2015 RM'000
Interest/profit rate				
– parallel shift				
+ 50 basis points	10,416	29,055	101,845	24,516
– 50 basis points	(10,416)	(29,055)	(101,845)	(24,516)

	Bank			
	Impact on profit 2016 RM'000	Impact on profit 2015 RM'000	Impact on equity 2016 RM'000	Impact on equity 2015 RM'000
Interest/profit rate				
– parallel shift				
+ 50 basis points	10,416	29,055	101,845	24,516
– 50 basis points	(10,416)	(29,055)	(101,845)	(24,516)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)**(b) Market risk (cont'd.)****(ii) Interest/profit rate risk (cont'd.)**

The table below summarises the Group's and the Bank's exposure to interest/profit rate risk. The table indicates effective average interest/profit rates at the reporting date and the periods in which the financial instruments reprice or mature, whichever is earlier.

GROUP 2016	Non-trading book						Non- interest/ profit sensitive RM'000	Total RM'000	Effective interest/ profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000				
Assets									
Cash and short term deposits	1,269,131	2,771	-	-	-	23,597	1,295,499	3.50	
Financial investments - FVTPL	-	-	-	-	-	-	-	-	
Financial investments - AFS	187,901	-	201,659	603,428	2,700,974	3,523	3,697,485	4.36	
Financial investments - HTM	-	-	128,771	-	56,951	22	185,744	4.04	
Loans, advances and financing - non-impaired	881,183	153,480	1,870,791	6,172,011	11,423,224	-	20,500,689	6.44	
- impaired *	-	-	-	-	-	709,394	709,394	-	
Other assets	-	-	-	-	-	318,440	318,440	-	
Interest in associates	-	-	-	-	-	3,582	3,582	-	
Interest in JVs	-	-	-	-	-	33,424	33,424	-	
Property, plant and equipment	-	-	-	-	-	83,206	83,206	-	
Prepaid land lease	-	-	-	-	-	883	883	-	
Investment properties	-	-	-	-	-	1,563	1,563	-	
Intangible assets	-	-	-	-	-	9,224	9,224	-	
Deferred tax assets	-	-	-	-	-	18,127	18,127	-	
Assets classified as held for sale	-	-	-	-	-	2,886	2,886	-	
Assets of subsidiaries classified as held for sale	-	-	-	-	-	846	846	-	
Total assets	2,338,215	156,251	2,201,221	6,775,439	14,181,149	1,208,717	26,860,992		

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)

(b) Market risk (cont'd.)

(ii) Interest/profit rate risk (cont'd.)

GROUP 2016 (cont'd.)	Non-trading book						Total RM'000	Effective interest/ profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest/ profit sensitive RM'000		
Equity and liabilities								
Deposits from customers	2,431,773	2,517,697	4,660,027	141,054	-	-	9,750,551	3.94
Deposits and placements from financial institutions	10,002	-	-	-	-	-	10,002	3.15
Other liabilities	-	-	-	-	-	109,444	109,444	
Redeemable notes	-	-	-	1,113,575	4,806,741	-	5,920,316	4.48
Borrowings	87,335	56,249	50,000	1,450,000	1,300,000	-	2,943,584	4.35
Infrastructure support fund	-	-	-	-	-	306,579	306,579	
Deferred income	-	-	-	-	-	234,011	234,011	
Deferred tax liabilities	-	-	-	-	-	2,990	2,990	
Liabilities of subsidiaries classified as held for sale	-	-	-	-	-	215	215	
Total liabilities	2,529,110	2,573,946	4,710,027	2,704,629	6,106,741	653,239	19,277,692	
Shareholders' equity	-	-	-	-	-	7,551,494	7,551,494	
Non-controlling interest	-	-	-	-	-	31,806	31,806	
Total equity and liabilities	2,529,110	2,573,946	4,710,027	2,704,629	6,106,741	8,236,539	26,860,992	
On-balance sheet interest/profit sensitivity gap	(190,895)	(2,417,695)	(2,508,806)	4,070,810	8,074,408	(7,207,822)	-	
Off-balance sheet interest/profit sensitivity gap	-	-	-	-	-	-	-	
Total interest/profit sensitivity gap	(190,805)	(2,417,695)	(2,508,806)	4,070,810	8,074,408	(7,027,822)	-	

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)**(b) Market risk (cont'd.)****(ii) Interest/profit rate risk (cont'd.)**

GROUP	← Non-trading book →					Non-interest/profit sensitive	Total	Effective interest/profit rate %
	Up to 1 month	>1-3 months	>3-12 months	>1-5 years	Over 5 years			
2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Assets								
Cash and short term deposits	1,384,144	-	-	-	-	35,381	1,419,525	4.01
Deposits and placements with financial institutions	-	51,672	-	-	-	-	51,672	4.01
Financial investments – FVTPL	-	-	-	-	-	-	-	-
Financial investments – AFS	227,574	-	181,529	718,810	966,679	4,471	2,099,063	4.41
Financial investments – HTM	-	-	-	152,796	31,671	22	184,489	4.04
Loans, advances and financing								
– non-impaired	1,295,073	216,024	1,927,283	7,634,489	11,213,469	-	22,286,338	7.46
– impaired *	-	-	-	-	-	471,011	471,011	-
Other assets	-	-	-	-	-	230,968	230,968	-
Interest in associates	-	-	-	-	-	3,328	3,328	-
Interest in JVs	-	-	-	-	-	39,911	39,911	-
Property, plant and equipment	-	-	-	-	-	94,030	94,030	-
Prepaid land lease	-	-	-	-	-	917	917	-
Investment properties	-	-	-	-	-	4,074	4,074	-
Intangible assets	-	-	-	-	-	8,824	8,824	-
Deferred tax assets	-	-	-	-	-	8,938	8,938	-
Assets classified as held for sale	-	-	-	-	-	394,541	394,541	-
Total assets	2,906,791	267,696	2,108,812	8,506,095	12,211,819	1,296,416	27,297,629	

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)

(b) Market risk (cont'd.)

(ii) Interest/profit rate risk (cont'd.)

GROUP 2015 (cont'd.)	Non-trading book						Non- interest/ profit sensitive RM'000	Total RM'000	Effective interest/ profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000				
Equity and liabilities									
Deposits from customers	2,404,243	2,568,456	2,779,620	-	-	-	7,752,319	4.22	
Deposits and placements from financial institutions	345,545	100,095	-	-	-	-	445,640	4.22	
Bills and acceptance payable	372,002	580,020	790,171	-	-	-	1,742,193	4.22	
Other liabilities	-	-	-	-	-	217,696	217,696	-	
Redeemable notes	-	-	404,626	-	3,948,262	-	4,352,888	5.19	
Borrowings	551,397	74,630	1,115,282	1,210,193	1,661,881	-	4,613,383	4.43	
Infrastructure support fund	-	-	-	-	-	337,126	337,126	-	
Deferred income	-	-	-	-	-	239,420	239,420	-	
Deferred tax liabilities	-	-	-	-	-	9,478	9,478	-	
Total liabilities	3,673,187	3,323,201	5,089,699	1,210,193	5,610,143	803,720	19,710,143		
Shareholders' equity	-	-	-	-	-	7,562,201	7,562,201		
Non-controlling interest	-	-	-	-	-	25,285	25,285		
Total equity and liabilities	3,673,187	3,323,201	5,089,699	1,210,193	5,610,143	8,391,206	27,297,629		
On-balance sheet interest/profit sensitivity gap	(766,396)	(3,055,505)	(2,980,887)	7,295,902	6,601,676	(7,094,790)	-		
Off-balance sheet interest/profit sensitivity gap	-	-	-	-	-	-	-		
Total interest/profit sensitivity gap	(766,396)	(3,055,505)	(2,980,887)	7,295,902	6,601,676	(7,094,790)	-		

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)**(b) Market risk (cont'd.)****(ii) Interest/profit rate risk (cont'd.)**

BANK	Non-trading book						Non-interest/ profit sensitive RM'000	Total RM'000	Effective interest/ profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000				
2016									
Assets									
Cash and short term deposits	1,020,428	-	-	-	-	7,840	1,028,268	3.66	
Deposits and placements with financial institutions	-	-	-	-	-	-	-	-	
Financial investments – AFS	187,901	-	201,659	603,428	2,700,974	-	3,693,962	4.36	
Financial investments – HTM	-	-	128,771	-	56,951	-	185,722	4.04	
Loans, advances and financing									
– non-impaired	829,286	139,470	1,828,331	6,072,464	11,423,223	-	20,292,774	6.35	
– impaired *	-	-	-	-	-	713,324	713,324	-	
Other assets	-	-	-	-	-	208,108	208,108	-	
Investment in subsidiaries	-	-	-	-	-	389,051	389,051	-	
Property, plant and equipment	-	-	-	-	-	82,635	82,635	-	
Prepaid land lease	-	-	-	-	-	883	883	-	
Investment properties	-	-	-	-	-	1,155	1,155	-	
Intangible assets	-	-	-	-	-	8,385	8,385	-	
Deferred tax assets	-	-	-	-	-	13,205	13,205	-	
Assets classified as held for sale	-	-	-	-	-	-	-	-	
Subsidiaries classified as held for sale	-	-	-	-	-	636	636	-	
Total assets	2,037,615	139,470	2,158,761	6,675,892	14,181,148	1,425,222	26,618,108		

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)

(b) Market risk (cont'd.)

(ii) Interest/profit rate risk (cont'd.)

BANK 2016 (cont'd.)	Non-trading book						Non- interest/ profit sensitive RM'000	Total RM'000	Effective interest/ profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000				
Equity and liabilities									
Deposits from customers	2,431,773	2,517,697	4,660,027	141,054	-	-	9,750,551	3.94	
Deposits and placements from financial institutions	10,002	-	-	-	-	-	10,002	3.15	
Other liabilities	-	-	-	-	-	-	62,130	-	
Redeemable notes	-	-	-	1,113,575	4,806,741	-	5,920,316	4.48	
Borrowings	87,335	56,249	50,000	1,450,000	1,300,000	-	2,943,584	4.43	
Infrastructure support fund	-	-	-	-	-	306,579	306,579	-	
Deferred income	-	-	-	-	-	234,011	234,011	-	
Total liabilities	2,529,110	2,573,946	4,710,027	2,704,629	6,106,741	540,590	19,227,173		
Shareholders' equity	-	-	-	-	-	7,390,935	7,390,935		
Total equity and liabilities	2,529,110	2,573,946	4,710,027	2,704,629	6,106,741	7,931,525	26,618,108		
On-balance sheet interest/profit sensitivity gap	(491,495)	(2,434,476)	(2,551,266)	3,971,263	8,074,407	(6,506,303)	-		
Off-balance sheet interest/profit sensitivity gap	-	-	-	-	-	-	-		
Total interest/profit sensitivity gap	(491,495)	(2,434,476)	(2,551,266)	3,971,263	8,074,407	(6,506,303)	-		

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)**(b) Market risk (cont'd.)****(ii) Interest/profit rate risk (cont'd.)**

BANK	← Non-trading book →					Non- interest/ profit sensitive	Total	Effective interest/ profit rate
	Up to 1 month	>1-3 months	>3-12 months	>1-5 years	Over 5 years			
2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Assets								
Cash and short term deposits	1,123,512	-	-	-	-	2,698	1,126,210	4.32
Deposits and placements with financial institutions	-	-	-	-	-	-	-	-
Financial investments – AFS	227,574	-	181,529	718,811	966,678	-	2,094,592	4.42
Financial investments – HTM	-	-	-	152,796	31,671	-	184,467	4.04
Loans, advances and financing – non-impaired	1,256,566	237,192	1,873,787	7,536,127	11,144,341	-	22,048,013	6.47
– impaired *	-	-	-	-	-	524,443	524,443	-
Other assets	-	-	-	-	-	167,999	167,999	-
Investment in subsidiaries	-	-	-	-	-	480,859	480,859	-
Property, plant and equipment	-	-	-	-	-	92,649	92,649	-
Prepaid land lease	-	-	-	-	-	917	917	-
Investment properties	-	-	-	-	-	839	839	-
Intangible assets	-	-	-	-	-	8,185	8,185	-
Deferred tax assets	-	-	-	-	-	6,026	6,026	-
Assets classified as held for sale	-	-	-	-	-	367	367	-
Total assets	2,607,652	237,192	2,055,316	8,407,734	12,142,690	1,284,982	26,735,566	

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)

(b) Market risk (cont'd.)

(ii) Interest/profit rate risk (cont'd.)

BANK 2015 (cont'd.)	Non-trading book					Non- interest/ profit sensitive RM'000	Total RM'000	Effective interest/ profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000			
Equity and liabilities								
Deposits from customers	2,404,244	2,568,456	2,779,619	-	-	-	7,752,319	4.22
Deposits and placements from financial institutions	345,545	100,095	-	-	-	-	445,640	4.22
Bills and acceptance payable	372,002	580,020	790,171	-	-	-	1,742,193	
Other liabilities	-	-	-	-	-	59,384	59,384	-
Redeemable notes	-	-	404,626	-	3,948,262	-	4,352,888	5.19
Borrowings	339,431	74,630	1,115,282	1,210,163	1,704,126	-	4,443,632	4.43
Infrastructure support fund	-	-	-	-	-	337,126	337,126	-
Deferred income	-	-	-	-	-	239,420	239,420	-
Total liabilities	3,461,222	3,323,201	5,089,698	1,210,163	5,652,388	635,930	19,372,602	
Shareholders' equity	-	-	-	-	-	7,362,964	7,362,964	
Total equity and liabilities	3,461,222	3,323,201	5,089,698	1,210,163	5,652,388	7,998,894	26,735,566	
On-balance sheet interest/profit sensitivity gap	(853,570)	(3,086,009)	(3,034,382)	7,197,571	6,490,302	(6,713,912)	-	
Off-balance sheet interest/profit sensitivity gap	-	-	-	-	-	-	-	
Total interest/profit sensitivity gap	(853,570)	(3,086,009)	(3,034,382)	7,197,571	6,490,302	(6,713,912)	-	

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)**(c) Liquidity risk**

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet its current and future payment obligations associated with financial obligations when they fall due. The liquidity and cash flow risks are managed by maintaining a diversity of funding sources and spreading debt repayments over a range of maturities.

The Group and the Bank manage their liquidity requirement on a day-to-day basis to ensure that funds are readily available for its operational needs, withdrawals of deposits and repayments to fund providers. The Group and the Bank may raise funds locally and globally either through government-to-government arrangements or direct negotiations. Other sources of funding through the capital market are being explored on an on-going basis to ensure a diversity of funding source.

(i) Contractual maturity of total assets and liabilities

The following table shows the maturity analysis of the Group's and the Bank's assets and liabilities based on remaining contractual maturities. The contractual maturity profile often does not reflect the actual behavioural patterns. In particular, the Group and the Bank have a significant amount of "core deposits" of non-bank customers which are contractually at call (included in the "Up to 3 months" time band) but historically a stable source of long-term funding for the Group and the Bank.

	Non-trading book						Total RM'000
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- specific maturity RM'000	
GROUP							
2016							
Assets							
Cash and short term deposits	1,269,131	2,771	-	-	-	23,597	1,295,499
Financial investments – AFS	212,650	-	200,000	600,000	2,681,177	3,658	3,697,485
Financial investments – HTM	-	-	155,000	-	56,951	22	211,973
Loans, advances and financing	881,183	153,480	1,870,791	6,172,011	11,423,224	709,394	21,210,083
Other assets	-	-	-	-	-	318,440	318,440
	2,362,964	156,251	2,225,791	6,772,011	14,161,352	1,055,111	26,733,480
Liabilities							
Deposits from customers	2,431,773	2,517,697	4,660,027	141,054	-	-	9,750,551
Deposits and placements from financial institutions	10,002	-	-	-	-	-	10,002
Other liabilities	-	-	-	-	-	109,444	109,444
Redeemable notes	-	-	-	1,113,575	4,806,741	-	5,920,316
Borrowings	87,335	56,249	50,000	1,450,000	1,300,000	-	2,943,584
	2,529,110	2,573,946	4,710,027	2,704,629	6,106,741	109,444	18,733,897
Net maturity mismatches	(166,146)	(2,417,695)	(2,484,236)	4,067,382	8,054,611	945,667	7,999,583

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)

(c) Liquidity risk (cont'd.)

(i) Contractual maturity of total assets and liabilities (cont'd.)

GROUP	Non-trading book						Total
	Up to 1 month	>1-3 months	>3-12 months	>1-5 years	Over 5 years	Non-specific maturity	
2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets							
Cash and short term deposits	1,384,174	-	-	-	-	35,351	1,419,525
Deposits and placements with financial institutions	-	51,672	-	-	-	-	51,672
Financial investments – AFS	198,029	-	10,000	795,727	329,069	4,472	1,337,297
Financial investments – HTM	-	-	78,000	155,000	29,609	22	262,631
Loans, advances and financing	1,295,073	216,024	1,927,283	7,634,489	11,213,469	471,011	22,757,349
Other assets	-	-	-	-	-	230,968	230,968
	<u>2,877,276</u>	<u>267,696</u>	<u>2,015,283</u>	<u>8,585,216</u>	<u>11,572,147</u>	<u>741,824</u>	<u>26,059,442</u>
Liabilities							
Deposits from customers	2,404,167	2,568,456	2,779,696	-	-	-	7,752,319
Deposits and placements from financial institutions	345,545	100,095	-	-	-	-	445,640
Bills and acceptance payable	372,002	580,020	790,171	-	-	-	1,742,193
Other liabilities	-	-	-	-	-	217,696	217,696
Redeemable notes	-	-	404,626	-	3,948,262	-	4,352,888
Borrowings	508,653	74,630	1,115,282	1,210,193	1,704,625	-	4,613,383
	<u>3,630,367</u>	<u>3,323,201</u>	<u>5,089,775</u>	<u>1,210,193</u>	<u>5,652,887</u>	<u>217,696</u>	<u>19,124,119</u>
Net maturity mismatches	<u>(753,091)</u>	<u>(3,055,505)</u>	<u>(3,074,492)</u>	<u>7,375,023</u>	<u>5,919,260</u>	<u>524,128</u>	<u>6,935,323</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)**(c) Liquidity risk (cont'd.)****(i) Contractual maturity of total assets and liabilities (cont'd.)**

	Non-trading book						Total RM'000
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- specific maturity RM'000	
BANK							
2016							
Assets							
Cash and short term deposits	1,020,428	-	-	-	-	7,840	1,028,268
Financial investments – AFS	187,901	-	200,000	600,000	2,681,177	-	3,669,078
Financial investments – HTM	-	-	155,000	-	56,951	-	211,951
Loans, advances and financing	829,286	139,470	1,828,331	6,072,464	11,423,223	713,324	21,006,098
Other assets	-	-	-	-	-	208,108	208,108
	2,037,615	139,470	2,183,331	6,672,464	14,161,351	929,272	26,123,503
Liabilities							
Deposits from customers	2,431,773	2,517,697	4,660,027	141,054	-	-	9,750,551
Deposits and placements from financial institutions	10,002	-	-	-	-	-	10,002
Other liabilities	-	-	-	-	-	62,130	62,130
Redeemable notes	-	-	-	1,113,575	4,806,741	-	5,920,316
Borrowings	87,335	56,249	50,000	1,450,000	1,300,000	-	2,943,584
	2,529,110	2,573,946	4,710,027	2,704,629	6,106,741	62,130	18,686,583
Net maturity mismatches	(491,495)	(2,434,476)	(2,526,696)	3,967,835	8,054,610	867,142	7,436,920

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)

(c) Liquidity risk (cont'd.)

(i) Contractual maturity of total assets and liabilities (cont'd.)

BANK 2015	Non-trading book					Non-specific maturity RM'000	Total RM'000
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000		
Assets							
Cash and short term deposits	1,123,512	-	-	-	-	2,698	1,126,210
Financial investments – AFS	198,029	-	10,000	795,727	329,069	-	1,332,825
Financial investments – HTM	-	-	78,000	155,000	29,609	-	262,609
Loans, advances and financing	1,187,681	237,192	1,873,787	7,536,127	11,144,341	593,328	22,572,456
Other assets	-	-	-	-	-	167,999	167,999
	2,509,222	237,192	1,961,787	8,486,854	11,503,019	764,025	25,462,099
Liabilities							
Deposits from customers	2,404,244	2,568,456	2,779,619	-	-	-	7,752,319
Deposits and placements from financial institutions	345,545	100,095	-	-	-	-	445,640
Bills and acceptance payable	372,002	580,020	790,171	-	-	-	1,742,193
Other liabilities	-	-	-	-	-	59,384	59,384
Redeemable notes	-	-	404,626	-	3,948,262	-	4,352,888
Borrowings	339,431	74,630	1,115,282	1,210,163	1,704,126	-	4,443,632
	3,461,222	3,323,201	5,089,698	1,210,163	5,652,388	59,384	18,796,056
Net maturity mismatches	(952,000)	(3,086,009)	(3,127,911)	7,276,691	5,850,631	704,641	6,666,043

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)**(c) Liquidity risk (cont'd.)****(ii) Contractual maturity of financial liabilities on an undiscounted basis**

The tables below present the cash flows payable by the Group and the Bank under financial liabilities by remaining contractual maturities as at 31 December 2016 and 31 December 2015. The amounts disclosed in the table will not agree to the carrying amounts reported in the statements of financial positions as the amounts incorporated all contractual cash flows, on an undiscounted basis, relating to both principal and interest/profit analysis. The Group and the Bank manage interest liquidity risk based on discounted expected cash flows.

GROUP	Non-trading book						Total RM'000
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- specific maturity RM'000	
2016							
Liabilities							
Deposits from customers	2,425,881	2,517,402	4,720,503	147,854	-	-	9,811,640
Deposits and placements from financial institutions	10,000	-	-	-	-	-	10,000
Other liabilities	-	-	-	-	-	109,444	109,444
Redeemable notes	-	-	-	2,504,251	4,235,226	-	6,739,477
Borrowings	106,554	56,887	50,000	3,521,166	-	-	3,734,607
Total liabilities	2,542,435	2,574,289	4,770,503	6,173,271	4,235,226	109,444	20,405,168
2015							
Liabilities							
Deposits from customers	2,164,296	3,301,317	2,340,245	7,439	-	-	7,813,297
Deposits and placements from financial institutions	297,319	148,965	-	-	-	-	446,284
Bills and acceptance payable	372,002	580,020	790,171	-	-	-	1,742,193
Other liabilities	-	-	-	-	-	197,242	197,242
Redeemable notes	-	-	43,285	-	5,844,391	-	5,887,676
Borrowings	35,509	35,286	2,298,971	1,011,678	1,559,289	-	4,940,733
Total liabilities	2,869,126	4,065,588	5,472,672	1,019,117	7,403,680	197,242	21,027,425

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

47. FINANCIAL INSTRUMENTS RISK (CONT'D.)

(c) Liquidity risk (cont'd.)

(ii) Contractual maturity of financial liabilities on an undiscounted basis (cont'd.)

Bank	Non-trading book						Total RM'000
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- specific maturity RM'000	
2016							
Liabilities							
Deposits from customers	2,425,881	2,517,402	4,720,503	147,854	-	-	9,811,640
Deposits and placements from financial institutions	10,000	-	-	-	-	-	10,000
Other liabilities	-	-	-	-	-	62,130	62,130
Redeemable notes	-	-	-	2,504,251	4,235,226	-	6,739,477
Borrowings	106,554	56,887	50,000	3,521,166	-	-	3,734,607
Total liabilities	2,542,435	2,574,289	4,770,503	6,173,271	4,235,226	62,130	20,357,854
2015							
Liabilities							
Deposits from customers	2,164,296	3,301,317	2,340,245	7,439	-	-	7,813,297
Deposits and placements from financial institutions	297,319	148,965	-	-	-	-	446,284
Bills and acceptance payable	372,002	580,020	790,171	-	-	-	1,742,193
Other liabilities	-	-	-	-	-	47,137	47,137
Redeemable notes	-	-	43,285	-	5,844,391	-	5,887,676
Borrowings	35,509	35,286	2,298,971	1,011,678	1,351,351	-	4,732,795
Total liabilities	2,869,126	4,065,588	5,472,672	1,019,117	7,195,742	47,137	20,669,382

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

48. FAIR VALUES MEASUREMENTS**(a) Financial assets and liabilities measured at fair value****Determination of fair value and the fair value hierarchy**

Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction.

The Group and the Bank classify their financial assets and financial liabilities which are measured at fair value according to the following hierarchy, reflecting the significance of inputs used in making the fair value measurements:

- Level 1 Quoted market prices: quoted prices (unadjusted) in active markets for identical assets and liabilities instruments;
- Level 2 Valuation techniques based on observable inputs: inputs other than quoted prices included within Level 1 that are observable for the instrument, whether directly (i.e. prices) or indirectly (i.e. derived from prices), are used; and
- Level 3 Valuation techniques using significant unobservable inputs: inputs used are not based on observable market data and the unobservable inputs have a significant impact on the valuation of the financial instruments and non-financial assets.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

48. FAIR VALUES MEASUREMENTS (CONT'D.)**(a) Financial assets and liabilities measured at fair value (cont'd.)****Determination of fair value and the fair value hierarchy (cont'd.)**

The following table provides the fair value measurement hierarchy of the Group's and the Bank's assets and liabilities.

GROUP	2016				2015			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Assets measured at fair value:								
Financial investments – AFS	334,278	3,362,480	-	3,696,758	353,747	1,744,589	-	2,098,336
Total financial assets	334,278	3,362,480	-	3,696,758	353,747	1,744,589	-	2,098,336
Total financial assets carried at fair value				<u>3,696,758</u>				<u>2,098,336</u>
Assets for which fair values are disclosed (Note 47 (b)):								
Loans, advances and financing	-	-	21,270,164	21,270,164	-	-	23,049,274	23,049,274
Financial investments – HTM	-	253,233	-	253,233	-	226,730	-	226,730
Investment properties	-	-	-	-	-	11,320	-	11,320
Liabilities for which fair values are disclosed (Note 47 (b)):								
Redeemable notes	-	-	5,819,421	5,819,421	-	-	3,498,933	3,498,933
Borrowings	-	-	2,603,108	2,603,108	-	-	4,015,604	4,015,604

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

48. FAIR VALUES MEASUREMENTS (CONT'D.)**(a) Financial assets and liabilities measured at fair value (cont'd.)****Determination of fair value and the fair value hierarchy (cont'd.)**

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

	2016				2015			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
BANK								
Assets measured at fair value:								
Financial investments – AFS	330,755	3,362,480	-	3,693,235	349,276	1,744,589	-	2,093,865
Total financial assets	330,755	3,362,480	-	3,693,235	349,276	1,744,589	-	2,093,865
Total financial assets carried at fair value				3,693,235				2,093,865
Assets for which fair values are disclosed (Note 47 (b)):								
Loans, advances and financing	-	-	21,066,277	21,066,277	-	-	22,827,282	22,827,282
Financial investments – HTM	-	253,233	-	253,233	-	226,730	-	226,730
Investment properties	-	-	-	-	-	4,250	-	4,250
Liabilities for which fair values are disclosed (Note 47 (b)):								
Redeemable notes	-	-	5,819,421	5,819,421	-	-	3,498,933	3,498,933
Borrowings	-	-	2,603,108	2,603,108	-	-	3,807,665	3,807,665

There have been no transfer between Level 1 and Level 2 during the financial year. The fair value of loans, advances and financing that are valued at level 3 is estimated by discounting the estimated future cash flows at a discount rate between 2.0% to 13.0% (2015: 2.0% to 13.0%) whilst the fair value of redeemable notes and term loans that are valued at level 3 is estimated by discounting the estimated future cash flows at a discount rate between 3.6% to 7.2% (2015: 3.6% to 7.2%).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

48. FAIR VALUES MEASUREMENTS (CONT'D.)**(b) Financial assets and liabilities not carried at fair value**

The following table summarises the carrying amounts and the estimated fair values of those financial assets not presented on the Group's statements of financial position at their fair value.

	Group		Bank	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
2016				
Financial assets				
Loans, advances and financing	21,210,083	21,270,164	21,006,098	21,066,277
Financial investments				
– HTM	185,744	253,233	185,722	253,233
Investment properties	1,563	11,080	1,155	3,830
Financial liabilities				
Redeemable notes	5,920,316	5,819,421	5,920,316	5,819,421
Borrowings	2,943,584	2,603,108	2,943,584	2,603,108
2015				
Financial assets				
Loans, advances and financing	22,757,349	23,049,274	22,572,456	22,827,282
Financial investments				
– HTM	184,489	226,730	184,467	226,730
Investment properties	4,074	11,320	839	4,250
Financial liabilities				
Redeemable notes	4,352,888	3,498,933	4,352,888	3,498,933
Borrowings	4,613,383	4,015,604	4,443,632	3,807,665

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

48. FAIR VALUES MEASUREMENTS (CONT'D.)**(b) Financial assets and liabilities not carried at fair value (cont'd.)**

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

(i) Financial investments HTM

Fair values of securities that are actively traded is determined by quoted bid prices. For non-actively traded securities, independent broker quotations are obtained. Fair values of equity securities are estimated using a number of methods, including earnings multiples and discounted cash flows analysis. Where discounted cash flows technique is used, the estimated future cash flows are discounted using applicable prevailing market or indicative rates of similar instruments at the reporting date.

(ii) Loans, advances and financing

Loans, advances and financing to customers, where such market prices are not available, various methodologies have been used to estimate the approximate fair values of such instruments. These methodologies are significantly affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in the assumptions could significantly affect these estimates and the resulting fair value estimates. Therefore, for a significant portion of the Group's and the Bank's financial instruments, including loans, advances and financing to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amount that the Group and the Bank could realise in a sale transaction at the reporting date.

The fair values of variable rate loans/financing are estimated to approximate their carrying values. For fixed rate loans and Islamic financing, the fair values are estimated based on expected future cash flows of contractual instalment payments, discounted at applicable and prevailing rates at reporting date offered for similar facilities to new borrowers/customers with similar credit profiles. In respect of impaired loans, the fair values are deemed to approximate the carrying values which are net of impairment allowances.

(iii) Deposits from customers, deposits and placements from financial institutions, and bills and acceptance payables

The fair values of deposits payable on demand and deposits and placements with maturities of less than one year approximate their carrying values due to the relatively short maturity of these instruments. The fair values of fixed deposits and placements with remaining maturities of more than one year are estimated based on discounted cash flows using applicable rates currently offered for deposits and placements with similar remaining maturities. The fair value of Islamic deposits are estimated to approximate their carrying values as the profit rates are determined at the end of their holding periods based on the actual profits generated from the assets invested.

(iv) Subordinated obligations and borrowings

The fair values of capital securities are estimated by discounting the expected future cash flows using the applicable prevailing interest rates for securities as at reporting date.

(v) Investment properties

The fair values of investment properties are estimated based on comparison with indicative market value stated in the Property Market Report 2015 (2015: Property Market Report 2014)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS

The state of affairs as at 31 December 2016 and results for the financial year ended on this date under the Islamic financial business of the Group and the Bank included in the Group financial statements are summarised as follows:

**Statements of Financial Position
As at 31 December 2016**

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Assets					
Cash and short term deposits	(a)	457,802	798,404	399,627	775,329
Deposits and placements with financial institutions	(b)	-	16,000	-	-
Financial investments – AFS	(c)	2,753,065	1,674,010	2,753,065	1,674,010
Financial investments – HTM	(d)	185,722	184,467	185,722	184,467
Advances and financing	(e)	8,224,744	6,197,878	8,191,107	6,155,234
Other assets	(f)	87,698	800,425	71,034	755,691
Total assets		11,709,031	9,671,184	11,600,555	9,544,731
Liabilities					
Deposits from customers Tawarruq	(g)	6,020,848	5,088,661	6,020,848	5,088,661
Deposits and placements from financial institutions Tawarruq		-	50,004	-	50,004
Other liabilities	(h)	104,001	93,326	58,341	25,155
Redeemable notes		4,552,762	3,445,788	4,552,762	3,445,788
Deferred income		234,011	239,420	234,011	239,420
Total liabilities		10,911,622	8,917,199	10,865,962	8,849,028
Equity					
Islamic banking funds		797,409	753,985	734,593	695,703
Total liabilities and equity		11,709,031	9,671,184	11,600,555	9,544,731
Commitments and contingencies	(r)	6,940,785	3,352,398	6,940,785	3,352,398

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)**Income Statements****For the Financial Year Ended 31 December 2016**

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Income derived from investment of depositors' funds	(j)	278,726	191,833	278,726	191,833
Income derived from investment of shareholders' funds	(k)	355,205	288,792	349,580	282,302
Allowance for impairment losses on advances and financing	(l)	(126,645)	(164,050)	(129,227)	(158,481)
Allowance for impairment losses on other assets	(m)	(25,279)	(9,417)	(25,279)	(9,417)
Total distributable income		482,007	307,158	473,800	306,237
Income attributable to the depositors	(n)	(213,343)	(176,810)	(213,343)	(176,810)
Total net income		268,664	130,348	260,457	129,427
Overhead expenses	(o)	(26,348)	(21,403)	(25,925)	(20,716)
Finance cost	(p)	(161,596)	(160,430)	(161,596)	(160,430)
Profit/(loss) before zakat		80,720	(51,485)	72,936	(51,719)
Zakat	(q)	(17,805)	(21,653)	(14,555)	(19,795)
Profit/(loss) for the financial year		62,915	(73,138)	58,381	(71,514)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)**Statements of Comprehensive Income
For the Financial Year Ended 31 December 2016**

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit/(loss) for the financial year	62,915	(73,138)	58,381	(71,514)
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:				
Net loss on revaluation of financial investments – AFS	(19,491)	–	(19,491)	–
Other comprehensive loss for the financial year, net of tax	(19,491)	–	(19,491)	–
Total comprehensive income/(loss) for the financial year, net of zakat	43,424	(73,138)	38,890	(71,514)
Total comprehensive income/(loss) attributable to:				
Shareholders of the Bank	43,424	(73,138)	38,890	(71,514)
Non-controlling interests	–	–	–	–
	43,424	(73,138)	38,890	(71,514)
Net income from Islamic financial business:				
Income derived from investment of depositors' funds	278,726	191,833	278,726	191,833
Income derived from investment of shareholders' funds	355,205	288,792	349,580	282,302
Income attributable to the depositors	(213,343)	(176,810)	(213,343)	(176,810)
Finance cost	(161,596)	(160,430)	(161,596)	(160,430)
Net income from Islamic financial business reported in the income statement	258,992	143,385	253,367	136,895

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)**Consolidated Statement of Changes in Equity
For the Financial Year Ended 31 December 2016**

GROUP	Capital funds RM'000	Unrealised AFS reserve RM'000	Retained profits RM'000	Total RM'000
At 1 January 2016	602,400	-	151,585	753,985
Total comprehensive (loss)/income for the financial year	-	(19,491)	62,915	43,424
At 31 December 2016	602,400	(19,491)	214,500	797,409
At 1 January 2015	602,400	-	224,723	827,123
Total comprehensive loss for the financial year	-	-	(73,138)	(73,138)
At 31 December 2015	602,400	-	151,585	753,985

**Statement of Changes in Equity
For the Financial Year Ended 31 December 2016**

BANK	Capital funds RM'000	Unrealised AFS reserve RM'000	Retained profits RM'000	Total RM'000
At 1 January 2016	597,400	-	98,303	695,703
Total comprehensive (loss)/income for the financial year	-	(19,491)	58,381	38,890
At 31 December 2016	597,400	(19,491)	156,684	734,593
At 1 January 2015	597,400	-	169,817	767,217
Total comprehensive loss for the financial year	-	-	(71,514)	(71,514)
At 31 December 2015	597,400	-	98,303	695,703

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)

Statements of Cash Flows

For the Financial Year Ended 31 December 2016

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash flows from operating activities				
Profit/(loss) before zakat	80,720	(51,485)	72,936	(51,719)
Adjustments for:				
Net gain on sale of financial investments – AFS (Note 49(k))	(7,680)	(1,275)	(7,680)	(1,275)
Accretion of discount less amortisation of premium of financial investments (Note 49(k))	(27,015)	(10,757)	(27,015)	(10,757)
Individual allowance (Note 49(l)):				
Individual allowance made	187,510	84,371	185,869	72,489
Individual allowance written back	(16,924)	(10,066)	(13,818)	(8,794)
Transferred from collective allowance	63,794	11,305	63,794	11,305
Transferred to collective allowance	(22,317)	(4,337)	(22,317)	(4,337)
Collective allowance (Note 49(l)):				
Collective allowance made	-	101,129	-	100,362
Collective allowance written back	(47,094)	(1,975)	(47,201)	(1,975)
Transferred from individual allowance	22,317	4,337	22,317	4,337
Transferred to individual allowance	(63,794)	(11,305)	(63,794)	(11,305)
Impairment allowance for:				
Financial investments – HTM	25,279	9,656	25,279	9,656
Bad debts and financing recovered (Note 49(l))	(6,721)	(9,936)	(5,490)	(4,128)
Bad debts and financing written off (Note 49(l))	9,874	527	9,867	527
Zakat (Note 49(q))	(17,805)	(21,653)	(14,555)	(19,795)
Compensation from the Government (Note 49(k))	(16,289)	(15,017)	(16,289)	(15,017)
Operating profit before working capital changes (Increase)/decrease in operating assets:	163,855	73,519	161,903	69,574
Other assets	704,117	(781,230)	674,919	(759,877)
Advances and financing	(2,153,511)	(145,035)	(2,163,974)	(153,871)
Deposits and placements with financial institutions	16,000	661,667	-	677,667
	(1,433,394)	(264,598)	(1,489,055)	(236,081)
(Decrease)/increase in operating liabilities:				
Other liabilities	38,841	(36,878)	60,468	(62,066)
Deposits from customers	932,187	2,298,088	932,187	2,298,088
Deposits and placements from financial institutions	(50,004)	50,004	(50,004)	50,004
	921,024	2,311,214	942,651	2,286,026
Cash (used in)/generated from operating activities	(348,515)	2,120,135	(384,501)	2,119,519
Zakat paid	(20,488)	(12,211)	(19,602)	(12,211)
Net cash (used in)/generated from operating activities	(369,003)	2,107,924	(404,103)	2,107,308

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)**Statements of Cash Flows**

For the Financial Year Ended 31 December 2016 (cont'd.)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash flows from investing activities				
Purchase of financial investments – AFS	(1,078,573)	(1,418,416)	(1,078,573)	(1,418,416)
Proceeds from disposal/maturity of financial investments – AFS	-	540,586	-	540,586
Proceeds from disposal/maturity of financial investments – HTM	-	78,916	-	78,916
Net cash used in investing activities	(1,078,573)	(798,914)	(1,078,573)	(798,914)
Cash flows from financing activities				
Receipt from issuance of redeemable notes	1,106,974	-	1,106,974	-
Reclassification of financial investment – AFS to Islamic financial business	-	(794,538)	-	(794,538)
Reclassification of financial investment – HTM to Islamic financial business	-	(252,993)	-	(252,993)
Net cash generated/(used in) from financing activities	1,106,974	(1,047,531)	1,106,974	(1,047,531)
Cash and cash equivalents (Note A)				
Net (decrease)/increase in cash and cash equivalents	(340,602)	261,479	(375,702)	260,863
Cash and cash equivalents at beginning of financial year	798,404	536,925	775,329	514,466
Cash and cash equivalents at end of financial year	457,802	798,404	399,627	775,329

(A) Cash and cash equivalents

Cash and cash equivalents included in the cash flows statements comprise the following statements of financial position amounts:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash and short term deposits	457,802	798,404	399,627	775,329

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(a) Cash and short term deposits				
Cash and bank balances with financial institutions	12,993	24,431	4,828	1,356
Money at call and deposit placements maturing within one month	444,809	773,973	394,799	773,973
	457,802	798,404	399,627	775,329
(b) Deposits and placements with financial institutions				
Licensed banks	-	16,000	-	-

(c) Financial investments – AFS

	Group and Bank	
	2016 RM'000	2015 RM'000
At fair value		
Money market instruments:		
Government investment issues	1,141,858	872,907
At fair value		
Unquoted securities:		
(In Malaysia)		
Private debt securities	1,611,207	801,103
	2,753,065	1,674,010

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)**(d) Financial investments – HTM**

	Group and Bank	
	2016 RM'000	2015 RM'000
At amortised cost		
Money market instruments:		
Cagamas	5,037	5,036
Unquoted securities:		
(In Malaysia)		
Private debt securities	527,365	500,832
Less: Accumulated impairment losses	(346,680)	(321,401)
	180,685	179,431
	185,722	184,467

Indicative market values of the financial investments – HTM are as follows:

	Group and Bank	
	2016 RM'000	2015 RM'000
Cagamas	5,029	5,066
Unquoted private debt securities	248,204	221,663

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)**(e) Advances and financing**

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Bai' Bithaman Ajil	219,355	339,824	219,349	328,834
Bai' 'Inah	52,009	162,173	52,009	162,173
Murabahah	25,778	53,822	25,778	53,822
Istisna'	5,787,662	9,578,230	5,787,662	9,578,230
Ijarah Muntahiyah bi Tamlik	167,420	206,700	131,382	166,457
Ijarah Thummal Bai'	-	499	-	-
Tawarruq	8,442,488	1,378,762	8,425,248	1,364,783
Staff financing	13,861	16,894	13,861	16,894
Unearned income	(5,575,694)	(4,642,889)	(5,575,694)	(4,642,889)
Gross advances and financing	9,132,879	7,094,015	9,079,595	7,028,304
Allowance for impairment on advances and financing:				
Individual allowance	(647,882)	(547,319)	(629,735)	(525,639)
Collective allowance	(260,253)	(348,818)	(258,753)	(347,431)
	(908,135)	(896,137)	(888,488)	(873,070)
Net advances and financing	8,224,744	6,197,878	8,191,107	6,155,234

(i) Advances and financing analysed by type of customers are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Domestic business enterprises	9,125,687	7,074,412	9,072,397	7,019,691
Individual	7,198	19,603	7,198	8,613
	9,132,885	7,094,015	9,079,595	7,028,304

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)**(e) Advances and financing (cont'd.)**

(ii) Advances and financing analysed by profit rate sensitivity are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Fixed rate:				
Housing financing	7,198	19,603	7,198	8,613
Other fixed rate financing	6,137,351	4,406,887	6,084,067	4,352,166
Variable rate:				
Cost plus	1,424,769	851,755	1,424,769	851,755
Other variable rates	1,563,561	1,815,770	1,563,561	1,815,770
	9,132,879	7,094,015	9,079,595	7,028,304

(iii) Advances and financing analysed by industry are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Agriculture, hunting & forestry	5,227	5,190	-	-
Construction	3,818,165	3,418,452	3,817,852	3,417,979
Education	1,470,948	1,390,451	1,470,948	1,390,451
Electricity, gas and water supply	217,432	232,302	217,432	232,302
Finance, takaful and business	17,138	20,578	-	-
Hotel and restaurants	146,840	117,196	146,840	117,196
Housing	15,060	19,603	7,198	8,613
Manufacturing	286,419	223,723	283,470	220,310
Materials technology	10,259	7,422	10,259	7,422
Other community, social and personal service activities	74,468	73,779	72,997	70,605
Public administration and defence	38,308	45,268	38,308	45,268
Shipping	751,170	923,570	751,170	923,570
Shipyard	201,369	94,248	201,369	94,248
Transport, storage and communication	2,080,076	522,233	2,061,752	500,340
	9,132,879	7,094,015	9,079,595	7,028,304

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)

(e) Advances and financing (cont'd.)

(iv) The maturity structure of advances and financing are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Receivable after 12 months	7,733,305	5,989,297	7,727,506	5,924,802
Receivable within 12 months	1,399,574	1,104,718	1,352,089	1,103,502
	9,132,879	7,094,015	9,079,595	7,028,304

(v) Advances and financing analysed by type and Shariah contract are as follows:

GROUP 2016	Bai' Bithaman Ajil RM'000	Bai' 'Inah RM'000	Murabahah RM'000	Istisna' RM'000	Ijarah Muntahiyah bi Tamlik RM'000	Ijarah Thummal Bai' RM'000	Tawarruq RM'000	Total RM'000
	At amortised cost							
Term facility								
Sale-based financing	219,355	52,009	-	5,787,662	-	-	8,019,236	14,078,262
Lease-based financing	-	-	-	-	167,420	-	-	167,420
Revolving facility								
Sale-based financing	-	-	25,778	-	-	-	423,252	449,030
Staff financing	13,861	-	-	-	-	-	-	13,861
Unearned income	-	-	-	-	-	-	-	(5,575,694)
Gross advances and financing	233,216	52,009	25,778	5,787,662	167,420	-	8,442,488	9,132,879
Allowance for impairment on advances and financing:								
Individual allowance	-	-	-	-	-	-	-	(647,882)
Collective allowance	-	-	-	-	-	-	-	(260,253)
Net advances and financing	-	-	-	-	-	-	-	8,224,744

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)**(e) Advances and financing (cont'd.)**

(v) Advances and financing analysed by type and Shariah contract are as follows: (cont'd.)

GROUP	Bai' Bithaman	Bai' 'Inah	Murabahah	Istisna'	Ijarah Muntahiyah	Ijarah Thummal	Tawarruq	Total
2015	Ajil	'Inah			bi Tamlik	Bai'		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At amortised cost								
Term facility								
Sale-based financing	339,824	162,173	-	9,578,230	-	-	1,378,762	11,458,989
Lease-based financing	-	-	-	-	206,700	499	-	207,199
Revolving facility								
Sale-based financing	-	-	53,822	-	-	-	-	53,822
Staff financing	16,894	-	-	-	-	-	-	16,894
Unearned income	-	-	-	-	-	-	-	(4,642,889)
Gross advances and financing	356,718	162,173	53,822	9,578,230	206,700	499	1,378,762	7,094,015
Allowance for impairment on advances and financing:								
Individual allowance	-	-	-	-	-	-	-	(547,319)
Collective allowance	-	-	-	-	-	-	-	(348,818)
Net advances and financing	-	-	-	-	-	-	-	6,197,878

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)

(e) Advances and financing (cont'd.)

(v) Advances and financing analysed by type and Shariah contract are as follows: (cont'd.)

BANK	Bai' Bithaman	Bai' 'Inah	Murabahah	Istisna'	Ijarah Muntahiyah bi Tamlik	Tawarruq	Total
2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At amortised cost							
Term facility							
Sale-based financing	219,349	52,009	-	5,787,662	-	8,001,996	6,059,020
Lease-based financing	-	-	-	-	131,382	-	8,133,378
Revolving facility							
Sale-based financing	-	-	25,778	-	-	423,252	449,030
Staff financing	13,861	-	-	-	-	-	13,861
Unearned income	-	-	-	-	-	-	(5,575,694)
Gross advances and financing	233,210	52,009	25,778	5,787,662	131,382	8,425,248	9,079,595
Allowance for impairment on advances and financing:							
Individual allowance	-	-	-	-	-	-	(629,735)
Collective allowance	-	-	-	-	-	-	(258,753)
Net advances and financing	-	-	-	-	-	-	8,191,107

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)**(e) Advances and financing (cont'd.)**

(v) Advances and financing analysed by type and Shariah contract are as follows: (cont'd.)

BANK 2015	Bai' Bithaman Ajil RM'000	Bai' 'Inah RM'000	Murabahah RM'000	Istisna' RM'000	Ijarah Muntahiyah bi Tamlik RM'000	Tawarruq RM'000	Total RM'000
At amortised cost							
Term facility							
Sale-based financing	328,834	162,173	-	9,578,230	-	1,364,783	11,434,020
Lease-based financing	-	-	-	-	166,457	-	166,457
Revolving facility							
Sale-based financing			53,822				53,822
Staff financing	16,894	-	-	-	-	-	16,894
Unearned income	-	-	-	-	-	-	(4,642,889)
Gross advances and financing	345,728	162,173	53,822	9,578,230	166,457	1,364,783	7,028,304
Allowance for impairment on advances and financing:							
Individual allowance	-	-	-	-	-	-	(525,639)
Collective allowance	-	-	-	-	-	-	(347,431)
Net advances and financing	-	-	-	-	-	-	6,155,234

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)**(e) Advances and financing (cont'd.)**

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	894,765	568,364	866,841	544,429
Impaired during the financial year	322,452	442,700	309,372	436,722
Reclassified as non-impaired	(14,911)	-	-	-
Recovered during the financial year	(52,691)	(10,685)	(45,667)	(8,696)
Amount written off	(114,980)	(105,614)	(113,330)	(105,614)
At 31 December	1,034,635	894,765	1,017,216	866,841
Gross impaired financing as a % of gross loans, advances and financing	11.33%	12.61%	11.20%	12.33%

(vii) Impaired advances and financing analysed by industry are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Construction	52,009	74,049	52,009	74,049
Education	56,626	56,588	56,626	56,588
Electricity, gas and water supply	74,257	72,816	74,257	72,816
Hotel and restaurants	102,935	98,379	102,935	98,379
Housing	7,862	10,990	-	-
Manufacturing	88,973	93,450	83,915	88,825
Materials technology	10,259	7,422	10,259	7,422
Other community, social and personal service activities	905	865	-	-
Shipping	637,215	468,762	637,215	468,762
Transport, storage and communication	3,594	11,444	-	-
	1,034,635	894,765	1,017,216	866,841

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)**(e) Advances and financing (cont'd.)**

(viii) Movements in allowance for impaired advances and financing are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Individual allowance ("IA")				
At 1 January	547,319	577,648	525,639	560,591
Allowance made during the financial year	187,510	84,371	185,869	72,489
Amount written back in respect of recoveries	(16,924)	(10,066)	(13,818)	(8,794)
Amount transferred from CA	63,794	11,305	63,794	11,305
Amount transferred to CA	(22,317)	(4,337)	(22,317)	(4,337)
Amount written off	(111,500)	(111,602)	(109,432)	(105,615)
At 31 December	647,882	547,319	629,735	525,639
Collective allowance ("CA")				
At 1 January	348,818	256,632	347,431	256,012
Allowance made during the financial year	-	101,129	-	100,362
Amount written back	(47,094)	(1,975)	(47,201)	(1,975)
Amount transferred to IA	(63,794)	(11,305)	(63,794)	(11,305)
Amount transferred from IA	22,317	4,337	22,317	4,337
At 31 December	260,247	348,818	258,753	347,431

(ix) Advances and financing analysed by geographical distribution are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Within Malaysia	9,132,879	7,094,015	9,079,595	7,028,304

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)**(f) Other assets**

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Other receivables		87,698	5,234	71,034	5,234
Interfund receivables	(i)	-	795,191	-	750,457
		87,698	800,425	71,034	755,691

(i) Interfund receivables are unsecured, profit free and are settled subsequent to year end.

(g) Deposits from Customers – Tawarruq

	Group and Bank	
	2016 RM'000	2015 RM'000
(a) The deposits are sourced from the following types of customers:		
Business enterprises	984,759	1,774,823
Government and statutory bodies	5,036,089	3,313,838
	6,020,848	5,088,661
(b) The deposits maturity structure are as follows:		
Less than six months	1,603,991	4,702,839
Six months to one year	4,416,857	385,822
	6,020,848	5,088,661

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)**(h) Other liabilities**

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Other payables		16,741	7,056	13,378	1,161
Zakat payables		19,337	21,807	17,137	21,807
Sources and uses of charity payables	(i)	1,901	2,187	1,901	2,187
Interfund payables	(ii)	66,022	62,276	25,925	-
		104,001	93,326	58,341	25,155

(i) Sources and uses of charity payables

Included in sources and uses of charity fund of the Group and Bank is an amount which are prohibited by Shariah amounting to RM800,236 (2015: RM800,236) and balance of RM1,101,260 (2015: RM1,386,699) is from profit equalisation reserve ("PER").

GROUP AND BANK	Charity Funds RM'000	Shariah Non- Compliance Income RM'000	Total RM'000
Undistributed funds as at 1 January 2015	-	-	-
Funds collected/received during the year	1,387	800	2,187
Undistributed funds as at 31 December 2015/1 January 2016	1,387	800	2,187
Uses of funds during the year			
Contribution to Non-profit Organisation	(152)	-	(152)
Contribution to School	(134)	-	(134)
	(286)	-	(286)
Undistributed funds as at 31 December 2016	1,101	800	1,901

(ii) Interfund payables are unsecured, profit free and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)

(i) Reserves

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Non-distributable:				
Unrealised AFS reserve	(19,491)	-	(19,491)	-
	(19,491)	-	(19,491)	-
Distributable:				
Retained profits	214,500	151,585	156,684	98,303
	195,009	151,585	137,193	98,303

Movements of the AFS reserve are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	-	-	-	-
Unrealised loss on fair value changes	(27,171)	-	(27,171)	-
Realised gain transferred to profit or loss	7,680	-	7,680	-
At 31 December	(19,491)	-	(19,491)	-

(j) Income derived from investment of depositors' funds

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Finance Income				
Advances and financing	242,991	175,485	242,991	175,485
Other income:				
Fee income	35,735	16,348	35,735	16,348
	278,726	191,833	278,726	191,833
Of which:				
Profit income earned on impaired advances and financing	16,272	5,456	16,166	5,456

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)**(k) Income derived from investment of shareholders' funds**

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Finance Income				
Advances and financing	168,655	191,530	164,604	185,776
Compensation from the Government	16,289	15,017	16,289	15,017
Deposits and placements with financial institution	21,507	28,098	20,133	27,529
Financial investments – AFS	93,068	24,733	93,068	24,733
Financial investments – HTM	4,264	1,942	4,264	1,942
	303,783	261,320	298,358	254,997
Accretion of discount less amortisation of premium	27,015	10,757	27,015	10,757
	330,798	272,077	325,373	265,754
Other income:				
Net gain on sale of:				
Financial investments – AFS	7,680	1,275	7,680	1,275
Fee income	16,727	15,440	16,527	15,273
	355,205	288,792	349,580	282,302
Of which:				
Profit income earned on impaired advances and financing	10,883	5,678	10,777	5,678

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)**(l) Allowances for/(Writeback on) impairment losses on advances and financing**

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Individual allowance:				
Made during the financial year	187,510	84,371	185,869	72,489
Written back	(16,924)	(10,066)	(13,818)	(8,794)
Transferred from CA	63,794	11,305	63,794	11,305
Transferred to CA	(22,317)	(4,337)	(22,317)	(4,337)
Collective allowance:				
Made during the financial year		101,129	-	100,362
Written back	(47,094)	(1,975)	(47,201)	(1,975)
Transferred to IA	(63,794)	(11,305)	(63,794)	(11,305)
Transferred from IA	22,317	4,337	22,317	4,337
Bad debts and financing:				
written off	9,874	527	9,867	527
recovered	(6,721)	(9,936)	(5,490)	(4,128)
	126,645	164,050	129,227	158,481

(m) Allowances for/(Writeback on) impairment losses on other assets

	Group and Bank	
	2016 RM'000	2015 RM'000
Financial investments – HTM	25,279	9,656
Written off – resigned staff	-	24
Written back – resigned staff	-	(263)
	25,279	9,417

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)**(n) Income attributable to the depositors**

	Group and Bank	
	2016 RM'000	2015 RM'000
Deposit from customers:		
Tawarruq	212,549	176,078
Deposits and placements from financial institutions:		
Tawarruq	794	732
	213,343	176,810

(o) Overhead expenses

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Personnel costs	(i)	17,464	13,483	17,464	13,483
General administrative expenses	(ii)	8,884	7,920	8,461	7,233
		26,348	21,403	25,925	20,716

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(i) Personnel costs					
Salaries, allowances and bonuses		13,591	10,613	13,591	10,613
Social security cost		76	55	76	55
Pension costs – Defined contribution plan		1,666	1,304	1,666	1,304
Other staff related expenses		2,131	1,511	2,131	1,511
		17,464	13,483	17,464	13,483
(ii) General administrative expenses					
General administrative expenses		8,884	7,920	8,461	7,233

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)**(o) Overhead expenses (cont'd.)**

The above overhead expenses have been determined after charging amongst other items the following:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Shariah Committee's remuneration	306	189	306	189

(p) Finance cost

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Redeemable notes	156,004	160,430	156,004	160,430
Bills and acceptance payable	5,592	–	5,592	–
	161,596	160,430	161,596	160,430

(q) Zakat

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Zakat	17,805	21,653	14,555	19,795

(r) Commitments and contingencies

	Group and Bank	
	2016 RM'000	2015 RM'000
Contingencies as at the financial year end constitute the following:		
Secured guarantees on behalf of customers given to third parties	1,266,310	1,242,982
Disbursement of advances and financing to industries	5,674,475	2,109,416
	6,940,785	3,352,398

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)**(s) Capital Adequacy****Capital management**Regulatory capital

The following table sets forth capital resources and capital adequacy for the Bank as at reporting date.

	Bank	
	2016 RM'000	2015 RM'000
Tier 1 capital		
Capital funds	597,400	597,400
Other reserves	137,193	98,303
Total Tier 1 capital	734,593	695,703
Tier 2 capital		
Government support funds	234,011	239,420
Collective allowance*	258,269	342,933
Total Tier 2 capital	492,280	582,353
Total capital base	1,226,873	1,278,056

* The eligible amount for Tier 2 capital is after excluding CA on impaired advances and financing of the Bank.

Breakdown of risk-weighted assets in the various categories of risk-weights:

	Bank	
	2016 RM'000	2015 RM'000
10%	-	-
20%	87,233	164,880
50%	1,431,652	511,409
100%	11,473,431	9,388,806
	12,992,316	10,065,095

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

49. ISLAMIC FINANCIAL BUSINESS (CONT'D.)

(s) Capital Adequacy (cont'd.)

Capital management (cont'd.)

Regulatory capital

Without deducting proposed dividend:

	Bank	
	2016 %	2015 %
Core capital ratio	5.65%	6.91%
RWCR	9.44%	12.70%

50. RECLASSIFICATION

The reclassification relates to the transfer of realised gains on AFS securities upon realisation that was not made in prior years.

The effect of the reclassification to the Group and Bank are as follows:

	As previously stated RM'000	Reclassification RM'000	As restated RM'000
GROUP			
At 1 January 2015			
Unrealised AFS reserve	54,845	16,316	71,161
Distributable retained profits	2,474,873	(16,316)	2,458,557
At 31 December 2015			
Unrealised AFS reserve	2,185	16,316	18,501
Distributable retained profits	2,419,456	(16,316)	2,403,140
BANK			
At 1 January 2015			
Unrealised AFS reserve	54,845	16,316	71,161
Distributable retained profits	2,333,308	(16,316)	2,316,992
At 31 December 2015			
Unrealised AFS reserve	1,982	16,316	18,298
Distributable retained profits	2,384,582	(16,316)	2,368,266

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

51. GOVERNMENT FUNDS

As a development financial institution, the Bank perform its mandated roles to promote strategic sectors identified by the Government of Malaysia as follows:

(a) Tourism Fund

The objective of the tourism fund is to develop and promote tourism industry.

(b) Maritime Fund

The objective of the maritime fund is to provide financial assistance to existing and new companies to stimulate growth in shipping, shipyard, marine and oil & gas related activities and services.

(c) Public Transport Fund

The objective of the public transport fund is to spur the growth in the public transportation industry and improve the quality of the nation's public transportation services.

For all the above funds, the Group and the Bank act as a financier that bear the credit risk and recognise its credit losses in the financial statements.

51.1 Performance of the fund

	2016				2015			
	Tourism fund RM'000	Maritime fund RM'000	Public Transport fund RM'000	Total RM'000	Tourism fund RM'000	Maritime fund RM'000	Public Transport fund RM'000	Total RM'000
GROUP								
Share capital	200,000	-	-	200,000	200,000	-	-	200,000
Borrowings/Islamic Funding	4,200,000	4,494,258	505,742	9,200,000	4,200,000	4,494,258	505,742	9,200,000
	4,400,000	4,494,258	505,742	9,400,000	4,400,000	4,494,258	505,742	9,400,000
Net approved	(2,947,290)	(3,088,241)	(411,894)	(6,447,425)	(2,499,380)	(3,121,811)	(373,491)	(5,994,682)
Fund available	1,452,710	1,406,017	93,848	2,952,575	1,900,620	1,372,447	132,251	3,405,318
Loans, advances and financing:								
Disbursement	2,147,691	3,405,968	296,069	5,849,728	1,903,271	2,701,339	277,947	4,882,557
Repayment	(618,247)	(1,886,140)	(234,720)	(2,739,107)	(518,600)	(1,199,170)	(201,700)	(1,919,470)
Outstanding	1,529,444	1,519,828	61,349	3,110,621	1,384,671	1,502,169	76,247	2,963,087
Number of beneficiaries	69	43	105	217	63	44	102	209

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

31 DECEMBER 2016

51. GOVERNMENT FUNDS (CONT'D.)

51.1 Performance of the fund (cont'd.)

BANK	2016				2015			
	Tourism fund RM'000	Maritime fund RM'000	Public Transport fund RM'000	Total RM'000	Tourism fund RM'000	Maritime fund RM'000	Public Transport fund RM'000	Total RM'000
Share capital	200,000	-	-	200,000	200,000	-	-	200,000
Borrowings/Islamic Funding	4,200,000	4,494,258	5,742	8,700,000	4,200,000	4,494,258	5,742	8,700,000
	4,400,000	4,494,258	5,742	8,900,000	4,400,000	4,494,258	5,742	8,900,000
Net approved	(2,947,290)	(3,088,241)	(5,742)	(6,041,273)	(2,499,380)	(3,121,811)	(5,742)	(5,626,933)
Fund available	1,452,710	1,406,017	-	2,858,727	1,900,620	1,372,447	-	3,273,067
Loans, advances and financing:								
Disbursement	2,147,691	3,408,968	5,661	5,562,320	1,903,271	2,701,339	5,661	4,610,271
Repayment	(618,247)	(1,886,140)	(5,661)	(2,510,048)	(518,600)	(1,199,170)	(5,661)	(1,723,431)
Outstanding	1,529,444	1,522,828	-	3,052,272	1,384,671	1,502,169	-	2,886,840
Number of beneficiaries	69	43	1	113	63	44	1	108



Bank Pembangunan Malaysia Berhad (16562-K)

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