



**Bank Pembangunan**

**ANNUAL REPORT 2010**

*Laporan Tahunan*

**Creating Possibilities.**

*Mencipta Kemungkinan*





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CORPORATE FRAMEWORK



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PERFORMANCE VIEW



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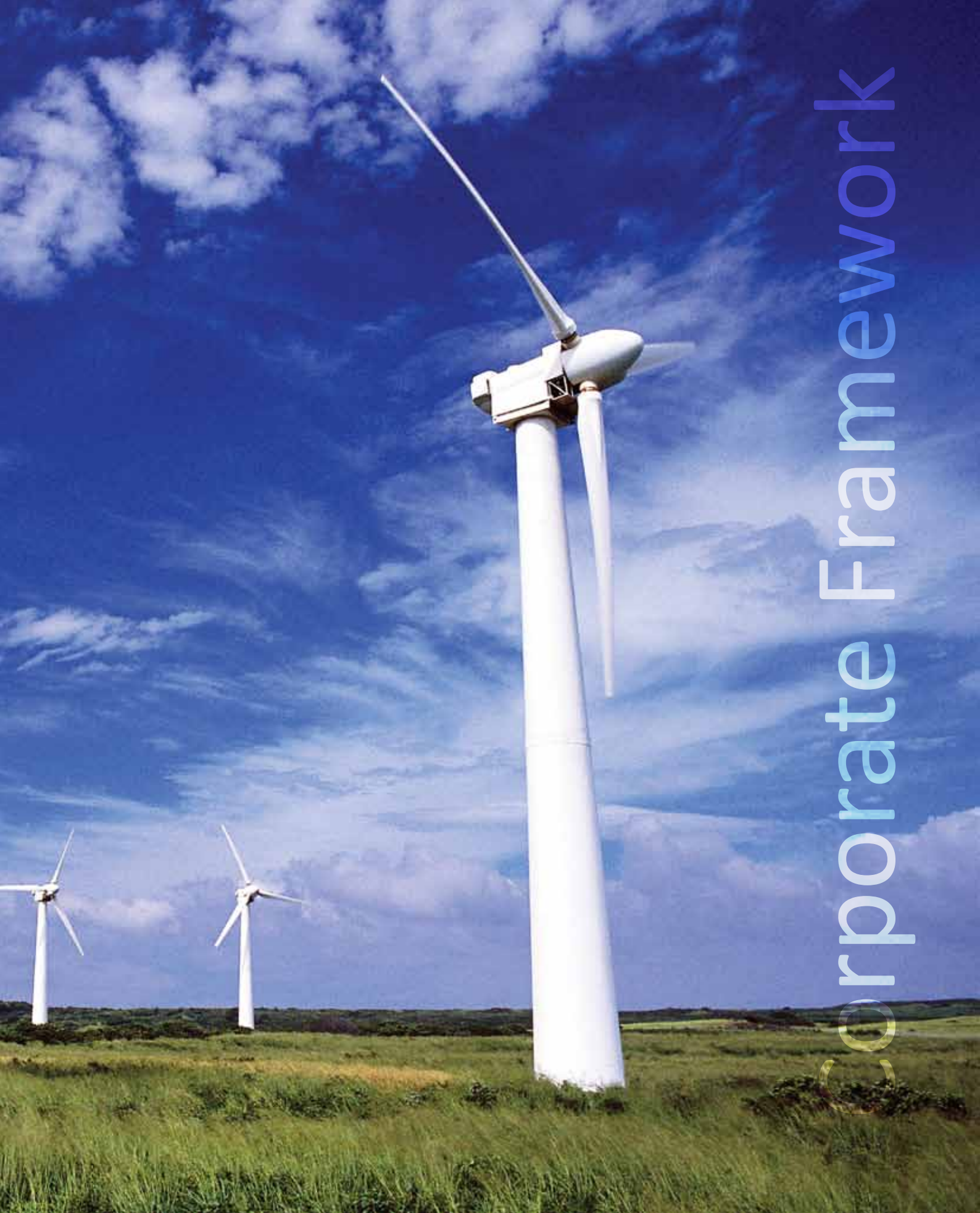


RATIONALE

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# Corporate Framework

# Corporate Profile

## Profil Korporat



### PROFIL KORPORAT • CORPORATE PROFILE

Bank Pembangunan Malaysia Berhad (BPMB) dimiliki sepenuhnya oleh Kerajaan Malaysia melalui Menteri Kewangan Diperbadankan. Bank Pembangunan diberi mandat sebagai institusi kewangan pembangunan yang menyediakan pembiayaan jangka sederhana ke jangka panjang kepada sektor-sektor berikut:

*Bank Pembangunan Malaysia Berhad (BPMB) is wholly-owned by the Malaysian Government through the Minister of Finance Inc. Bank Pembangunan is mandated as a development financial institution providing medium to long term financing to the following sectors:*

### INFRASTRUKTUR • INFRASTRUCTURE

#### Utiliti • Utilities

- Tenaga / Energy
- Air / Water
- Pembetungan / Sewerage

#### Pengangkutan • Transportation

- Darat / Inland
- Udara / Air

#### Pembangunan Kawasan • Area Development

- Awam / Komersil / Public / Commercial
- Perindustrian / Industrial

#### Pelancongan • Tourism

- Pelancongan Tema / Theme Tourism
- Pusat-pusat Perniagaan dan Konvensyen / Convention and Business Centres
- Hotel / Peranginan / Pangsapuri Berservis / Vila / Hotels / Resorts / Serviced Apartments / Villas
- Marina / Marine



#### Pelabuhan • Port

- Darat / Inland
- Laut / Sea
- Gudang / Hub Logistik / Warehouse / Logistics Hub

#### Jalanraya / Lebuhraya • Road / Highway

- Jalan Bertol / Toll Road
- Jalan Persekutuan / Federal Road
- Jalan Utama / Trunk Road
- Jalan Bandar / City Road
- Jambatan / Bridges

#### Komuniti / Sosial & Perkhidmatan Awam • Community / Social & Public Services

- Pendidikan / Education
- Kesihatan (kecuali Pelancongan Kesihatan) / Health (excluding Health Tourism)
- Tebatan Banjir / Flood Mitigation

# Corporate Profile

## Profil Korporat



- Peralatan & Kelengkapan / *Instrumentation & Equipment*
- Bahan Kimia / *Chemical*
- Tekstil / *Textiles*
- Percetakan Sekuriti / *Security Printing*
- Plastik / *Plastic*
- Memproses Makanan / *Food Processing*
- Besi & Keluli / *Iron & Steel*
- Kertas & Palpa / *Pulp & Paper*
- Aeroangkasa / *Aerospace*
- Bahan Termaju / *Advanced Materials*

### MARITIM • MARITIME

#### Perkapalan • *Shipping*

- Kapal Kargo Cecair / *Liquid Cargo Vessels*
- Kapal Kargo Kering / *Dry Cargo Vessels*
- Kapal Bantuan Di luar Pesisiran / *Offshore Support Vessels*
- Kapal Kontena / *Container Vessels*
- Kapal Khusus / *Specialised Vessels*

#### Limbungan • *Shipyards*

- Pembinaan Kapal / *Shipbuilding*
- Baik Pulih Kapal / *Ship Repair*
- Kerja-kerja Kejuruteraan / *Engineering Works*

#### Lain-lain Berkaitan Maritim

##### *Other Maritime Related*

- Kerja-kerja Kejuruteraan dan Fabrikasi Luar Pantai / *Offshore Engineering and Fabrication Works*

### TEKNOLOGI • TECHNOLOGY

#### Pembuatan Termaju • *Advanced Manufacturing*

- Farmasi / *Pharmaceutical*
- Elektrik & Elektronik / *Electric & Electronic*
- Kejuruteraan & Khidmat Sokongan / *Engineering & Support Service*

#### Teknologi Maklumat dan Komunikasi (ICT)

##### *Information & Communication Technology (ICT)*

- Telekomunikasi / *Telecommunication*
- Integrasi sistem / *System Integration*
- Komunikasi / *Communication*

#### Teknologi Hijau • *Green Technology*

- Kecekapan Tenaga / *Energy Efficiency*
- Tenaga Guna Semula / *Renewable Energy*
- Biofuel / *Biofuel*
- Kitar Semula Sisa / *Waste to Wealth*
- Clean Development Mechanism (CDM) / *Clean Development Mechanism (CDM)*
- Kawalan Pencemaran / *Pollution Control*
- Bioteknologi / *Biotechnology*

Sebagai syarikat induk, Bank Pembangunan memainkan peranan utama dalam menerajui pembangunan sektor-sektor strategik ekonomi Malaysia. Fokus utama adalah kepada menjamin projek-projek pengembangan pasaran yang kritikal kepada pembangunan ekonomi Negara.

*As the holding company, Bank Pembangunan plays a key role in spearheading the growth of Malaysian's strategic economic sectors. The main focus is on the sustenance of market expansion projects which is critical to the nation's development.*

# Corporate Information

## Maklumat Korporat

**Pengerusi • Chairman** ..... **Datuk Dr. Abdul Samad Hj. Alias**

**Ahli Lembaga Pengarah • Board Members** .....

- Dato' Zafer Hashim**  
President/Group Managing Director
- Siti Zauyah Md. Desa**  
(appointed on 6 January 2009)
- Zainul Rahim Mohd. Zain**  
(appointed on 8 March 2010)
- Tan Sri Faizah Mohd. Tahir**  
(appointed on 1 June 2010)
- Dato' Dr. Syed Jaafar Syed Aznan**  
(appointed on 1 June 2010)
- Datuk Idris Abdullah**  
(appointed on 1 December 2010)
- Tuan Haji Rosli Abdullah**  
(appointed on 3 January 2011)

**Setiausaha Syarikat Kumpulan • Group Company Secretary** .....

- Syed Iskandar Syed Abu Bakar**
- Hazlinda Ahmad Rosdi**

**Jawatankuasa Syariah • Syariah Committee** .....

- Tan Sri Dato' Seri (Dr) Haji Harussani Haji Zakaria**
- Prof. Dr. Abdul Jalil Borham**
- Dr. Ridzwan Ahmad**
- Asst. Prof. Dr. Miszairi Sitoris**

**Juruaudit • Auditor** ..... **Ernst & Young**

**Pejabat Berdaftar • Registered Office**..... **Bank Pembangunan Malaysia Berhad (16562-K)**  
Aras 16, Menara Bank Pembangunan  
Bandar Wawasan  
No.1016, Jalan Sultan Ismail  
50250 Kuala Lumpur

**Laman sesawang • Website**..... **www.bankpembangunan.com**

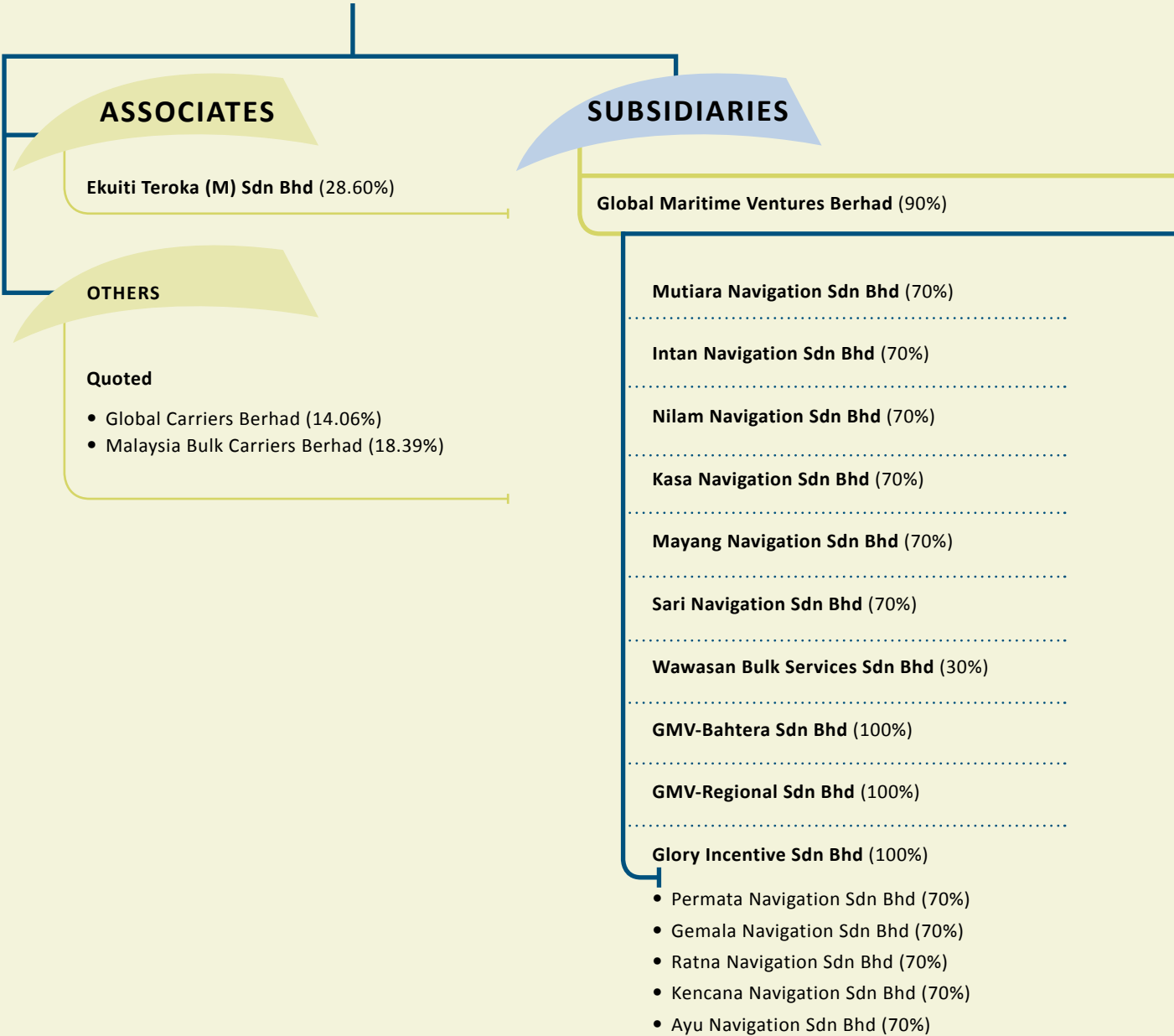




# Performance Review

# Corporate Structure

## Bank Pembangunan



**GMV-Gagasan Sdn Bhd (100%)**

- Formasi Cekal Sdn Bhd (40%)
- Baycorp Ship Mgmt Sdn Bhd (40%)
- Gagasan Sembilan Sdn Bhd (40%)
- Gagasan Ked Sdn Bhd (60%)
- Gagasan Paha Sdn Bhd (60%)

**GMV-Orkim Sdn Bhd (100%)**

- Orkim Leader Sdn Bhd (40%)
- Orkim Power Sdn Bhd (40%)
- Orkim Merit Sdn Bhd (40%)
- Orkim Express Sdn Bhd (40%)
- Orkim Challenger Sdn Bhd (60%)
- Orkim Discovery Sdn Bhd (60%)
- Orkim Reliance Sdn Bhd (60%)

**GMV-Alam Sdn Bhd (100%)**

- Alam Explorasi (M) Sdn Bhd (40%)
- Alam Synergy I (L) Inc. (40%)
- Alam Synergy II (L) Inc. (40%)
- Alam Synergy III (L) Inc. (40%)

**GMV-Global Sdn Bhd (100%)**

- Global BMesra Sdn Bhd (49%)
- Global BMesra Dua Sdn Bhd (49%)
- Global Bikhlas Sdn Bhd (49%)

**GMV-Omni Sdn Bhd (100%)**

- Omni Offshore (L) Inc. (40%)

**GMV-Jasa Sdn Bhd (100%)**

- JM Global 1 (L) Inc. (49%)
- JM Global 2 (L) Inc. (49%)
- JM Global 3 (L) Inc. (49%)
- JM Global 4 (L) Inc. (49%)

**GMV-Efogen Sdn Bhd (100%) (formerly known as GMV-Orion Sdn Bhd)**

- Sea Weasel Ltd. (49%)

**GMV Borcos Sdn Bhd (100%) (formerly known as Eviwealth Resources Sdn Bhd)**

**GMV-Offshore Sdn Bhd (100%)**

- Rimbun Astana(40%)

**Maju Nominees (Tempatan) Sdn Bhd (100%)**

**BPMB Urus Harta Sdn Bhd (100%)**

**Pembangunan Ekuiti Sdn Bhd (54.80%)**

**Emerald Upline Sdn Bhd (100%)**

**Pembangunan Leasing Corporation Sdn Bhd (100%)**

**PLC Credit & Factoring Sdn Bhd (100%)**

**BI Credit & Leasing Sdn Bhd (100%)**

# Financial Highlights

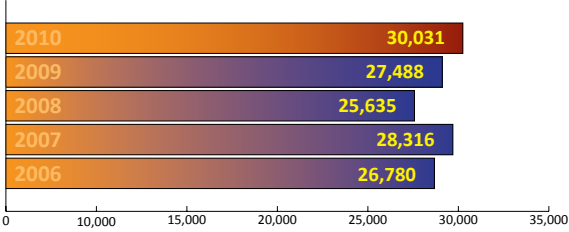
	GROUP		BANK	
	2010	2009	2010	2009
<b>PROFITABILITY (RM MILLION)</b>				
Interest Income	1,546	1,474	1,496	1,427
Net Income	1,244	1,094	1,076	887
Operating profit	539	326	503	384
Profit before taxation	549	339	503	384
Profit for the year	424	320	385	376
<b>KEY BALANCE SHEET DATA (RM MILLION)</b>				
Total assets	30,031	27,488	29,252	26,586
Total deposits and placements	4,005	2,019	3,297	1,322
Financial Investment - Available for sale (AFS)	1,852	2,184	1,846	2,181
Financial Investment - Held to maturity (HTM)	265	423	265	423
Loans, advances and financing	21,435	20,027	21,322	19,894
Total liabilities	22,785	19,913	22,384	19,456
Deposits from customers	7,458	8,233	7,458	8,233
Redeemable Notes	4,491	1,990	4,491	1,990
Term Loans	9,902	8,613	9,615	8,247
Paid-up capital	3,079	3,079	3,079	3,079
Total Equity	7,246	7,575	6,869	7,131
Infrastructure support fund	380	716	380	716
Deferred income	292	152	292	152
Commitments and contingencies	5,542	9,307	5,195	9,161
<b>SHARE INFORMATION</b>				
Earnings per share - basic (sen)	13.67	9.99	12.52	12.21
Gross dividend			3.25	3.25
<b>FINANCIAL RATIOS (%)</b>				
<b>Profitability Ratios (%)</b>				
Return on Equity	7.41	4.57	7.19	5.53
Return on Assets	1.91	1.28	1.80	1.50
Cost to Income Ratio	19.12	23.45	7.71	7.62
<b>Capital Adequacy (%)</b>				
Risk Weighted Capital Ratio (CAR)			32.65	31.12
Core Capital Ratio			30.85	30.09
<b>Asset Quality Ratio (%)</b>				
Gross Impaired Loan	11.97	4.97	11.06	4.15
Net Impaired Loan	1.60	1.63	1.31	1.66

# 5-Year Group Financial Summary

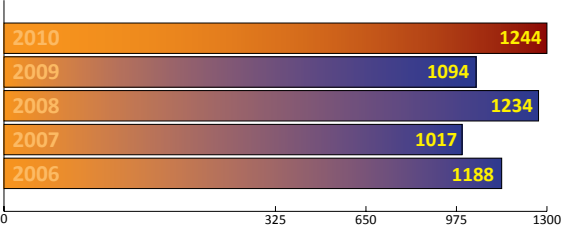
	2010	2009	2008	2007	2006
<b>PROFITABILITY (RM MILLION)</b>					
Interest Income	1,546	1,474	1,444	1,262	1,256
Net Income	1,244	1,094	1,234	1,017	1,188
Operating profit	539	326	986	739	810
Profit before taxation	549	339	949	766	441
Profit for the year	424	320	937	858	361
<b>KEY BALANCE SHEET DATA (RM MILLION)</b>					
<b>Total assets</b>	<b>30,031</b>	<b>27,488</b>	<b>25,635</b>	<b>28,316</b>	<b>26,780</b>
Total deposits and placements	4,005	2,019	2,947	1,869	3,855
Financial Investment - Available for sale (AFS)	1,852	2,184	2,085	1,671	1,916
Financial Investment - Held to maturity (HTM)	265	423	469	623	0
Loans, advances and financing	21,435	20,027	17,286	17,754	18,074
<b>Total liabilities</b>	<b>22,785</b>	<b>19,913</b>	<b>18,368</b>	<b>21,916</b>	<b>21,026</b>
Deposits from customers	7,458	8,233	5,178	5,170	4,839
Redeemable Notes	4,491	1,990	1,989	2,019	2,048
Term Loans	9,902	8,613	9,901	10,165	12,677
Infrastructure support fund	380	716	662	606	535
Deferred income	292	152	448	396	119
Paid-up capital	3,079	3,079	3,079	3,079	3,079
Total equity	7,246	7,575	7,267	6,400	5,754
Commitments and contingencies	5,542	9,307	6,223	8,385	11,005
<b>SHARE INFORMATION (Per share (sen))</b>					
Earnings per share	13.67	9.99	28.73	23.89	10.23
Gross dividend	3.25	3.25	2.60	2.60	2.60
<b>FINANCIAL RATIOS (%)</b>					
<b>Profitability Ratios (%)</b>					
Return on Equity	7.41	4.57	13.89	12.60	8.51
Return on Assets	1.91	3.56	3.52	2.78	1.77
Cost to Income Ratio	19.12	23.45	20.13	27.39	31.80
<b>Asset Quality Ratio (%)</b>					
Gross Impaired Loan	11.97	4.97	4.86	5.97	

# 5-Year Group Growth

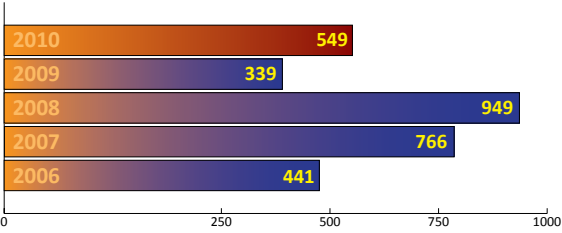
**Total Assets Employed**  
RM Million



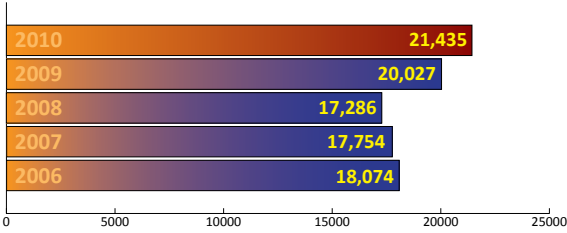
**Net Income**  
RM Million



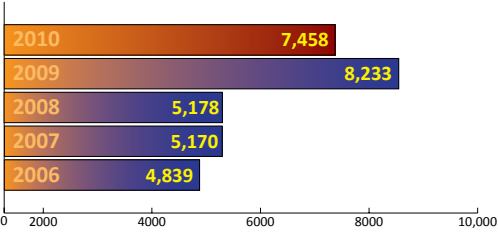
**Profit Before Taxation**  
RM Million



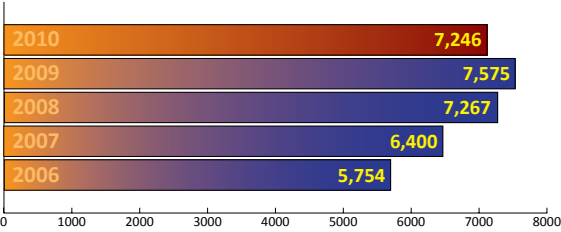
**Loans, Advances & Financing**  
RM Million



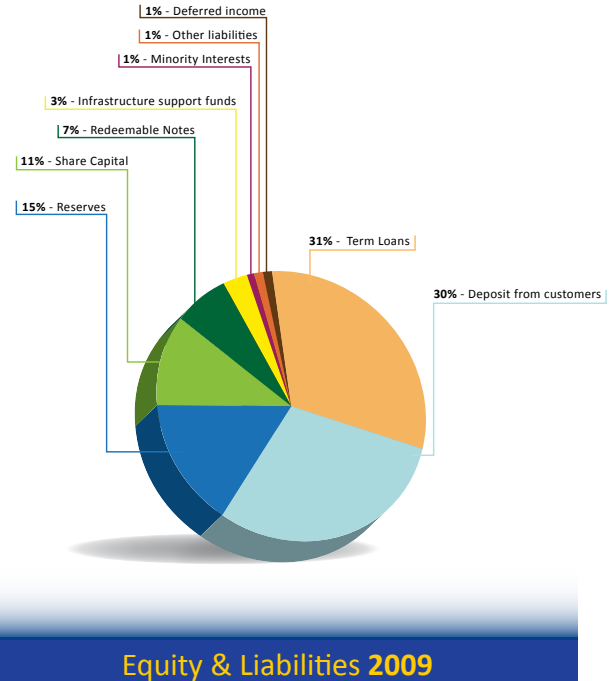
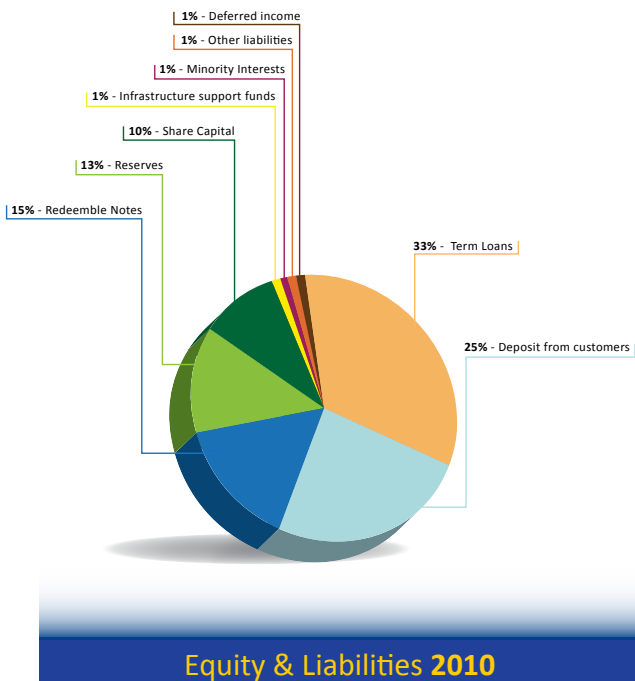
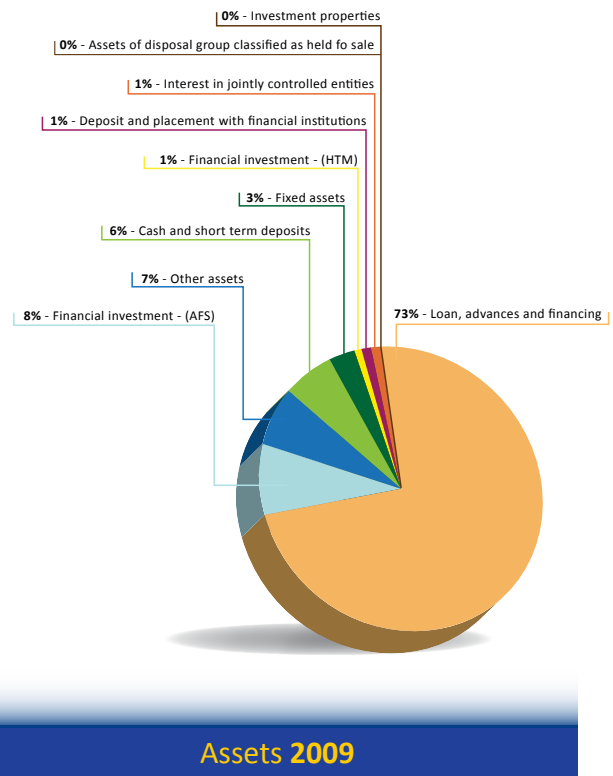
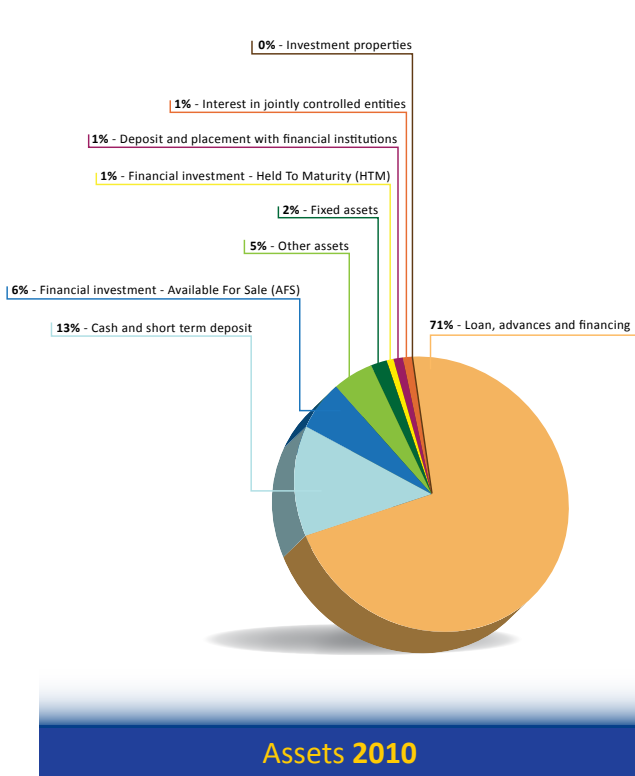
**Deposits From Customers**  
RM Million



**Total Equity**  
RM Million



# Simplified Group Balance Sheets



# Financial Performance

## Analysis of Significant Balance Sheet Movements

### TOTAL ASSETS

The Group's total assets as at 31 December 2010 grew by 9.25% or RM2.5 billion to RM30.03 billion compared to the previous financial year. This was mainly contributed by loan growth of 7.03% or RM1.41 billion and increase in deposit and placement by RM2.0 billion.

### DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

The Group's total deposits and placements as at 31 December 2010 increased significantly by 98.5% or RM2.0 billion as part of liquidity management via improvement in liquefiable asset position.

### LOANS, ADVANCES AND FINANCING

The Group's total net loans, advances and financing recorded a commendable growth of 7.03% or RM1.41 billion for the FY ended 31 December 2010.

A total of RM5.05 billion worth of loans were disbursed by Bank Pembangunan and its lending arm, Pembangunan Leasing Corporation Sdn Bhd ('PLC'), while loan collection during the year was RM3.2 billion.

### FIXED DEPOSITS AND ACCEPTANCES/ REDEEMABLE NOTES

The Group's fixed deposits and acceptances decreased by 9.4% or RM775.0 million to RM7.46 billion as at 31 December 2010. This was in line with the funding strategy of reducing reliance on short term deposit and increasing more medium term funding via issuance of Medium Term Notes of RM2.5 billion during the year.

### TOTAL EQUITY

Group reserves decreased by 7.13% or RM304.0 million to RM3.96 billion, largely due to adjustment to Retained Earnings arising from first time implementation of FRS 139. As a result, total equity of the Group decreased to RM7.2 billion from RM7.6 billion in 2009.





# Financial Performance

## Analysis of the Income Statement

### INTEREST INCOME

Interest income for the Group grew by 4.85% or RM71.56 million for the FY ended 31 December 2010. The Group's core activity in loan financing was the main contributor with RM1.2 billion or 79.14% of the total interest income for the year.

Interest income earned from treasury operations for the FY ended 31 December 2010 increased by RM11.23 million or 21.06% as a result of an increase in deposit and placement with financial institution during the year 2010.

Investment in securities contributed RM81.6 million which was a decline by 13.97% from 2009 of RM94.9 million. The decrease in income for the year was attributed to disposal and maturity of investment securities.

### NON-INTEREST INCOME

Non-interest income for the Group increased significantly by 49.68% or RM140.4 million for the FY ended 31 December 2010 as compared to FY 2009. The increase was mainly due to higher income from unrealized gain on foreign exchange as well as government compensation in respect of certain allowances made on impaired loans and financial investment.

### OVERHEAD EXPENSES

For the FY ended 31 December 2010, overhead expenses for the Group lowered by 6.9% or RM17.5 million mainly due to the decrease in establishment related expenses, especially depreciation of fixed assets and cost incurred for repairs and maintenance.

Personnel cost of the Group slightly increased by 1.62% mainly due to cost related to implementation of Mutual Separation Scheme which was completed in December 2010.

### ALLOWANCE FOR IMPAIRMENT OF LOANS & FINANCING AND IMPAIRMENT LOSSES ON FINANCIAL INVESTMENT (AFS & HTM)

For the year under review, the Group's total allowance for impairment of loans & financing and impairment losses on financial investment (AFS/HTM) decreased by RM45.8 million to RM467.2 million from RM512.9 million in 2009. Higher allowance for impairment in 2009 and 2010 compared to previous years was due to first time implementation of FRS 139.



Leadership

# Profile Of Director

## Datuk Dr. Abdul Samad Haji Alias

*Non-Executive Chairman*



Datuk Dr. Abdul Samad bin Haji Alias was appointed as the Chairman of the Board of Directors of BPMB on August 1, 2008. He holds a Bachelor's Degree in Commerce from the University of Western Australia and is a member of the Malaysian Institute of Certified Public Accountants, a fellow of the Institute of Chartered Accountants Australia and a member of the Malaysian Institute of Accountants.

He was the first Malaysian to be elected as one of the board members of the International Federation of Accountants. He was the President of MICPA from 1999 to 2002 and had served as a member of Malaysian Accounting Standards Board, Financial Reporting Foundation and Companies Commission of Malaysia. From September 2000 to August 2005, he was the President of MIA. Prior to his appointment as Chairman of BPMB, Datuk Dr. Abdul Samad was the Non-Executive Chairman of Messrs. Ernst & Young.

His current directorships in companies within Bank Pembangunan Group include being the Chairman of Global Maritime Ventures Berhad, Pembangunan Leasing Corporation Sdn Bhd, PLC Credit & Factoring Sdn Bhd and BI Credit & Leasing Berhad. He is the Chairman of Malaysian Venture Capital Management Berhad (MAVCAP) and Malaysia Debt Ventures Berhad. He also sits on the Boards of Lembaga Tabung Haji, TH Plantation Berhad Group, MAVCAP Group, Malaysia Deposit Insurance Corporation and several other private limited companies.

# Profile Of Director

Dato' Zafer Hashim

*President/Group Managing Director*

Dato' Zafer Hashim was appointed as the President/Group Managing Director of BPMB on August 5, 2009. He holds a Bachelor of Science in Economics and Mathematics from the London School of Economics and Political Science, University of London. He is a Chartered Accountant by profession and a member of the Institute of Chartered Accountants in England and Wales.

He was previously the Chief Financial Officer of Maybank Investment Bank Berhad and Bank Muamalat Malaysia Berhad. Prior to Bank Muamalat, he was attached to MMC Corporation Berhad as its General Manager. He began his career with Price Waterhouse in London.

His current directorships in companies within Bank Pembangunan Group include being the Director of Global Maritime Ventures Berhad and Pembangunan Leasing Corporation Sdn Bhd. He also sits on the boards of Malaysian Bulk Carriers Berhad, Global Carriers Berhad and Perbadanan Nasional Berhad.



# Profile Of Director

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Puan Siti Zauyah Md. Desa

*Non-Independent Non-Executive Director*



Puan Siti Zauyah binti Md Desa was appointed to the Board on January 6, 2009. She graduated with MBA International Banking (Board of Directors' List) from the University of Manchester, United Kingdom, BSc (Hons) in Quantity Surveying from University of Reading, UK and GCE 'A' Levels from Aston College, Wrexham, Wales, UK. She also holds a Diploma in Public Administration from National Institute of Public Administration (INTAN).

She is currently the Deputy Secretary, (Economy) Investment, MOF (Inc) & Privatisation Division, a position she held since September 2008. She has served the MOF in various capacities since 1989. She was the Advisor and Secretariat to the Malaysian delegation to international assignments from 1998 to 2007. She was also the Advisor representing Malaysia at the Asian Development Bank, Manila from 2003 to 2006 and the Special Advisor for IDB Islamic Trade Financing Corporation matters from 2007 to 2008.

She currently sits on the boards of Aerospace Technology Systems Corporation Sdn. Bhd. and UDA Holdings Berhad.

# Profile Of Director

Tan Sri Faizah Mohd. Tahir

*Independent Non-Executive Director*

Tan Sri Faizah binti Mohd Tahir was appointed to the Board on June 1, 2010. She holds a Bachelor Degree in Economics from Universiti Malaya and Master's in Development Economics from Williams College, United States of America.

She joined the Economic Planning Unit (“EPU”), Prime Minister’s Department in 1973 and served in the Agriculture, Distribution and Human Resource Sections in various capacities. Her last position in the EPU was as Director, Commerce and Industry Section before she was promoted to the post of Secretary-General of the Ministry of Women, Family and Community Development which she held from 2001 until her retirement in 2009.

She currently sits as the Chairman of Bank Pertanian Malaysia Berhad (Agrobank) and a Director of Goodyear Malaysia Berhad, Goodyear Marketing & Sales Sdn Bhd and Faith Acres Sdn Bhd. She is also a member of the Investment Committee of Amanah Saham Wawasan 2020.



# Profile Of Director

Dato' Dr. Syed Jaafar Syed Aznan

*Independent Non-Executive Director*



Dato' Dr. Syed Jaafar bin Syed Aznan was appointed to the Board on June 1, 2010. He holds a Bachelor of Economics (Hons) from the University of Malaya, Masters in Business Administration from the Wharton School, University of Pennsylvania, USA and Ph.D from Henley – the Management College, Brunel University, United Kingdom.

He joined the Administrative and Diplomatic Service in 1970 and held various positions in Ministry of Finance. He was the State Financial Officer of Perak from 1991 to 1993. He was the Deputy Secretary General, Ministry of International Trade and Industry from 1993 to 1995 and Deputy Secretary General, Ministry of Defence from year 1996 to 1997. In 1997 he was appointed to the position of Vice President of Islamic Development Bank (“IDB”), Jeddah, Saudi Arabia and retired from IDB in 2009.

He currently sits on the Board of EONCAP Islamic Bank Berhad. He is also the Chairman of Perbadanan Kemajuan Ekonomi Islam Negeri Perak and a Council Member of Majlis Agama Islam dan Adat Melayu Perak.



# Profile Of Director

Datuk Idris Abdullah

*Independent Non-Executive Director*

Datuk Idris Abdullah was appointed to the Board on December 1, 2010. He graduated from University of Malaya in 1981 with Bachelor of Laws (First Class Honours). His career started in 1981 when he did his Chambering at Ting Tung Ming Esq in Sibu, Sarawak. In 1982, he was admitted to The Roll of Advocates of The High Court of Malaysia in Sabah and Sarawak. He also served as Resident Lawyer at Ting & Company, Sibu, Sarawak; In-House Legal Advisor of Sarawakian Group of Companies and is currently Senior Partner of Idris & Company Advocates.

His experience in the corporate sector began in 1979 as a partner/shareholder in a group of bumiputera companies in Sibu, Sarawak. From 1995 to date, he was the Advisor to a number of Sarawak companies engaged in construction and building, motor trading, recreation club and educational institution. He was also a director/shareholder of a Bumiputra PKK Class A/CIDB Group 7 company engaged in a number of government building/infrastructure projects. From October 2002 to September 2005, he was the Director and Chairman of Kuantan Flourmills Berhad.

His current directorships in companies within Bank Pembangunan Group include being the Director of Pembangunan Leasing Corporation Sdn Bhd., PLC Credit & Factoring Sdn Bhd and BI Credit & Leasing Berhad. He is the Chairman of APAC Coal Limited (Australia), Magnus Energy Group Ltd. (Singapore) and Director/Chairman Industrial Power Technology Pte. Ltd. (Singapore). He is a Commission Member of the Companies Commission of Malaysia since 2008.



# Profile Of Director

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Tuan Haji Rosli Abdullah

*Independent Non-Executive Director*



Tuan Haji Rosli Abdullah was appointed to the Board on January 3, 2011. He graduated from Universiti Kebangsaan Malaysia with a Master in Business Administration; Post-Graduate Diploma in Accounting and Bachelor in Economics (Hons) from Universiti Malaya. He is also a Chartered Accountant and Member of Malaysian Institute of Accountants (MIA).

Currently he serves as the Registrar and CEO of MIA. He had served in various capacities in the public and private sectors such as the Accountant General's office at the State and Federal treasury departments, Ministry of Finance from 1976 to 1983; Chief Accountant in the Ministry of Works from 1981 to 1983 and Ministry of Education from 1983 to 1987. He was also attached to the Public Services Department, Government Pension Department as Chief Accountant and Secretary to Teachers Provident Fund from 1989 to 1991. He was appointed as Bursar of Universiti Putra Malaysia from 1991 to 1993 and Director of Corporate Services, Accountant General Department from 1993 to 1994. He was the Financial Controller/General Manager Finance of Kuala Lumpur International Airport Berhad from 1994 to 1996 before joining Putrajaya Holdings Sdn Bhd from 1996 to 2008 as Senior General Manager.

He currently sits on the boards of i-VCAP Management Sdn. Bhd. and Keretapi Tanah Melayu Berhad.

# Profile Of Director

Encik Zainul Rahim Mohd. Zain

*Independent Non-Executive Director*

Encik Zainul Rahim bin Mohd Zain was appointed to the Board on March 8, 2010. He holds a Bachelor of Engineering (majoring in Mechanical Engineering) from University of Western Australia (1975).

He began his career at Shell Malaysia Exploration and Production ("SM-EP") in 1978 as a Wellsite Petroleum Engineer. He held various positions in drilling engineering, petroleum engineering, and information management & technology in SM-EP and during his two assignments in the Netherlands. He was General Manager of SM-EP's Business Services (1997), Technical Services (1999) and the Sarawak Business Unit (2000), before being appointed as Deputy Chairman and Executive Director of Shell Malaysia in December 2001. In July 2003, he double-hatted as Shell Asia Pacific Region's Transition Director, based in Singapore. In November 2005, he was appointed to the position of Chairman of Shell companies in Egypt and Managing Director of Shell Egypt N.V., before retiring from the Shell Group on 30 June 2008.

During his tenure as SM-EP Deputy Chairman, Encik Zainul sat on the board of 12 companies; Shell Malaysia Ltd, Shell MDS Sdn Bhd, Shell Timur Sdn Bhd, Shell Malaysia Trading Sdn Bhd, Lutong Refining Company Sdn Bhd, Sarawak Shell Bhd, Sabah Shell Petroleum Co. Ltd, Shell Sabah Selatan Sdn Bhd, Malaysia LNG2 Sdn Bhd (alternate Director), Malaysia LNG3 Sdn Bhd (alternate Director), CS Mutiara Sdn Bhd and Shell Refining Company (alternate Director). He was also the Chairman, Director, Trustee, member and representative of various NGOs, including the Shell Sustainable Development Fund, Shell Scholarship Fund, Society of Petroleum Engineers



AsiaPac, Malaysian Petroleum Club, Kolej Tuanku Jaafar, Petroleum Industry Malaysia Mutual Aid Group, Business Council for Sustainable Development Malaysia, and Malaysia International Chamber of Commerce and Industry. While in Egypt, he chaired Shell Egypt's Country Coordination Team and Shell Express CNG, and sat on the Board of Shell Egypt N.V., Shell Egypt Deepwater B.V. and Bapetco.

He currently sits on the boards of UKM Holdings Sdn Bhd, Petronas Carigali Sdn Bhd and Hibiscus Petroleum Berhad.



**ALLAHYARHAM CAPTAIN A GHANI BIN ISHAK**

*(64 Years old)*

## **SEMOGA DIRAHMATI ALLAH**

"Every human being is bound to taste death;  
and We test you (all) through the bad and  
the good (things of life) by way of trial;  
and unto Us you all must return."

*(The Quran, 21:35)*

"Setiap orang berjiwa akan merasakan mati.  
Kami akan menguji kamu dengan keburukan dan  
kebaikan sebagai cubaan (yang sebenar-benarnya).  
Dan hanya kepada Kamilah kamu dikembalikan."

*(Surah Al-Anbiyaa' Ayat 35)*

ALLAHYARHAM CAPTAIN A GHANI BIN ISHAK (64 years old)  
Independent Non-Executive Director

**Captain A Ghani bin Ishak** (63 years old) was appointed to the Board on March 26, 2010. He attended the English College (Maktab Sultan Abu Bakar), Johor Bahru (1960-1961); HMS Conway Merchant Navy Training School, North Wales (1962-1964); Sir John Cass Nautical College, London (1966) & (1969); and Plymouth Polytechnic, United Kingdom (1972) before graduating from Anglia Polytechnic University (2001) with a Bachelor of Laws (Honours). He holds a Certificate of Competency as Foreign Going Master since 1973 and received his Barrister at Law from Lincoln's Inn in 2002. He is a Fellow of Malaysian Nautical Institute and supporting member of LMAA.

He was the Navigating Officer with Ellermen Lines Ltd in 1964 and subsequently with Kuwait Shipping Company in 1970 before he was called by the Government to serve in the then newly-established Malaysia International Shipping Corporation (MISC) in 1971 as the Chief Officer. He rose through the ranks and served in various capacities such as Director, Fleet Management Division from 1984 to 1987; Director, Liquefied Natural Gas Division from 1987 to 1991; Director, Petroleum and Gas Division from 1991 to 1993; Director, Petroleum Services Division from 1993 to 1994; and Senior Director, Petroleum Services Division from 1994 to 1999.

He formerly sat on the board of Malaysia Central Mercantile Marine Fund, Malaysian Light Dues Board, Malaysian Maritime Academy (ALAM), MUSC Engineering & Marine Services, and was also the Chairman of MISC Ferry Services Sdn Bhd and Techo Indah Sdn Bhd. He served as a member of the Technical Committee of American Bureau of Shipping as well as a council member of the International Association of Independent Tanker Owner and the Society of International Gas Tanker and Terminal Operators.

He was also a Director of Global Maritime Ventures Berhad and other several private limited companies.

Allahyarham **Captain A Ghani bin Ishak** passed away peacefully on 21 March 2011.

*With them the seed of wisdom  
did i sow,  
and with my own hand  
labour'd it to grow:  
and this was all the harvest that i reap'd -  
"I came like water, and  
like wind I go."*

*Rubaiyat of Omar Khayyam (1050-1123)*

***May Allah Shower His Soul With Blessings***

# Group Management Committee

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**DATO' ZAFER HASHIM**

*President/Group Managing Director*

**JAMALUDDIN NOR MOHAMAD**

*Chief Operating Officer*

**AFIDAH MOHD. GHAZALI**

*Chief Financial Officer*

**ZAKARIA SAAD**

*Vice President/Head  
Business Banking 1*

**ABU HURAIRAH BAHARI**

*Chief Credit Officer*

**MAZLAN ATAN**

*Chief Risk Officer*

**FAUZIAH HANIM BAHARIN**

*Vice President/Head  
Group Human Resource Development*

**MUSTAFA KAMAL ABD. MUTALIB**

*Acting, Chief Executive Officer  
Pembangunan Leasing Corporation Sdn. Bhd.*



# Accountability

# Statement Of Corporate Governance

The Board of Directors of Bank Pembangunan Malaysia Berhad recognises the importance of the principles of Corporate Governance and subscribes to Bank Negara Malaysia’s Guidelines on Corporate Governance Standards on Directorship for Development Financial Institutions i.e. BNM/RH/GL 005 – 4 in achieving an optimal governance framework and maximising the shareholder value of the Bank.

## A. BOARD OF DIRECTORS

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

The Board currently has 8 members with 1 Non-Executive Chairman, 1 Executive Director who is the Bank’s President/Group Managing Director, 1 Non-Independent Non-Executive Director and 5 Independent Non-Executive Directors. All Non-Executive Directors are persons of calibre and credibility to exercise independent judgement to the Board. Their role is to ensure that any decision of

the Board is deliberated fully and objectively with regard to the long-term objectives of the Bank.

The diversity of the Directors’ background from the fields of management, banking, finance, legal, accounting, economics, engineering and their experience accumulated while serving both in private and government sectors, brings to the Board the necessary range of expertise and experience required by the Board to effectively perform its functions. Brief backgrounds of each of the Directors are presented on page 14 to 22 of the Annual Report.

The appointment of the Chairman and all the Directors are in accordance with BNM/RH/GL 005 – 4 and the Bank’s Articles of Association.

The Board of Directors meets at least once a month to discuss and monitor amongst others, the overall conduct and performance of the Bank’s business, including matters relating to financial, policies, strategies, performance and resources. Special board meetings are also convened to deliberate and approve urgent or important business issues that affect the Bank as and when required. During the financial year ended 31 December 2010, the Board met 12 times. The record of attendance by Directors at the Board Meetings for 2010 are as follows :

Name of Director	No. of Meetings and attendance
Datuk Dr. Abdul Samad bin Haji Alias Non-Executive Chairman	12/12
Dato’ Mohd Zafer bin Mohd Hashim President/Group Managing Director	12/12
Dato’ Ab. Halim bin Mohyiddin Independent Non-Executive Director <i>(term ended on 29 July 2010)</i>	7/7*
Tuan Haji Mohd Zarif A/L Mohd Zaman Independent Non-Executive Director <i>(term ended on 10 March 2010)</i>	2/2*
Puan Siti Zauyah binti Md Desa Non-Independent Non-Executive Director	11/12

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



# Statement Of Corporate Governance

Name of Director	No. of Meetings and attendance
Tuan Syed Hussain bin Syed Hamzah Independent Non-Executive Director (term ended on 5 October 2010)	9/9*
Encik Zainul Rahim bin Mohd Zain Independent Non-Executive Director (appointed on 8 March 2010)	9/10*
Kapten A Ghani bin Ishak Independent Non-Executive Director (appointed on 26 March 2010) (demise on 21 March 211)	10/10*
Tan Sri Faizah binti Mohd Tahir Independent Non-Executive Director (appointed on 1 June 2010)	7/7*
Dato' Dr Syed Jaafar bin Syed Aznan Independent Non-Executive Director (appointed on 1 June 2010)	7/7*
Datuk Idris bin Abdullah @ Das Murthy Independent Non-Executive Director (appointed on 1 December 2010)	1/1*

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

## B. SUPPLY OF INFORMATION

Directors are provided with notices and Board papers prior to Board Meetings to give Directors time to deliberate on issues raised at meetings.

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

## C. TRAINING AND DEVELOPMENT OF DIRECTORS

Newly appointed Directors are required to attend an induction programme organized by the Management to brief on the Bank's history, operations and financial performance 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 new Directors on their areas of responsibilities to provide the Directors with background knowledge of the Bank as well as a platform to establish initial interaction with the key senior officers.

The members of the Board keep abreast with developments 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 Directors to attend talks, training programmes and seminars to update themselves on new developments in the business environment.

## D. COMMITTEES

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

# Statement Of Corporate Governance

## 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 loan 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.
- 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.
- Recommend, verify and endorse all cases of write-offs to the Board of Directors for final approval.

- Have full authority to seek/obtain any information it requires from any employee of the Bank and to commission any investigations, reports or surveys, which it deems necessary.
- Appoint or obtain any outside legal or other professional consultation which it deems necessary, at the Bank’s expense.
- To approve and endorse any recommendation from the approving authority in cases of ambiguity and/or enhancement in credit risk.

### 3. Committee Meeting and Attendance

Based on the Term of Reference of CCB, the meeting is to be held once a fortnight or when necessary. During the financial year 2010 the CCB held 19 meetings. The members of the Committee and their record of attendance are as follows:

Name of Director	No. of Meetings and attendance
Datuk Dr. Abdul Samad bin Hj Alias, Chairman	17/19
Dato’ Ab. Halim bin Mohyiddin <i>(term ended on 29 July 2010)</i>	7/9*
Tuan Haji Mohd Zarif A/L Mohd Zaman <i>(term ended on 10 March 2010)</i>	4/4*
Puan Siti Zauyah binti Mohd Desa	18/19
Encik Zainul Rahim bin Mohd Zain <i>(appointed on 9 April 2010)</i>	13/14*
Kapten A Ghani bin Ishak <i>(appointed on 9 April 2010)</i> <i>(demise on 21 March 211)</i>	14/14*

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

# Statement Of Corporate Governance

## AUDIT AND EXAMINATION COMMITTEE

### 1. Objective

The objective of the Audit and Examination Committee (AEC) is to review the financial condition of the Bank and its subsidiaries, its 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 AEC are as follows:

- Recommend to the Board on the appointment of External Auditors, the fee and other matters pertaining to the resignation or termination or change of External Auditors.
- Review with External Auditors:
  - (a) Their audit plan.
  - (b) Their evaluation of the system of internal control.
  - (c) Their audit report.
  - (d) Their management letter and management's response.
  - (e) The assistance given by the management and staff to the External Auditors.
- Carry out the following 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 work.
  - (b) Review and approve 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 Nominating Committee of the Board on the appointment and termination of the Head of Internal Audit.
  - (e) Recommend to the Remuneration Committee of the Board on the remuneration of the Head of Internal Audit.
  - (f) Review any appraisal or assessment of members of the internal audit function as well as decide on their remuneration package, excluding the Head of Internal Audit.
- Receive and consider reports relating to the perpetration and prevention of fraud.
- Review the Bank's compliance with the related Government's regulations.
- Review the first six months result and the year-end financial statement prior to its submission to the Board for approval.
- The review of the year-end financial statement, whereby the presentation to the AEC will be conducted by the External Auditors, focuses particularly on:
  - (a) Any major changes in the accounting policy or its implementation.
  - (b) Adequacy of provisions against contingencies, bad and doubtful debts.
  - (c) Significant and unusual events.
  - (d) Compliance with accounting standards and other legal requirements.
- Ensure the 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 within the Banking group including any transaction, procedure or conduct that raises questions of management integrity.
- Preparation of an AEC report at the end of each financial year, which will be published in the Bank's Annual Report.
- Review and endorse the status and progress of Management's responses and corrective measures on issues raised in the BNM Examination Report, before it is tabled to the Board for approval.
- The AEC shall also report on the following to the Board to enable the Board in preparing an AEC Report for the Bank's Annual Report:
  - (a) The composition of the AEC, including name, designation and directorship of the members and whether the Director is independent or otherwise.
  - (b) The terms of reference of AEC.
  - (c) The number of AEC meetings held in the financial year and details of attendance of each member.

# Statement Of Corporate Governance

- (d) A summary of the activities of the AEC in the discharge of its functions and duties for the financial year.
- (e) A summary of the activities of the Internal Audit Department.
- The AEC shall update the Board on the issues and concerns discussed during their meetings including those raised by External Auditors and where appropriate, make the necessary recommendation to the Board.
- The AEC shall review the Policies on Significant/Sensitive Payments and Executive Expenditures and where appropriate, make the necessary recommendations to the Board.

### 3. Committee Meeting and Attendance

Based on the Term of Reference of AEC, the meeting is to be held at least 4 times a year. During the financial year 2010 the AEC held 7 meetings. The members of the Committee and their record of attendance are as follows:

Name of Director	No. of Meetings and attendance
Dato' Ab. Halim bin Mohyiddin, Chairman <i>(term ended on 29 July 2010)</i>	4/4*
Tuan Haji Mohd Zarif A/L Mohd Zaman <i>(term ended on 10 March 2010)</i>	1/1*
Puan Siti Zauyah binti Md Desa <i>(term ended on 28 July 2010)</i>	4/4*
Encik Zainul Rahim bin Mohd Zain <i>(appointed on 9 April 2010)</i>	6/6*
Tan Sri Faizah binti Mohd Tahir <i>(appointed on 28 July 2010)</i>	3/3*
Dato' Dr Syed Jaafar bin Syed Aznan <i>(appointed on 28 July 2010)</i>	3/3*

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

### NOMINATING COMMITTEE

#### 1. Objective

The objective of the Nominating Committee (NC) is to establish a documented, formal and transparent procedure for the appointment of Directors, President/ Group Managing Director and key Senior Executives (Vice President who is also a Head of Function and above) and to assess the effectiveness of individual Directors, the Board as a whole and the various committees of the

Board, President/Group Managing Director and key Senior Executives (Vice President who is also a Head of Function and above).

#### 2. Functions and Responsibilities

The functions and responsibilities of the NC are as follows:

- Establishing minimum requirements for the Board and the President/Group Managing Director to perform their responsibilities effectively. It is also responsible for overseeing the overall composition of the Board in

# Statement Of Corporate Governance

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.

- Recommending and assessing the nominees for directorship, the Directors to fill board committees, as well as nominees for the President/Group Managing Director position. This includes assessing Directors and the President/Group Managing Director proposed for reappointment, before an application for verification is submitted to Bank Negara Malaysia.
- Establishing a mechanism for formal assessment and assessing the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the President/Group Managing Director.
- Recommending to the Board on removal of a President/Group Managing Director if he is ineffective, errant or negligent in discharging his responsibilities.
- Ensuring that all Directors undergo appropriate induction programmes and receive continuous training.
- Overseeing appointment and management succession planning of key senior executives (Vice President who is also a Head of Function and above), and performance evaluation of Senior Vice President, Chief Operating

Officer and President/Group Managing Director and recommending to the Board the removal of key Senior Executives (Vice President who is also a Head of Function and above) if they are ineffective, errant and negligent in discharging their responsibilities.

The President/Group Managing Director be given the authority to assess and evaluate candidates for new appointments, negotiate and determine the salary, benefits and terms and conditions of service for the positions of Vice President who is also a Head of Function and above and thereafter it would be tabled to the Nominating Committee for approval and thereafter to the Board Directors for notation.

That the performance evaluation of Vice President (Head of Function) is delegated to the President/Group Managing Director.

- Propose the appointment of Board members to the Board of Directors of subsidiary companies.

### 3. Committee Meetings and Attendance

Based on the Term of Reference of NC, the meeting is to be held at least once a year. During the financial year 2010, the NC held 5 meetings. The members of the Committee and their record of attendance are as follows:

Name of Director	No. of Meetings and attendance
Tuan Haji Mohd Zarif A/L Mohd Zaman, Chairman (term ended on 10 March 2010)	1/1*
Dato' Ab. Halim bin Mohyiddin (term ended on 29 July 2010)	3/3*
Puan Siti Zauyah binti Mohd Desa	5/5
Encik Zainul Rahim bin Mohd Zain (appointed on 31 March 2010)	3/4*
Kapten A Ghani bin Ishak, Chairman (appointed on 31 March 2010) (demise on 21 March 211)	4/4*
Tan Sri Faizah binti Mohd Tahir (appointed on 26 August 2010)	2/2*
Dato' Dr Syed Jaafar bin Syed Aznan (appointed on 30 September 2010)	1/1*

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

# Statement Of Corporate Governance

## REMUNERATION COMMITTEE

### 1. Objective

The objective of the Remuneration Committee (RC) is to provide a formal and transparent procedure for developing a remuneration policy for Directors, President/Group Managing Director and key Senior Executives (Vice President who is also a Head of Function and above) and ensuring that compensation is competitive and consistent with the Bank's culture, objectives and strategy.

### 2. Functions and Responsibilities

The functions and responsibilities of the RC are as follows:

- Recommending a framework of remuneration for Directors, President/Group Managing Director and key Senior Executives (Vice President who is also a Head of Function and above). The remuneration policy should:
  - (a) Be documented and approved by the full Board and any changes thereto should be subject to the endorsement of the full Board;
  - (b) Reflect the experience and level of responsibility borne by individual Directors, the President/Group Managing Director and key Senior Executives (Vice President who is also a Head of Function and above);
  - (c) Be sufficient to attract and retain Directors, President/Group Managing Director and key Senior Executives (Vice President who is also a Head of Function and above) of caliber needed to manage the Bank successfully; and

- (d) Be balanced against the need to ensure that the funds of the Bank are not used to subsidise excessive remuneration packages.
- Recommending specific remuneration packages for Directors, President/Group Managing Director and key Senior Executives (Vice President who is also a Head of Function and above). The remuneration packages should:
  - (a) Be based on an objective consideration and approved by the full Board;
  - (b) Take due consideration of the assessments of the Nominating Committee of the effectiveness and contribution of the Director, President/Group Managing Director or key Senior Executives (Vice President who is also a Head of Function and above) concerned;
  - (c) Not 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 Bank's culture, objective and strategy.
- Endorsing any changes deemed necessary to the schemes, terms of services and new terms for executives and staff of BPMB before submission to the Board of Directors for final approval.

### 3. Committee Meetings and Attendance

Based on the Term of Reference of RC, the meeting is to be held at least once a year. During the financial year 2010, the RC held 4 meetings. The members of the Committee and their record of attendance are as follows:

Name of Director	No. of Meetings and attendance
Tuan Syed Hussein Syed Hamzah, Chairman <i>(term ended on 5 August 2010)</i>	3/3*
Dato' Ab Halim bin Mohyiddin <i>(term ended on 29 July 2010)</i>	3/3*
Puan Siti Zauyah binti Mohd Desa	4/4
Kapten A Ghani bin Ishak <i>(appointed on 9 April 2010) (demise on 21 March 211)</i>	3/3*
Dato' Dr Syed Jaafar bin Syed Aznan <i>(appointed on 28 July 2010)</i>	1/1*

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

# Statement Of Corporate Governance

## RISK MANAGEMENT COMMITTEE

### 1. Objective

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

### 2. Functions and Responsibilities

The functions and responsibilities of the RMC are as follows:

- Provide oversight and strategic direction for the management of all risks in BPMB.
- Review and endorse policies for the management of the various risks for approval by Board of Directors.
- Review and approve objectives, functions and strategies for Credit Risk, Operational Risk and Market Risk Functions.
- 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 Bank.
- Review and endorse contingency plans for critical and worst case scenarios and address related issues.
- Review reports of credit review process, asset quality and ensure prompt corrective action.
- Promoting an integrated approach to evaluate and monitor interrelated risk.

### 3. Committee Meetings and Attendance

Based on the Term of Reference of RMC, the meeting is held once in every two months. During the financial year 2010, the RMC held 6 meetings. The members of the Committee and their record of attendance are as follows:

Name of Director	No. of Meetings and attendance
Tuan Syed Hussain Syed Hamzah (term ended on 5 August 2010)	4/4*
Puan Siti Zauyah binti Mohd Desa	5/6
Dato' Ab Halim bin Mohyiddin (term ended on 29 July 2010)	3/3*
Encik Zainul Rahim bin Mohd Zain, Chairman (appointed on 9 April 2010)	5/5*
Kapten A Ghani bin Ishak (appointed on 30 September 2010) (demise on 21 March 2011)	2/2*

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

# Statement Of Internal Control

## RESPONSIBILITY

The Board of Directors (“Board”) has the overall responsibility for maintaining a system of internal controls that is designed to manage the Group’s risks within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of the Group. Accordingly, it can only provide reasonable assurance against misstatement of management and financial information and records. The Board has established an organization structure, which clearly defined lines of accountability and delegated authority.

The Board has instituted an ongoing process for identifying, evaluating and managing significant risks faced by the Group and this process includes enhancing the system of internal controls whenever there are changes to business environment or regulatory guidelines.

The Board has delegated specific responsibilities to four subcommittees (Audit and Examination, Risk Management, Nomination and Remuneration). These committees have the authority to examine particular issues and report back to the Board with their recommendation. These committees are chaired by independent Non-Executive Directors.

The management assists the Board in the implementation of the Board’s policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

## KEY INTERNAL CONTROL PROCESSES

The key processes that the Board has established in reviewing the adequacy and integrity of the system of internal controls include the following:

- The respective subcommittees of the Board are established by the Board to assist the Board in ensuring the effectiveness of the Bank’s operations and that the Bank’s operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business environment and internal operating conditions.
- The Group Audit & Examination function provides independent assurance on the efficiency and effectiveness of the internal control systems and monitors compliance with policies and procedures and highlights significant findings in respect of any non-compliance. Audits are carried out on all units including subsidiaries, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of these units and subsidiaries. The annual audit plan is reviewed and approved by the Audit & Examination Committee.
- The Audit & Examination Committee reviews internal control issues identified by the Group Audit & Examination, the external auditors, regulatory authorities and management, and evaluates the adequacy of internal control system. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a monthly or periodic basis.



# Statement Of Internal Control

- The Risk Management Committee was established by the Board to assist the Board to oversee the overall management of principal areas of risk in order to ensure structures and procedures of risk management are in place and they are reflective of the Bank's risk tolerance.
- The Remuneration Committee was established to provide a formal and transparent procedure for developing a remuneration policy for Directors and its Senior Management, ensuring that compensation is competitive and consistent with the Bank's culture, objectives and strategy.
- The Nomination Committee was formed to establish a documented, formal and transparent procedure for the appointment of directors, Group Managing Director and key senior officers and to assess the effectiveness of individual directors, the Board as a whole and the various committees of the Board, Group Managing Director and key senior officers.
- Further details of the activities undertaken by the Audit & Examination Committee, Risk Management Committee, Nomination Committee and Remuneration Committee are set out in the corporate governance disclosure.
- Operational committees have been established with appropriate empowerment to ensure effective management and supervision of the Group's core areas of business operations. These committees include the Group Credit Committees A and B, Group Management Committee and the Information Technology Committee.
- Annual budgets are approved by the respective Boards and the business units and operating subsidiaries' performance are assessed against the approved budgets and explanations are provided for significant variances on a monthly basis to the respective Boards.
- There are proper guidelines within the Group for hiring and termination of staff, formal training programmes for staff, annual performance appraisals and other relevant procedures in place to ensure that staff are competent and adequately trained in carrying out their responsibilities.
- The Board of the Bank and the respective Boards of subsidiaries in the Group receive and review reports from management on a regular basis on business operations at their monthly meetings.
- There are policy guidelines and authority limits imposed on the executive director and management within the Group in respect of the day-to-day banking and financing operations, extension of credits, investments, acquisitions and disposals of assets.
- Policies and procedure to ensure compliance with internal controls and the relevant laws and regulations are set out in operations manuals, guidelines and directives issued by the Bank and subsidiaries in the Group which are updated from time to time.

# Risk Management

## OVERVIEW

Bank Pembangunan Malaysia Berhad (the Bank) is exposed to invariably wide risk elements in fulfilling its developmental role of supporting infrastructure, maritime and high technology sectors. The Bank believes that a strong and integrated risk management system is one of the critical success factors that form an essential element in sustaining the Bank's profitability while undertaking its developmental role.

The Bank has been guided by its risk management principles in managing its business risk, which outline a basis for an integrated risk management effort and good corporate governance. Internal controls, specific policies, guidelines and procedures have been established to govern the activities of operational and support functions of the Bank. Risks arising from these activities are managed by dedicated risk management functions under Group Risk Management, that play a vital role in the execution of risk management activities and strategies through the process of identifying, measuring, monitoring and controlling all material risks faced by the Bank.

Combined with a structured risk governance consisting of a strong Board and Management oversight, a good check & balance system and sound risk management practices, the Bank has built a strong foundation towards ensuring a holistic and integrated approach of risk management that will safeguard the quality of the Bank's assets, thus minimizing reliance on collateral lending in its endeavor to achieve the mandate set by the Government.

## RISK GOVERNANCE STRUCTURE

Being ultimately responsible for the management of risk of the Bank, the Board of Directors has overall risk oversight responsibility for ensuring effective implementation of risk management policies and determines the risk level, consistent with the Bank's risk appetite.

To assist the Board in overseeing and managing risks, dedicated committees have been established to provide the necessary infrastructure for implementing various risk management policies and procedures.

The key committees involved in risk management:

### At Board Level

#### RISK MANAGEMENT COMMITTEE (RMC)

RMC is responsible to oversee the senior Management's activities in managing key risk areas of the Bank and to ensure that risk management process is in place and functioning effectively.

### At Management Level

#### EXECUTIVE RISK MANAGEMENT COMMITTEE (ERMC)

ERMC is responsible to deliberate and recommend actions on all matters pertaining to credit risk, market risk, liquidity risk, ALM, operational risk and compliance risk and to assess the adequacy of strategies to manage overall risk activities.

The RMC and ERMC are supported by Group Risk Management which is responsible in overseeing the implementation of risk management processes at operational functions. Group Risk Management ensures that the established controls are reviewed and monitored from time to time so as to remain relevant in line with regulatory requirements and best practices. In doing so, knowledge in risk management is paramount to develop competencies & expertise in managing risks.

# Risk Management

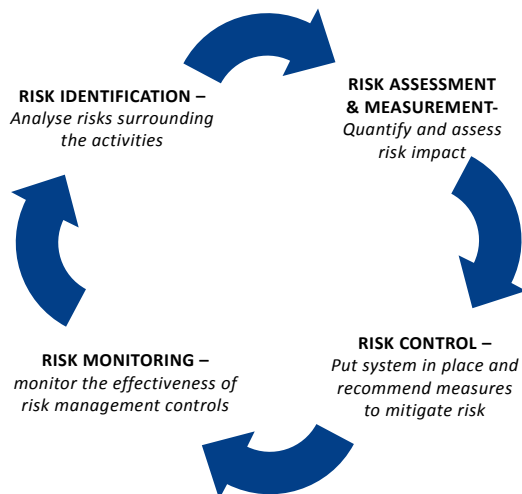
Continuous training programmes on risk management are being provided to the staff to enhance knowledge and competencies as well as to keep current with the latest development in risk management.

Group Risk management is made up of four (4) functions namely Credit Risk function, Market Risk function, Operational Risk function and Compliance function. Group Risk Management reports directly to the RMC to maintain its independence.

## RISK MANAGEMENT PROCESS

The Bank realizes that the key success in lending activities lies in how the risk is managed, that is by having a clear risk management process and controls at various processes within the Bank that will assist in meeting the Bank's objective.

This risk management process involves four major processes as described below:-



The management of risk is a continuous process which is undertaken by Group Risk Management. The risks consist of credit risk, market risk, liquidity risk and operational risk that arise from the activities carried out at operational functions of the Bank.

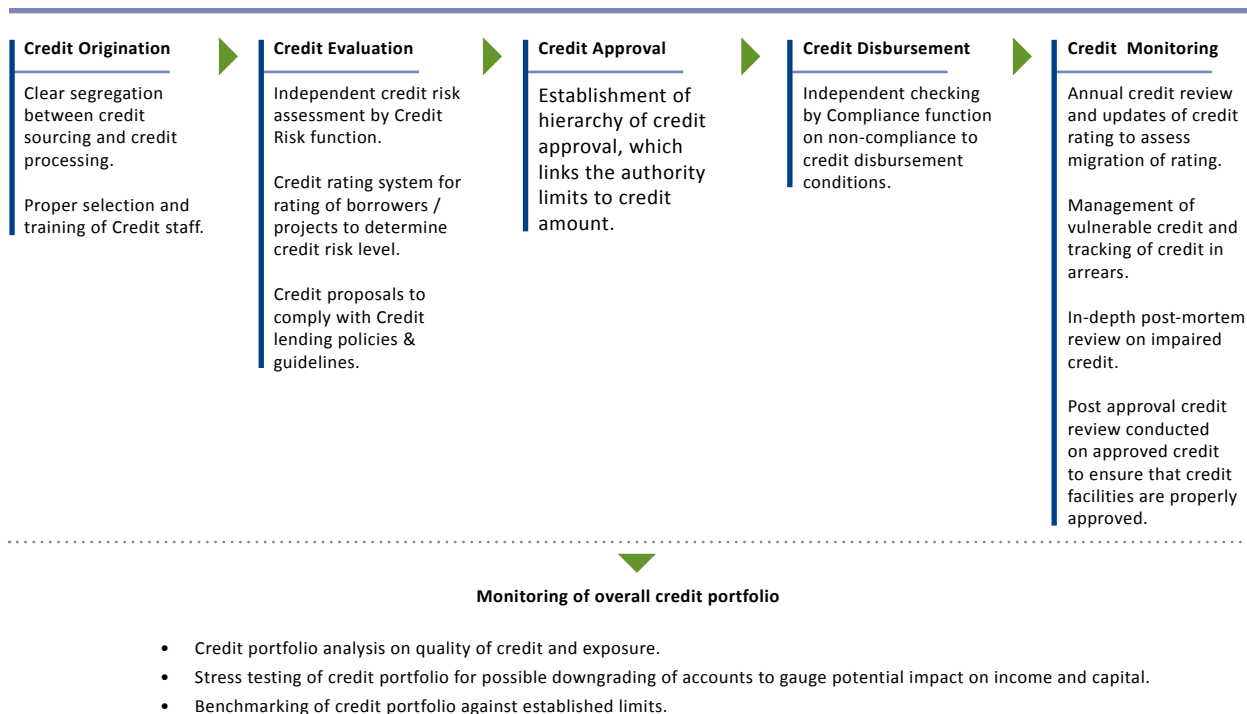
## MANAGEMENT OF CREDIT RISK

Credit Risk is the potential loss of revenue, either the principal or interest or both, arising from the failure or unwillingness of counterparties or borrowers to honour their financial and contractual obligations as and when they are due. These obligations are from lending, investment and other activities undertaken by the Bank.

As lending is the main activity of the Bank, credit risk management has therefore been the main focus of the Bank's risk management activities. Management of credit risk encompasses establishing internal controls with a check-and-balance structure within the credit process to minimize poor credit quality arising from imprudent lending, risk concentration in credit portfolio and other judgmental errors that could potentially impact the overall financial soundness of the Bank. The process of managing credit risk involves risk identification, risk assessment and measurement, risk monitoring and risk control. Management of credit risk is not only vital at loan origination, but continues with the preservation of quality loan assets throughout the credit process in order to sustain credit quality.

# Risk Management

## RISK ASSESSMENT AND CONTROLS AT VARIOUS CREDIT PROCESSES



Credit risk identification, assessment, monitoring and control are further elaborated in the following processes of credit risk management :

- The Bank maintains an independent credit evaluation function, which is separated from credit originator to maintain essential check-and-balance system against imprudent lending elements. Credit is originated by Business Development (BD) and processed by Credit Analysis function. To ensure highest standard of credit assessment, BD and Credit Analysis staff must undergo relevant training programmes to ensure understanding

of credit evaluation. The Bank encourages all staff in credit-related functions to secure the Certified Credit Professional (CCP) to continuously promote professionalism and expertise in their work.

In an effort to enhance customer relationship management concept and credit operations delivery system, the Bank, in August 2010, has streamlined the functions of BD and Credit Analysis. The functions have been placed under Business Banking which consists of various functions according to the respective financing sectors.

# Risk Management

- Prudent credit assessment is enforced through independent credit risk assessment by Credit Risk function. Risk issues are mitigated by the risk owners before the approving authorities consider any credit proposal. Credit Risk function also reviews credit proposals for compliance with credit policies.
- All credit proposals are rated using an internal credit rating system to assess and measure borrowers' risk of default. For project financing, the Bank uses a Project Risk Scoring (PRS) system to measure projects' risk of default. As a prudent practice, borrowers or projects assigned with a 'high risk' grade will not be considered for credit facilities unless adequate risk mitigations are in place.
- Credit disbursement requisition is independently assessed by Compliance function, as a "final gatekeeper" to ensure adherence to credit disbursement conditions prior to credit disbursement. Credit Compliance also verifies terms and conditions imposed in the Letter of Offer as approved by the approving authorities.
- The Bank continues to monitor the quality of credit throughout the credit period to detect any deterioration so that corrective measures could be taken. Annual credit review serve as a control mechanism to prevent further credit deterioration. Credit review is conducted at least once a year and more frequent reviews are performed on high-risk credit under "watch – list" accounts. Annual credit review will be rated by Credit Risk function to monitor credit risk migration for effective monitoring.
- The overall credit risk profiles of credit portfolio are reviewed and monitored by Credit Risk function by performing stress tests on credit portfolio based on selected scenarios, which include possible downgrading of the accounts to assess the impact on the Bank's earnings and capital. The results of stress tests, risk exposure and risk profile of credit portfolio are deliberated at the relevant committees of the Bank including ERM and RMC.
- Risk issues surrounding new financing products are identified by Group Risk Management from the perspectives of credit risk, market risk and operational risk before being implemented to ensure that all inherent risks could be managed. All product development proposals need endorsement by RMC before obtaining approval from the Board.
- To better understand how problem credit developed and to identify lapses in credit and monitoring process, system and people, post mortem reviews are conducted on impaired credit. Observations and findings are communicated as feedback to assist in upgrading credit skills with the objective that past mistakes will not be repeated. Lessons are learned from root-cause analysis and actions are taken to improve credit risk management process.
- As part of the internal control, a team within the internal audit function was established to conduct post credit review on approved credits to analyse 'completeness' of credit decision, that is to determine the compliance of the processes involved in credit evaluation and approval. Feedback will be provided on the effectiveness of credit process in identifying emerging problems.

# Risk Management

## Credit Risk Management Framework

The following framework governs the management of credit risk for the identification, measurement, monitoring and controlling of credit risk :

- The Bank has instituted clear internal controls to govern lending activities and assessment of credit proposals for prudent lending activities through the establishment of Credit Risk Management Policies and Credit Operations Policy and Guideline. Operational manuals and directives issued by Bank Negara Malaysia (BNM) including guidelines as prescribed under the Development Financial Institutions Act 2002 (DFIA) are adhered to, which have assisted the Bank in achieving its corporate objectives within an acceptable risk profile and risk appetite.
- Different levels of approving authorities govern credit approval process according to credit limits. The approval hierarchies that link the authority limits to the amount of credit ensure that credit sanctioning remains a critical part of risk evaluation system.
- Limits pertaining to financing portfolio are established to manage concentration risk. Limits are continuously monitored and any breaches or critical level of exposure will be reported to the relevant committees. The Bank diversifies its credit portfolio and avoids any undue concentration of credit risk in its credit portfolio by setting credit limit to single customer. The Bank diversifies its credit risk by spreading its credit portfolio across different economic activities to avoid being over-exposed to any particular economic sector. Exposure limits are set on lending portfolio particularly in respect of lending to commercial business. The limit by commercial business sector is guided by the Bank's Budget and is reviewed where necessary.
- Internal rating system is in place that serves as a 'tool' to measure credit risk level of borrowers and projects. The rating model is subject to enhancement to maintain its predictive power and robustness to suit lending requirements.
- Reporting of credit risk activities is made to the ERM before deliberations at the RMC. The ERM that meets once a month deliberates issues on the quality of credit risk of borrowers to preserve the quality of loan assets, with the objective of preventing them from turning impaired. The ERM recommends action on all credit risk related matters including loan asset quality, credit portfolio composition and adequacy of strategies and controls to manage overall credit risk activities. The ERM also deliberates periodical report on credit risk prior to submission to RMC.
- As part of the corporate governance, Group Audit & Examination (GAE) undertakes an independent assessment of "credit compliance" to policies and procedures. The findings are communicated to the respective functions and further deliberated at the Audit Committee meeting. Issues raised are followed-up by GAE to ensure that corrective measures are implemented.

## CREDIT RISK INFRASTRUCTURE ENHANCEMENT

The Bank has embarked on the enhancement of credit rating 'tools' and credit rating management practice beginning the second half of 2010 with a plan to utilize the enhanced credit rating model in January 2011. This move is part of the Bank's effort to assess credit risk more comprehensively for effective measurement and management of credit risk, as well as part of effective risk-

# Risk Management

based lending strategies. The enhancement would involve the transition of the existing credit rating models to an enhanced version focusing on the three components of Risk Weighted Assets (RWA) calculation, namely Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) models.

## MANAGEMENT OF MARKET RISK

Market risk is the risk of loss in financial instruments or balance sheet due to adverse movements in market factors. The primary categories of market risk are:

Interest rate risk :	The risk to earnings or capital arising from movement of interest rates. The measurement of interest rate risk using earning perspective is termed as Earning At Risk (EAR) while under the economic perspective; the interest rate is expressed in the form Capital At Risk or Economic Value of Equity (EVE).
Foreign exchange risk :	Arising from changes in exchange rates and implied volatilities on foreign exchange options.
Equity risk :	The risk which arises from adverse movements in the price of equities on the equity positions taken from time to time.

Market Risk function is an independent risk control unit and is responsible for ensuring that risk management frameworks are implemented and that adequate risk controls are in place to support business growth.

Market Risk function undertakes the following support roles:

- Formulating and reviewing the risk management frameworks, policies and procedures in accordance with the Bank’s business direction and revised regulatory requirements;
- Carrying out independent monitoring of treasury activities on a daily basis, in accordance with approved policies and limits;
- Providing independent market-to-market valuation of treasury positions and risk exposures, using data obtained from various sources;
- Reviewing new product proposal papers (in conjunction with other risk management unit), to assess market and liquidity risks prior to launching new products ; and
- Providing integrated risk management support activities in conjunction with other risk management function and participating with other departments on joint assignments and projects involving market risk, liquidity risk and asset-liability management and stress testing.

Market risk identification, assessment, monitoring and control are further elaborated in the following processes of market risk management:

- In identifying market risk, any adverse movements in the market-to-market value of the Bank’s investments and forex exposure are assessed to determine the gain or loss arising from such movements. Simulations are also performed to determine the impact on the Bank’s portfolio such as earning at risk and capital at risk that arise from various increase or decrease in market conditions.

# Risk Management

- In determining loss or gain arising from the changes in interest rate movement, simulations are prepared under different interest rate movements to measure the impact on Net Interest Income of loan assets portfolio. Assessment is also made on the trend of Net Interest Margin to analyse its movement against the specific target. Actions taken to maintain the desired Net Interest Margin are deliberated at ERM. Simulations are also done to gauge the net impact on FD placement and FD acceptance.
- Risk profile of the Bank and any unrealized gain/loss arising from interest rate movement are reported to ERM, where decisions are made to address the issues. Any breaches of limits are also reported to ERM and subsequently to the RMC for approval.
- An important goal of interest rate risk management is to maintain the Net Interest Margin within the tolerance limit. Such risk limits are reviewed periodically in line with market development and the Bank's risk appetite. Based on the simulations conducted on the interest rate movement, ERM will be alerted on any potential loss arising from such movement beyond the established tolerance limits. Deviation from the target is assessed to enable proper controls, and appropriate actions will be taken so as to maintain safety, soundness and profitability of the Bank.
- Middle office function has been established under Market Risk to be responsible for monitoring money market and investment activities to ensure that they are within the established limits. Market Risk function will propose mitigations to adhere to internal limits.
- Early warning indicator was established as Management Action Trigger (MAT). The MAT is a trigger level to warn of a persistently breach limit position.
- Policies have also been established for the classification of investments in accordance to FRS 139 and the setting of exposure limit for bond portfolio.

## Asset Liability Management Framework

Asset & liability management (ALM) can be broadly defined as the continual rearrangement of both sides of the Bank's balance sheet in pursuit of maintaining reasonable profitability, minimizing interest rate risk and to providing adequate liquidity.

Recognizing the impossibilities of achieving a perfect match in the ALM, the continual rearrangement process of the ALM position is governed by three (3) categories of policies. First is used to measure ALM performance relating to the measurement of interest rate risk; second is to measure foreign exchange translation risk; and third is to measure liquidity risk.

These policies are then translated into various pre-set limits embedded in the ALM framework.

The ALM process undertakes a number of analysis designed to identify static and dynamic mismatch; sensitivity of net interest income; and market value under limited multiple scenarios.

The result of the analysis is then presented to the ERM for review of the ALM position. Material breach of pre-set limits and critical adjustments required on ALM approach are then escalated to the Board through RMC for deliberation and approval.



## MANAGEMENT OF LIQUIDITY RISK

Liquidity risk is the risk of loss resulting from the unavailability of sufficient funds to fulfill financial commitments, including customer liquidity needs, as they fall due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner. The primary categories of liquidity risk are:

Funding risk :	Represents the risk that the Bank will not be able to fund its day-to-day operations at a reasonable cost.
Concentration risk :	Over exposure to one/single large depositor. Probability of loss arising from heavily lopsided exposure to a particular group of counterparties.

Liquidity risk identification, assessment, monitoring and control are further elaborated in the following processes of liquidity risk management:

- Liquidity gap analysis is carried out to measure liquidity gap, which includes the overall liquidity management analysis and reporting on a macro-level. Cash inflows and outflows are assessed to ensure that the Bank maintains sufficient liquid assets to meet financial obligations when they fall due. Short-term liquidity crunch is met by money market borrowings and disposals of marketable securities.
- Liquidity ratio is also used to assess liquidity risk, where any breaches of limit are evaluated to determine the attributing factors. Mitigations are then recommended via ERMIC.
- To manage liquidity, funding concentration is periodically assessed to monitor the level of reliance to particular funding sources by counterparty. Appropriate counterparty limits for deposit placement have been established to monitor liquidity and concentration risk to ensure diversification of funding structure, which are reviewed annually. Market Risk function proposes and recommends the needed mitigations and alternative actions to adhere to the internal limits of the Bank.

- Risk indicators are observed to ensure that the Bank would be able to meet its short-term obligations and to determine the existence of any adverse deviation or movement for detecting any warning signals. Risk indicators are regularly reviewed to ensure that the indicators remain relevant. Actions are taken to mitigate any deterioration in liquidity ratio, via ERMIC.
- The anticipated funding requirements, sources of funds, Bank's fund-raising capacity, present and anticipated asset quality and present and future earnings capacity are also assessed to monitor liquidity. Any requirements for funding by the operating business units, which have significant impact on the Bank's liquidity, are assessed and monitored.

## Liquidity Management Framework

The Bank employs BNM's Liquidity Framework as a foundation to manage and measure its liquidity risk exposure. The Bank also adopts a range of tools to monitor the liquidity risk limit exposure such as New Liquidity Framework (NLF), internal limit, Management Action Triggers (MAT) and stress testing.

Liquidity risk represents the danger of not being able to fulfill payment obligations, whereby the failure to perform is followed by undesirable consequences. An effective liquidity management should further ensure that the Bank maintains sufficient liquidity to withstand a range of stress events, including those that affect secured and unsecured funding.

In managing liquidity risk, the Bank needs to be attentive to liquidity strategy. A general approach on liquidity strategy will be set by the Bank through quantitative and qualitative targets. This strategy addresses the goal of protecting financial strength and to some extent, the ability to withstand stressful events in the marketplace.

The liquidity strategy enunciated specific policies on particular aspects of liquidity management, such as the composition of assets and liabilities, the relative reliance on the use of certain financial instruments, and the liquidity and marketability of assets.

# Risk Management

## MANAGEMENT OF OPERATIONAL RISK

Operational Risk focuses on controls to fire-wall the Bank's bottom line. The following controls are stop gaps to limit possible losses and to contain risks at all stages of decision making:

- Loss event and incident cases occurred under the seven (7) Loss Event types of Operational Risk losses are collated and reported. The collected cases are analyzed and reported to the ERM prior to reporting to the RMC.
- Key Risk Indicators (KRIs) were developed to identify and measure operational control weaknesses. Risk Limits were established to monitor actual risk taking against pre-determined limits. If limits are breached, such occurrences are reported to Management for corrective action. The KRIs in the Bank covers all risk taking activities specifically on the critical business functions such as Business Banking, Credit Management, Credit Recovery, Treasury, Legal, Finance and Human Resource. Most of the KRIs is reported monthly and some are reported on quarterly and yearly basis.
- During the 1st half of Year 2010, Operational Risk rolled out Risk Control Self-Assessment (RCSA) and Key Risk Indicators (KRIs) to all critical business functions to assess their level of inherent risks and residual risks. This programme provides a basis to Management to ensure that appropriate controls are in place to monitor risk exposure. Results of the assessment are summarized and reported to ERM and RMC.
- Further refinements were made, where selection and convergence of the most significant inherent risks pertaining to the Bank's core business operations and support services were undertaken during the 2nd half of the year. Operational Risk function has incorporated all inputs from all business functions of the Bank, including input from the Bank's Group Audit and Examination (GAE) for arriving at the final list of inherent risks to be approved by the Bank.

- Throughout the year, Operational Risk function was involved in all newly embarked Information Technology (IT) projects. In addition, on-going mitigations on the existing IT systems were also carried out and recommendations for improvement were communicated to Group Information Technology.
- Business Continuity Management is responsible to plan and coordinate Business Continuity Plan (BCP) Tests and IT Disaster Recovery Plan (DRP) Tests so as to comply with the requirements set by Bank Negara Malaysia (BNM). The testing programmes were carried out to test the Bank's ability to respond to any crisis and to resume its business operations.

## CREDIT AND REGULATORY COMPLIANCE

Compliance function focuses on managing credit compliance and regulatory compliance. The scope of credit compliance is to check and ensure that all Letters of Offer issued by operational units are complete and in compliance with the terms and conditions approved prior to the signing by the Bank's Approving Authority.

In addition, loan disbursement requisition is independently checked by Compliance function to ensure the adherence to loan disbursement conditions prior to submission to the Bank's Approving Authority for final approval.

Compliance function also performs the identification and monitoring of regulations and controls for the Bank, i.e. the regulatory requirements which the Bank must comply. These include statutory reporting requirements and mandatory submissions to relevant supervisory bodies such as Bank Negara Malaysia. The scope of work starts from the identification of appropriate regulations and controls for the related business functions of the Bank until full implementation of the reporting and monitoring measures.

Compliance function is also responsible on the Anti-Money Laundering and Counter Financing of Terrorism. Any suspicious transactions are to be reported to the Financial Intelligence Unit (FIU) of Bank Negara Malaysia.



# Perspectives

# Chairman's Statement

*Penyata Pengerusi*



**YBhg. Datuk Dr. Abdul Samad bin Haji Alias**

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

## **INTRODUCTION**

**On behalf of the Board of Directors of Bank Pembangunan Malaysia Berhad, it is my great pleasure to present the 37th Annual Report and Audited Financial Statement of Bank Pembangunan and Group for the financial year ended December 31, 2010.**

*Dengan Nama Allah Yang Maha Pemurah, Lagi Maha Mengasihani.*

## **PENGENALAN**

*Bagi pihak Lembaga Pengarah Bank Pembangunan, saya dengan sukacitanya membentangkan Laporan Tahunan ke-37 dan Penyata Kewangan Beraudit Kumpulan dan Syarikat bagi tahun kewangan berakhir 31 Disember 2010.*

# Chairman's Statement

## Penyata Pengerusi

### MALAYSIAN ECONOMIC REVIEW FOR 2010

Malaysia's economy outperformed expectations to chalk up a commendable growth of 7.2% in 2010 compared with a contraction of 1.7% in 2009, bolstered by a rebound in manufacturing and services as well as brisk exports and imports. The continued inflow of foreign direct investments, a healthy reserves position maintained by the central bank, a record performing ringgit, as well as high commodity prices boosted growth and aided the rebound.

On the supply side, all economic sectors registered positive growth in 2010. The services sector recorded a higher growth of 6.8%, supported mainly by the continued expansion in domestic economic activity. The sector remained the largest contributor to growth, contributing 3.6 percentage points to the overall GDP growth. The finance and insurance sub-sectors expanded by 6.1% supported mainly by the finance segment due to favourable loan growth during the year.

The construction sector registered a growth of 5.2%, reflecting broad improvement in overall construction activity. The expansion in the non-residential sub-sector was due mainly to the construction of office and retail spaces, with growth in the civil engineering sub-sector supported by further progress in the implementation of infrastructure projects. Meanwhile, the residential sub-sector improved as more new projects were launched during the year.

The domestic banking sector remained resilient, with strong capital buffers, sustained profitability, stable loan quality and ample liquidity. Financial stability was maintained throughout the year, supported by sound financial institutions and orderly financial markets which provided continued support for financial intermediation in the domestic economy. As at end-December 2010, capitalisation was strong with the risk-weighted capital ratio (RWCR) and core capital ratio (CCR) standing at 14.6% and 12.8% respectively.

### TINJAUAN EKONOMI MALAYSIA 2010

*Ekonomi Malaysia melebihi jangkaan apabila mencatat pertumbuhan yang membanggakan iaitu sebanyak 7.2% berbanding penguncupan 1.7% pada tahun 2009, disokong oleh sektor perkilangan dan perkhidmatan serta aktiviti import dan eksport yang kembali cergas. Aliran masuk pelaburan asing yang berterusan, kedudukan rizab yang kukuh dikekalkan oleh Bank Pusat, rekod kedudukan Ringgit yang baik serta harga komoditi yang tinggi mendorong pertumbuhan dan membantu pembaikan ini.*

*Dari sudut bekalan pula, semua sektor ekonomi merekodkan pertumbuhan positif pada 2010. Sektor perkhidmatan merekodkan pertumbuhan lebih tinggi iaitu 6.8% disokong terutamanya oleh pengembangan berterusan dalam aktiviti ekonomi domestik. Sektor ini kekal menjadi penyumbang terbesar kepada pertumbuhan ini, menyumbang 3.6 titik peratusan kepada keseluruhan pertumbuhan GDP. Sub-sektor kewangan dan insuran berkembang 6.1% didorong terutamanya oleh segmen kewangan berikukutan pertumbuhan pinjaman yang baik pada tahun semasa.*

*Sektor pembinaan merekodkan pertumbuhan 5.2%, mencerminkan peningkatan yang luas dalam keseluruhan aktiviti pembinaan. Pengembangan dalam sub sektor bukan kediaman disebabkan oleh pembinaan ruang pejabat dan ruang perniagaan, sementara pertumbuhan dalam sub sektor kejuruteraan awam dibantu oleh kemajuan berterusan dalam pelaksanaan projek-projek infrastruktur. Sementara itu, sub sektor kediaman menunjukkan pembaikan disebabkan lebih banyak projek-projek baru dilancarkan pada tahun semasa*

*Sektor perbankan domestik kekal cergas dengan modal penimbal yang kuat, keuntungan berterusan, kualiti pinjaman yang stabil dan kecairan yang mencukupi. Kestabilan kewangan adalah kekal sepanjang tahun, dibantu oleh institusi kewangan yang kukuh dan pasaran kewangan yang teratur yang menyediakan bantuan berterusan kepada pengantaraan kewangan dalam ekonomi domestik. Setakat akhir Disember 2010, permodalan adalah kukuh dengan nisbah modal berwajaran risiko (RWCR) dan nisbah modal teras (CCR) masing-masing pada 14.6% dan 12.8%.*

# Chairman's Statement

## Penyata Pengerusi

### FINANCIAL PERFORMANCE IN 2010

BPMB Group posted a commendable financial performance in 2010. Profit Before Tax surged 61% to RM549 million, from RM340 million in 2009. Net income rose by RM150 million to RM1.2 billion, attributable to higher asset base and increase in non-interest income, partly from government compensation for loan impairment charges.

#### Bank Pembangunan Malaysia Berhad (the Bank)

The year 2010 proved to be challenging for the Bank with first time implementation of FRS139 on Recognition and Measurement of Financial Instruments. As allowed under FRS139, the Bank recognized additional allowances of RM473 million against the retained earnings as at 1 January 2010, in accordance with the new impairment basis for loans and investment securities.

In addition, a total of RM490 million allowances for impairment was charged to the income statement during the year, compared to RM436 million in 2009, largely arising from the adoption of FRS139. Nevertheless, the Bank managed to record Profit Before Tax of RM503.5 million, representing 31% growth from the previous year. The sterling performance was largely due to higher non-interest income arising from utilization of infrastructure support fund from the government amounting to RM186 million, to partially compensate for the impairment allowances made.

Despite lower shareholders' funds at RM6.9 billion from 2009 position of RM7.1 billion, which was attributable to the adjustment to retained earnings under FRS139, risk-weighted capital ratio strengthened further to 33.1% in 2010 from 31.6% in 2009.

The strong financial performance and improved capital position were the result of improved risk management combined with proactive cost control initiated by the Bank, as gross loans continued to register double digit growth of 12%.

### PRESTASI KEWANGAN PADA 2010

Kumpulan BPMB mencatatkan prestasi kewangan yang membanggakan pada tahun 2010. Keuntungan sebelum cukai meningkat 61% kepada RM549 juta, daripada RM340 juta pada 2009. Pendapatan bersih meningkat sebanyak RM150 juta kepada RM1.2 bilion, berpunca daripada asas aset yang lebih tinggi dan kenaikan dalam pendapatan bukan faedah, sebahagiannya daripada ganti rugi kerajaan ke atas cagaran-cagaran yang terjejas.

#### Bank Pembangunan Malaysia Berhad (Bank)

Tahun 2010 terbukti sebagai tahun yang mencabar kepada Bank dengan pelaksanaan FRS 139 pertama kalinya ke atas Pengenalan dan Pengukuran Instrumen Kewangan. Seperti yang dibenarkan di bawah FRS 139, Bank meluluskan peruntukan tambahan RM473 juta terhadap baki keuntungan setakat 1 Januari 2010, sesuai dengan asas penurunan nilai pinjaman yang baru dan sekuriti pelaburan.

Sebagai tambahan, sejumlah RM490 juta peruntukan kepada penurunan nilai ini diperuntukan ke dalam penyata pendapatan pada tahun semasa, berbanding RM436 juta pada 2009, sebahagian besarnya disebabkan oleh pelaksanaan FRS 139. Namun begitu, Bank mampu merekodkan Keuntungan Sebelum Cukai sebanyak RM503.5 juta, mewakili pertumbuhan 31% daripada tahun sebelumnya. Prestasi cemerlang ini keseluruhannya disebabkan oleh peningkatan pendapatan bukan faedah yang timbul daripada penggunaan dana bantuan infrastruktur daripada Kerajaan berjumlah RM186 juta, bagi mengimbangi sebahagian daripada peruntukan lemah yang telah dibuat.

Walaupun dana pemegang saham menurun kepada RM6.9 dari kedudukan RM7.1 bilion pada 2009, yang disebabkan oleh pelarasan perolehan tertahan di bawah FRS 139, nisbah modal berwajaran risiko terus kukuh kepada 33.1% pada 2010 berbanding 31.6% pada 2009.

Prestasi kewangan yang kukuh dan kedudukan modal yang bertambah baik adalah hasil daripada penambahbaikan pengurusan risiko ditambah dengan kawalan kos yang proaktif yang diperkenalkan oleh Bank, di mana pinjaman-pinjaman kasar terus mencatatkan pertumbuhan dua digit 12%.

# Chairman's Statement

## Penyata Pengerusi

The Bank continued to enhance its asset liability management in its effort to better manage its liquidity, given the profile of its assets in the longer tenures, with long gestation period. As part of its funding strategy, the Bank had issued Medium Term Notes (MTN) worth RM2.5 billion during the year, inclusive of RM500 million Islamic MTN, which was over-subscribed by more than two times. The Bank had also drawn down long-term borrowings from Employee Provident Fund (EPF) and renegotiated the terms of existing bilateral loans totalling RM2.0 billion. As a result, average cost of borrowings decreased further to 3.6% in 2010 from 3.75% in 2009.

### Global Maritime Venture Berhad (GMVB)

GMVB's Group financial performance during the financial year ended 31 December 2010 continued to be affected by the volatility of the maritime industry. The Group recorded total revenue of RM154 million and Profit Before Tax of RM28 million, a decrease of 26% and 52% respectively compared to the previous year. The decline in financial performance was mainly due to lower operating revenue and lower share of profits from jointly controlled entities, arising from subdued charter hire and freight rates.

### Pembangunan Leasing Corporation Sdn Bhd (PLC)

For the financial year ended 31 December 2010, PLC Group recorded a turnaround in financial performance to record Profit Before Tax of RM43.8 million, from RM57.2 million losses in the previous year. This was achieved on the back of higher interest income, coupled with higher write-back from the loan losses and provisions. As a result, shareholders' funds increased by 17% to RM150.1 million from RM128.1 million as at end 2009.

### OUTLOOK AND PROSPECT FOR 2011

The global economy is expected to be in better shape in 2011 following a mild rebound of the economy of the United States

*Bank terus berusaha meningkatkan pengurusan libiliti asetnya dalam usaha untuk mengurus kecairannya dengan lebih baik, memberi profil aset dalam tempoh yang lebih panjang, dan dengan tempoh tunggu hasil yang panjang. Sebagai sebahagian daripada strategi pendanaan, Bank telah menerbitkan Nota Jangka Sederhana (MTN) bernilai RM2.5 bilion pada tahun semasa, termasuk RM500 juta MTN Islam, yang berlebihan langganan lebih daripada dua kali. Bank juga telah menggunakan pinjaman jangka panjang daripada Kumpulan Wang Simpanan Pekerja (KWSP) bernilai RM2.0 bilion dan telah melakukan rundingan semula terhadap terma asal pinjaman dua hala tersebut. Hasilnya, kos purata peminjaman telah menurun kepada 3.6% pada 2010 daripada 3.75% pada 2009.*

### Global Maritime Venture Berhad (GMVB)

*Prestasi kewangan Kumpulan GMVB pada tahun kewangan berakhir 31 Disember 2010 terus menerima kesan akibat industri maritim yang tidak sabil. Kumpulan merekodkan hasil keuntungan berjumlah RM154 juta dan Keuntungan Sebelum Cukai sebanyak RM28 juta, penurunan masing-masing 26% dan 52% berbanding tahun sebelumnya. Penurunan prestasi kewangan ini terutamanya disebabkan oleh keuntungan yang rendah daripada operasi dan pembahagian keuntungan yang rendah daripada entiti yang dikawal bersama, ekoran daripada kawalan sewa carter dan kadar tambang.*

### Pembangunan Leasing Corporation Sdn Bhd (PLC)

*Bagi tahun kewangan berakhir 31 Disember 2010, Kumpulan PLC merekodkan prestasi memberangsangkan apabila mencatatkan Keuntungan Sebelum Cukai RM43.8 juta, daripada kerugian RM57.2 juta pada tahun sebelumnya. Ianya melalui pendapatan faedah yang lebih tinggi, ditambah dengan masuk kira semula yang tinggi daripada kerugian-kerugian pinjaman dan peruntukan. Hasilnya, dana pemegang saham telah meningkat 17% kepada RM150.1 juta daripada RM128.1 juta pada akhir 2009.*

### PANDANGAN DAN PROSPEK UNTUK 2011

*Ekonomi global dijangka akan berada pada tahap lebih baik pada 2011 berikutan kebangkitan semula ekonomi Amerika Syarikat*

# Chairman's Statement

## Penyata Pengerusi

and a sharp recovery in Asian economies which brought relief to the business community and policymakers. The Malaysian economy is projected to grow by between 5% and 6% in 2011, spurred by domestic demand as the private sector takes over as the driver of growth. Private investment activity, which turned positive in 2010, is envisaged to contribute significantly to economic growth. The idea of the private sector leading growth stems from the start of 52 private finance initiatives (PFI) over the 10th Malaysia Plan (10MP) period as well as the implementation of private sector projects under the National Key Economic Areas (NKEAs).

The National Budget 2011 has sent positive waves through the infrastructure sector. The government has pledged major infrastructure projects likely to be pushed through the pipeline and enter construction in the second half of 2011. The infrastructure sector would stand to gain from the implementation of high-impact projects worth RM63 billion during the 10MP period. Seven tolled highway projects are to be built during the plan period at an estimated cost of RM19 billion.

The construction sector is expected to expand by 4.4% in 2011 from 5.2% in 2010 and growth in the sector will be supported by ongoing projects such as KLIA 2, the Second Penang Bridge, SKVE Package 3, Sabah-Sarawak gas Pipeline, MRT and the LRT extensions. In addition, growth would be supported by development projects in the five growth corridors. These projects offer opportunities for the Bank to play a major role in spurring the national development agenda.

Malaysia is committed to adopt renewable energy and green technology to become one of the leading green nations in the 21st century. The Bank will continue to promote green technology by allocating RM150 million for approval in 2011 under the Green Technology Financing Scheme (GTFS), largely for environmental conservation projects.

*dan pemulihan pesat ekonomi Asian yang telah memberi kelegaan kepada komuniti perniagaan dan penggubal dasar. Ekonomi Malaysia diramalkan meningkat di antara 5% dan 6% pada 2011, dipacu oleh permintaan domestik di mana sektor swasta mengambil alih sebagai pendorong pertumbuhan. Aktiviti pelaburan swasta, yang ternyata positif pada 2011, dijangka akan menyumbang secara signifikan kepada pertumbuhan ekonomi. Idea kepada pertumbuhan sektor swasta yang terkemuka bermula daripada 52 inisiatif kewangan swasta (PFI) selama tempoh Rancangan Malaysia ke-10 (10MP) serta pelaksanaan projek-projek sektor swasta di bawah Bidang Keberhasilan Utama Ekonomi (NKEAs).*

*Belanjawan Negara 2011 telah memberi gelombang positif kepada sektor infrastruktur. Kerajaan telah menjanjikan projek-projek infrastruktur utama yang akan disalurkan dan memasuki sektor pembinaan pada setengah tahun kedua 2011. Sektor infrastruktur akan memperoleh manfaat daripada pelaksanaan projek-projek berimpak tinggi bernilai RM63 bilion semasa 10MP. Tujuh lebuh raya bertol akan dibina dalam jangkamasa rancangan tersebut, yang dijangka menelan belanja RM19 bilion.*

*Sektor pembinaan dijangka akan berkembang 4.4% pada 2011 daripada 5.2% pada 2010, dan pertumbuhan dalam sektor ini akan disokong lagi dengan projek-projek yang berterusan seperti KLIA 2, Jambatan Pulau Pinang Kedua, SKVE Pakej 3, Jaluran paip gas Sabah-Sarawak, MRT dan penyambungan LRT. Ditambah lagi, pertumbuhan ini juga dibantu oleh pembangunan projek-projek di lima buah koridor. Projek-projek ini menawarkan peluang kepada Bank untuk menjadi peneraju utama kepada agenda pembangunan Negara.*

*Malaysia komited untuk mengambil/pakai teknologi tenaga yang boleh diperbaharui dan teknoloji hijau untuk menjadi salah satu Negara hijau terkemuka pada abad ke-21. Bank akan terus mempromosi teknologi hijau dengan memperuntukkan RM150 juta untuk diluluskan pada tahun 2011 di bawah Skim Pembiayaan Teknologi Hijau (GTFS) sebahagian besar daripadanya untuk projek-projek pemuliharaan alam sekitar.*



# Chairman's Statement

## Penyata Pengerusi

Under the Maritime sector, the Bank is targeting to approve and disburse total loans of RM800 million. The financing will focus on vessels that are servicing the offshore oil & gas activities as well as shipyards involved in shipbuilding, ship repairs and offshore oil & gas fabrication.

One of the actions under the Government's Entry Point Projects (EPP) as outlined in the Economic Transformation Programme (ETP) is to encourage DFIs to shift emphasis towards Islamic Finance. In supporting this, the Bank will intensify the marketing of Islamic products while enhancing skills and knowledge in Islamic product structuring, to achieve an Islamic portfolio target of 20% of the total portfolio by 2013, from the current 11%.

### ACKNOWLEDGEMENT

I am privileged to serve on the Board of Directors alongside dedicated and professional members. I wish to thank fellow Board Members for their support, contribution and commitment over the past one year. To Encik Zainul Rahim Mohd Zain, Dato' Dr. Syed Jaafar Syed Aznan, Tan Sri Faizah Mohd Tahir and Datuk Idris bin Abdullah @ Das Murthy who joined the Board this year, I wish them a warm welcome.

I would like to take this opportunity to record my heartfelt appreciation to Tuan Haji Mohd Zarif Mohd Zaman, Dato' Ab. Halim Mohyiddin and Tuan Syed Hussain Syed Hamzah who retired from Bank Pembangunan's Board of Directors during the year. Their wisdom and invaluable contribution and advice throughout their tenure with Bank Pembangunan will continue to be cherished and deeply missed.

On behalf of the Board of Directors, I would like to express our deepest gratitude to the Ministry of Finance, Bank Negara Malaysia, other ministries and regulators, customers, partners

*Di bawah sektor Maritim, Bank mensasarkan untuk melulus dan mengeluarkan pinjaman sebanyak RM800 juta. Pembiayaan akan ditumpukan kepada kapal-kapal yang memberi perkhidmatan kepada kegiatan minyak dan gas luar pesisir pantai serta limbungan kapal yang terlibat dalam pembinaan kapal, baik pulih kapal, dan kerja-kerja fabrikasi industri minyak dan gas luar pesisir pantai.*

*Salah satu langkah di bawah Entry Point Projects (EPP) Kerajaan, seperti yang digariskan dalam Program Transformasi Ekonomi (ETP) adalah untuk menggalakkan DFIs untuk memindahkan penekanan kepada Pembiayaan Islam. Dalam menyokong langkah ini, Bank akan memperhebatkan pemasaran produk-produk syariah dan dalam masa yang sama meningkatkan lagi kemahiran dan pengetahuan dalam struktur produk-produk Islam, untuk mencapai sasaran 20% daripada jumlah keseluruhan portfolio Islam sehingga tahun 2013, dari 11% pada masa sekarang.*

### PENGHARGAAN

*Saya berasa berbesar hati dapat berkhidmat dalam Lembaga Pengarah bersama ahli-ahli yang berdedikasi dan profesional. Saya mengucapkan terima kasih kepada ahli-ahli Lembaga Pengarah di atas sokongan dan amat menghargai dedikasi mereka, sepanjang setahun yang lalu. Saya ingin mengalu-alukan kehadiran Encik Zainul Rahim Mohd. Zain, Dato' Dr. Syed Syed Jaafar Aznan, Tan Sri Faizah Mohd Tahir dan Datuk Idris Abdullah@Das Murthy yang mula berkhidmat sebagai Lembaga Pengarah Bank pada tahun ini.*

*Saya juga ingin mengambil kesempatan ini untuk mengucapkan terima kasih saya kepada Tuan Haji Mohd Zarif Mohd Zaman, Dato' Ab. Halim Muhyiddin dan Tuan Syed Hussain Syed Hamzah yang telah bersara daripada Lembaga Pengarah Bank Pembangunan pada tahun ini. Kebijaksanaan serta sumbangan yang tidak ternilai dan khidmat nasihat mereka sepanjang tempoh bersama Bank Pembangunan akan terus dihargai dan akan sangat dirasakan kehilangannya.*

*Bagi pihak Ahli-ahli Lembaga Pengarah, saya ingin mengucapkan terima kasih yang tidak terhingga kepada Kementerian Kewangan, Bank Negara Malaysia, lain-lain kementerian*

# Chairman's Statement

## Penyata Pengerusi

and other stakeholders for their continuous support and guidance. I also wish to express our sincere appreciation to the Management and staff of Bank Pembangunan Group for their untiring dedication, commitment and loyalty. I have every confidence that together, the Group can achieve even greater success and contribute towards the future of our nation.

Last but not least, on behalf of the Board of Directors, management and staff, I would like to place on record our heartfelt condolences to the wife and family of Allahyarham Kapten A Ghani Ishak on his sudden demise on 21st March 2011 after serving one year on the Board of Bank Pembangunan and GMV. Allahyarham Kapten's selfless dedication and commitment has greatly contributed to the Group, albeit during such a short tenure. May the blessing of Allah be upon him.

DATUK DR. ABDUL SAMAD HAJI ALIAS  
Chairman

*dan agensi-agens kerajaan, pelanggan, rakan-rakan kongsi dan lain-lain pihak berkepentingan di atas sokongan dan galakan yang berterusan. Saya juga ingin mengucapkan penghargaan ikhlas kami kepada pihak Pengurusan dan staf Kumpulan Bank Pembangunan di atas dedikasi, komitmen dan kesetiaan yang tidak kenal lelah. Saya begitu yakin, bahawa dengan kerjasama, kumpulan ini akan mencapai kejayaan yang lebih lagi pada masa hadapan.*

*Akhir sekali, bagi pihak Ahli-ahli Lembaga Pengarah, pengurusan dan staf, saya ingin merakamkan ucapan takziah kami kepada isteri dan keluarga Allahyarham Kapten A. Ghani Ishak di atas pemergian Allahyarham ke Rahmatullah pada 21 Mac 2011, selepas setahun berkhidmat sebagai Ahli Lembaga Pengarah Bank Pembangunan dan GMV. Dedikasi dan komitmen Allahyarham yang berterusan, telah banyak menyumbang kepada Kumpulan, walaupun dalam tempoh yang begitu singkat. Semoga Allah mencucuri Rahmat ke atas rohnyanya.*

DATUK DR. ABDUL SAMAD HAJI ALIAS  
Pengerusi



# President's Statement

## Penyata Presiden



Dato' Zafer Hashim

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

### INTRODUCTION

The year 2010 proved to be both challenging and rewarding for Bank Pembangunan Malaysia Berhad (the Bank), as it continued to grow and accomplish targets set at the beginning of the year. Against a backdrop of recovery in the economy, the Bank prided itself in being agile and resilient in meeting new challenges, particularly in the wake of higher impaired loans ratio arising from first time implementation of the new financial reporting standard, FRS 139.

*Dengan Nama Allah Yang Maha Pemurah, Lagi Maha Mengasihani.*

### PENGENALAN

*Tahun 2010 merupakan tahun yang memberikan kedua-dua cabaran dan manfaat kepada kepada Bank Pembangunan Malaysia Berhad (Bank), yang terus berkembang dan mencapai sasaran yang telah ditetapkan pada awal tahun. Dengan berlatarbelakang ekonomi yang semakin pulih, Bank berbangga kerana terus bangkit dengan tangkas dan tabah dalam menghadapi cabaran-cabaran baru, terutama ekoran daripada nisbah penurunan nilai pinjaman yang lebih tinggi yang timbul daripada pelaksanaan Standard Pelaporan Kewangan baru, FRS 139.*

# President's Statement

## Penyata Presiden

### STRONGER FINANCIAL PERFORMANCE

The Bank ended 2010 on a high note, recording a significant increase of 31% in Profit Before Tax (PBT) to chalk up RM503.5 million from RM383.6 million the previous year.

Net interest income rose by RM3.9 million to RM772 million from RM768 million in 2009, attributable to higher income from loans & advances and interest compensation from the government. At the same time, non-interest income increased by RM183 million to RM303 million from RM121 million in 2009. This was mainly due to increase in utilization of Infrastructure Support Fund (ISF) from the government to compensate for impairment charges for loans and securities, arising from the implementation of FRS 139. The RM186 million utilized from ISF helped soften the impact of higher impairment allowances and losses by 12% during the year, after registering RM490 million compared to RM436 million in 2009.

Total assets of the Bank grew by 10% during the year under review, on the back of gross loan growth of 12%. Under the new accounting policy adopted in line with FRS 139, gross impaired loans registered RM2.6 billion as at 31 December 2010, with gross and net impaired loans ratio recording 11.1% and 4.3% respectively, compared to 4.2% and 1.7% respectively at the end of the previous year. The huge increase was due to the fact that loan impairment under FRS 139 was based on objective evidence of impairment as a result of one or more events, and that the loss event has an impact on future estimated cash flows of the loan that can be reliably estimated. One of the events resulting in impairment is when a loan is 3 months in arrears. This is more stringent than the non-performing loans' trigger of 6 months' arrears practiced by the Bank under BNM's GP3 previously.

### PRESTASI KEWANGAN LEBIH KUKUH

*Bank mengakhiri tahun 2010 dengan catatan nota tinggi, merekodkan peningkatan pendapatan Sebelum Cukai yang signifikan sebanyak 31%, berjumlah RM503.5 juta dibandingkan RM383.6 juta pada tahun sebelumnya.*

*Pendapatan faedah bersih telah meningkat RM3.9 juta kepada RM772 juta daripada RM768 juta pada 2009, berpunca daripada pendapatan yang tinggi oleh pinjaman-pinjaman dan pendahuluan-pendahuluan dan ganti rugi faedah daripada Kerajaan. Pada masa yang sama, pendapatan tanpa faedah meningkat RM183 juta kepada RM303 juta daripada RM121 juta pada 2009. Ini berikutan peningkatan penggunaan Dana Sokongan Infrastruktur (ISF) daripada Kerajaan untuk mengimbangi penurunan bayaran pinjaman-pinjaman dan cagaran-cagaran, yang timbul daripada pelaksanaan FRS 139. RM186 juta yang digunakan daripada ISF telah membantu mengurangkan impak penurunan nilai elaun-elaun dan kerugian-kerugian sebanyak 12% semasa tahun kajian, selepas merekodkan RM490 juta berbanding dengan RM436 juta pada 2009.*

*Jumlah aset Bank tumbuh 10% semasa tahun kajian, dibelakangi pertumbuhan pinjaman kasar 12%. Di bawah polisi perakaunan baru yang digunakan di bawah FRS 139, penurunan nilai pinjaman kasar mencatatkan RM2.6 bilion pada 31 Disember 2010, dengan penurunan nilai pinjaman kasar dan bersih masing-masing merekodkan 11.1 % dan 4.3% berbanding dengan 4.2% dan 1.7% pada penghujung tahun sebelumnya. Peningkatan yang besar ini disebabkan oleh penurunan nilai pinjaman di bawah FRS 139 yang berdasarkan bukti objektif penurunan nilai akibat daripada satu atau lebih perkara, dan kerugian memberi kesan kepada aliran wang tunai teranggar pada masa hadapan terhadap pinjaman yang telah dianggar dengan pasti. Salah satu punca mengakibatkan penurunan nilai adalah apabila sesuatu pinjaman itu tertunggak selama 3 bulan. Ianya lebih ketat daripada pinjaman-pinjaman tidak berbayar dengan tunggakan 6 bulan, seperti yang diamalkan oleh Bank di bawah GP3 Bank Negara Malaysia sebelum ini.*

# President's Statement

## Penyata Presiden

The Bank's financial health, as measured by capital adequacy, continued to be one of the strongest in the industry. Notwithstanding the impact of FRS 139 adjustments which had resulted in a decrease in retained earnings and ISF, at the end of 2010. Risk Weighted Capital Ratio (RWCR) further strengthened to 33.2% from 31.6% in 2009. This was partly attributable to ample Tier II capital in the form of collective assessment allowance amounting to RM651 million, thereby providing adequate buffer over and above the hefty individual impairment allowances made on all loans classified as impaired.

Funding issues continued to be the focus, as the Bank strived to enhance liquidity management and optimize funding mix in order to reduce average cost of funds. Proactive management of the liabilities aspect of the balance sheet was reflected in lower average cost of funding of 3.6% against 2009's 3.75%. This served to demonstrate that the Bank has progressed further in its goal towards becoming a premier development financial institution, playing a pivotal role in the development of the nation in parallel with the government's aspirations under the Economic Transformation Programme (ETP) and 10MP.

### INCREASED LENDING ACTIVITIES

The Bank's gross loans outstanding recorded a growth of 12% to register RM23.7 billion as at 31 December 2010. This was achieved on the back of RM2.5 billion net disbursements, although the impact was partially offset by close to RM1.1 billion additional impairment allowance and losses booked in during the year. As a result, net loans after deducting individual and collective assessment allowances recorded RM21.3 billion as at end 2010, a growth of 7% from the previous year.

*Kedudukan kewangan Bank, seperti yang diukur dengan kecukupan modal, terus menjadi antara yang terkukuh dalam industri. Walaupun kesan pelarasan semula FRS 139 telah mengakibatkan penurunan dalam baki keuntungan terkumpul dan ISF, pada akhir 2010. Nisbah Modal Berwajaran Riskio (RWCR), terus mengukuh kepada 33.2% daripada 31.6% pada 2009. Ini sebahagiannya disumbangkan kepada lebih modal Tier II dalam bentuk penilaian kolektif elaun berjumlah RM651 juta, sehingga menyediakan penimbal yang mencukupi ke atas penurunan nilai elaun individu dibuat ke atas semua pinjaman yang diklasifikasikan sebagai terjejas.*

*Isu-isu pendanaan terus menjadi fokus, di mana Bank terus berusaha untuk meningkatkan pengurusan kecairan dan mengoptimalkan pendanaan campuran dalam usaha untuk mengurangkan kos purata dana. Pengurusan proaktif ke atas aspek-aspek liabiliti kunci kira-kira, dicerminkan oleh kos purata pendanaan yang lebih rendah pada 3.6% berbanding 3.75% pada tahun 2009. Ini membuktikan yang Bank telah menunjukkan kemajuan dalam mencapai cita-citanya untuk menjadi intitusi pembiayaan pembangunan utama, yang memainkan peranan penting dalam pembangunan Negara sejajar dengan inspirasi kerajaan di bawah Program Transformasi Ekonomi (ETP) dan Rancangan Malaysia ke-10 (10MP).*

### MENINGKATKAN AKTIVITI-AKTIVITI PEMBIAYAAN

*Pinjaman kasar Bank mencatatkan pertumbuhan cemerlang 12% atau RM23.7 bilion setakat 31 Disember 2010. Ini berjaya dicapai dengan bantuan RM2.5 bilion pengeluaran pinjaman bersih, walaupun kesan tersebut sebahagiannya diimbangi oleh tambahan hampir RM1.1 bilion penurunan nilai elaun dan kerugian dicatatkan pada tahun tersebut. Hasilnya, pinjaman-pinjaman bersih selepas ditolak penilaian kolektif elaun-elaun dan individu telah merekodkan RM21.3 bilion pada hujung tahun 2010, pertumbuhan 7% daripada tahun sebelumnya.*

# President's Statement

## Penyata Presiden

The year saw loan approvals returning to normal levels, with 37 loans worth RM3.3 billion being approved to finance various projects in infrastructure, maritime and high technology. This was in contrast with the approvals of 2009 which had included one mega infrastructure project worth RM6.7 billion

### Infrastructure

The Bank approved a total of 17 loans valued at RM1.95 billion to finance infrastructure projects largely in the sub-sectors of education, transportation and utility, with approvals totaling RM1.1 billion or 56% from the total loans approved. Tourism industry was the recipient of RM264 million approval, mainly to provide financing for construction of hotels while approvals of RM333 million were granted under the construction sector, with the bulk of it for the oil & gas industry.

The education sector benefited from 5 approvals to private concessionaires under the Private Finance Initiative (PFI) concept with a total RM1.25 billion loan approved to finance the development of 5 UiTM branch campuses. These concessions entail the design, build, lease and transfer of these campuses as part of the government's PFI programme.

### Maritime

2010 was a challenging year for the maritime sector due to volatility of the shipping market. Nevertheless, 14 loans valued at RM1.1 billion were approved for the acquisition of vessels (46%) mainly tug supply vessels and the balance (54%) for the financing of vessel construction for offshore activities. This proves that even in bad economic condition, the Bank has stepped up its efforts to further intensify the assistance provided to the shipyard and shipping industry in consonance with our mandate to assist the government in developing and transforming the country into a 'Maritime Nation'.

*Tahun 2010 memperlihatkan kelulusan pinjaman kembali kepada aras normal, dengan 37 pinjaman bernilai RM3.3 bilion telah diluluskan untuk membiayai berbagai-bagai projek infrastruktur, maritim dan teknologi tinggi. Ini berbeza sekali dengan kelulusan pada 2009 yang mana telah termasuk satu projek mega infrastruktur yang bernilai RM6.7 bilion.*

### Infrastruktur

*Bank telah meluluskan sejumlah 17 pinjaman bernilai RM1.95 bilion untuk membiayai projek-projek infrastruktur, sebahagian besarnya dalam sub-sektor pendidikan, pengangkutan dan utiliti, dengan kelulusan berjumlah RM1.1 bilion atau 56% daripada jumlah pinjaman diluluskan. Industri pelancongan menerima RM264 juta yang diluluskan, terutamanya untuk menyediakan pembiayaan bagi pembinaan hotel-hotel, manakala kelulusan berjumlah RM333 juta telah diberi di bawah sektor pembinaan, di mana sebahagian besarnya kepada industri minyak dan gas.*

*Sektor pendidikan mendapat manfaat daripada 5 kelulusan kepada pemegang konsesi di bawah konsep Inisiatif Kewangan Swasta (PFI) dengan sejumlah RM1.25 bilion pinjaman telah diluluskan untuk membiayai pembangunan 5 kampus cawangan UiTM. Konsesi-konsesi ini melibatkan rekabentuk, membina, menyewa dan memindahkan kampus-kampus ini sebagai sebahagian daripada program PFI Kerajaan.*

### Maritim

*2010 merupakan tahun yang mencabar bagi sektor maritim berikutan pasaran perkapalan yang tidak stabil. Namun begitu, 14 pinjaman bernilai RM1.1 bilion telah diluluskan untuk perolehan kapal (46%) terutamanya kapal bekalan tunda dan bakinya (54%) untuk pembiayaan pembinaan kapal untuk aktiviti-aktiviti luar pesisir pantai. Ini membuktikan bahawa, biarpun dalam keadaan ekonomi yang kurang memberangsangkan, Bank telah meneruskan langkah memperhebatkan usaha menyediakan bantuan kepada industri perkapalan dan limbungan sejajar dengan mandat kami untuk membantu Kerajaan dalam membangun dan mentransformasikan Negara menjadi 'Negara Maritim'.*

# President's Statement

## Penyata Presiden

During the year, the Bank was mandated to manage an additional maritime fund of RM2.0 billion, which was transferred from the Public Transport Fund, apart from the existing RM2.0 billion Maritime Fund. Cumulatively, as at 31 December 2010, the Maritime Fund of RM4.0 billion had benefited 26 companies with total approvals of RM2.2 billion.

### High Technology

Overall, technology sector contributed 6.5% of the total loan outstanding in 2010 and recorded an increase of RM40.3 million from RM1.5 billion in 2009. During the year, 6 loans valued at RM284.8 million were approved, of which RM69.3 million was approved under the Green Technology Fund Scheme (GTFS) in support of the Government's objective to promote green technology.

### ENHANCED OPERATIONAL EFFICIENCY

#### Continuous Process Improvement

In our effort to ensure continued quality service delivery to our customers, the Bank took steps to further streamline and optimize its operating structure. A re-organization was implemented with the creation of Business Banking customer relationship management (CRM) model, to provide a single point of contact with customers. This entailed the merging of business development and credit analysis functions into one to enable an officer to serve the customer from origination to structuring and approval of the loan in a seamless manner.

The CRM model was implemented to enable the Bank to adhere to the enhanced MS ISO 9001:2000 certification in which the number of days taken to process financing applications was reduced to 30 working days (previously 45) from date of receipt of full documents.

*Pada tahun semasa, Bank telah dimandatkan untuk menguruskan dana maritim tambahan bernilai RM2.0 bilion, yang telah dipindahkan daripada Dana Pengangkutan Awam, selain daripada RM2.0 bilion Dana Maritim yang sedia ada. Secara kumulatifnya, setakat 31 Disember 2010, Dana Maritim bernilai RM4.0 bilion telah memanfaatkan 26 syarikat dengan jumlah kelulusan sebanyak RM2.2 bilion.*

### Teknologi Tinggi

*Secara keseluruhannya, sektor teknologi telah menyumbang 6.5% daripada jumlah baki pinjaman pada tahun 2010, dan mencatatkan peningkatan RM40.3 juta daripada RM1.5 bilion pada 2009. Pada tahun semasa, 6 pinjaman bernilai RM284.8 juta telah diluluskan, di mana RM69.3 juta telah diluluskan di bawah Skim Dana Teknologi Hijau (GTFS) dalam usaha menyokong objektif Kerajaan untuk mempromosi teknologi hijau.*

### MENINGKATKAN KECEKAPAN OPERASI

#### Penambahbaikan Proses Berterusan

*Dalam usaha kami untuk memastikan penyampaian perkhidmatan yang berkualiti kepada pelanggan-pelanggan kami, Bank telah mengambil langkah-langkah bagi memperkemas dan mengoptimalkan struktur operasinya. Penyusunan semula organisasi telah dilaksanakan dengan menubuhkan model pengurusan pelanggan Perbankan Perniagaan (CRM), bagi menyediakan satu titik pertemuan dengan pelanggan. Ini melibatkan penggabungan fungsi pembangunan perniagaan dan analisa kredit menjadi satu bagi membolehkan seorang pegawai memberi khidmat kepada pelanggan daripada awal hingga penstrukturan dan kelulusan pinjaman dalam aliran kerja yang kemas dan tersusun.*

*Model CRM ini telah dilaksanakan bagi memastikan Bank mematuhi pensijilan MS ISO 9001:2000 yang telah dipertingkatkan, di mana jumlah hari yang diambil untuk memproses permohonan pembiayaan telah dikurangkan kepada 30 hari bekerja (sebelum ini 45 hari) daripada tarikh penerimaan dokumen penuh.*



# President's Statement

## Penyata Presiden

The Bank also initiated and successfully rolled out a new Credit Risk Rating model, aimed at enhancing robustness in the evaluation of credits and adhering to international risk management best practices. Systems capability was similarly enhanced, as the Bank successfully upgraded its financial management system to the latest version. To further improve efficiency and productivity, the Bank approved the appointment of a vendor to undertake the implementation of a new enterprise loan management system to support the new operating model as well as to ensure conformance to new regulatory requirements, new financial reporting standards and statutory compliance.

### Human Capital Development

The Group recognizes the need for a skilled, agile and committed work force. These essential qualities are pre-requisites in mapping our journey towards becoming a progressive development financial institution with a role in stimulating the growth of the nation. Hence, a total of RM1.4 million representing more than 5% of staff salaries, was spent on training, which among others include leadership development programme, structured training for risk management and certification for credit personnel.

During the year, structural and operational changes were undertaken to enhance and optimize human capital utilization within the Group. A Mutual Separation Scheme (MSS) was offered to selected staff of the Group as part of its manpower rationalization exercise. The MSS is a mutually beneficial scheme for both the staff and the Group, which provided an avenue for the Group to right-size its human capital requirement with the objective of increasing its operational efficiency and productivity, as well as overall competitiveness. The MSS was completed on 31st December 2010 involving 35 employees.

*Bank juga telah memulakan dan menjalankan dengan jayanya model Penarafan Risiko Kredit yang baru, bertujuan untuk memperkuatkan kaedah penilaian kredit dan mematuhi amalan terbaik pengurusan risiko antarabangsa. Keupayaan sistem juga telah dipertingkatkan, di mana Bank telah berjaya menaik taraf sistem pengurusan kewangan kepada versi terkini. Untuk meningkatkan keupayaan dan produktiviti, Bank telah meluluskan perlantikan vendor bagi menyiapkan pelaksanaan satu sistem pengurusan pinjaman enterprise untuk membantu model operasi yang baru dan juga untuk memastikan kesesuaian kepada keperluan peraturan baru, standard pelaporan kewangan dan pematuhan undang-undang baru.*

### Pembangunan Modal Insan

*Kumpulan mengakui keperluan tenaga kerja yang mahir, tangkas dan komited. Kualiti-kualiti penting ini adalah prasyarat dalam melakar perjalanan untuk menjadi institusi kewangan pembangunan yang progresif dengan peranan untuk merangsang pembangunan Negara. Sehubungan itu, sejumlah RM1.4 juta, mewakili lebih daripada 5% jumlah gaji staf, telah dibelanjakan untuk latihan, antara lain termasuk program pembangunan kepimpinan, latihan berstruktur untuk pengurusan risiko dan pensijilan untuk staf-staf kredit.*

*Pada tahun semasa, perubahan struktur dan operasi telah dilakukan untuk meningkatkan dan mengoptimalkan penggunaan modal insan di dalam Kumpulan. Mutual Separation Scheme (MSS) telah ditawarkan kepada staf terpilih dalam Kumpulan sebagai sebahagian daripada proses rasionalisasi tenaga kerja. MSS memberi manfaat kepada kedua-dua pihak staf dan juga Kumpulan, di mana memberi ruang kepada Kumpulan untuk mendapatkan keperluan jumlah tenaga kerja yang betul, dengan objektif untuk meningkatkan kecekapan operasi dan produktiviti, dan juga persaingan keseluruhannya. MSS telah diselesaikan pada 31 Disember 2010 yang melibatkan 35 orang staf.*

# President's Statement

## Penyata Presiden

### MOVING FORWARD

As the pick-up in the Malaysian and regional economies become firmer, prospects are looking bright for the financial year 2011. Moving forward, the country is anticipated to register a robust GDP growth of 5 to 6% in 2011, with domestic demand once again acting as the back-bone for momentum. Both consumption and investment activities are envisaged to remain resilient, underpinned by stable employment and more robust investment activities arising from the implementation of the much-awaited projects under the Economic Transformation Programme (ETP). Notably, the construction sector is expected to receive the most direct benefits from the rollout of the ETP projects, amid the implementation of larger-scale jobs in the coming year. The strategic reform initiatives underlined in the New Economic Model towards achieving the nation's high-income aspiration will also be integral to stimulating further growth in domestic demand.

This offers wider opportunities for Bank Pembangunan to grow its business and also to provide a greater contribution in its role as a leading Development Financial Institution.

Fully cognizant of the challenges ahead, amidst the changing financial landscape brought about in part by liberalization and globalization of financial markets, 2011 will be a bigger test of our character, resilience and innovativeness.

DATO' ZAFER HASHIM  
President / Group Managing Director

### MELANGKAH KEHADAPAN

*Melihat kepada lonjakan ekonomi Malaysia dan di wilayah sekitarnya yang bertambah kukuh, prospek tahun kewangan 2011 dilihat semakin cerah. Melangkah ke hadapan, Negara dijangka merekodkan pertumbuhan GDP yang kekal di antara 5 ke 6 % pada tahun 2011, dengan permintaan dalaman sekali lagi bertindak sebagai tulang belakang kepada momentum ini. Aktiviti-aktiviti pelaburan dan penggunaan dijangka akan terus pulih, disokong dengan kestabilan guna tenaga dan aktiviti pelaburan yang lebih sihat hasil daripada pelaksanaan projek-projek yang dinanti-nanti di bawah Program Transformasi Ekonomi (ETP). Terutama, sektor pembinaan yang dijangkakan akan menerima manfaat terus daripada pelancaran projek-projek ETP, di tengah-tengah pelaksanaan kerja-kerja berskala besar pada tahun akan datang. Inisiatif-inisiatif pembaharuan strategik yang digariskan di dalam Model Ekonomi Baru ke arah mencapai inspirasi sebagai negara berpendapatan tinggi juga penting untuk lebih merangsang pertumbuhan permintaan dalam negara.*

*Ini menawarkan peluang-peluang yang lebih luas kepada Bank Pembangunan untuk mengembangkan bukan sahaja perniagaan, bahkan juga sebagai sumbangan yang lebih besar kepada peranannya menjadi peneraju Institusi Pembiayaan Pembangunan.*

*Sedar akan cabaran-cabaran mendatang, ditengah-tengah perubahan landskap kewangan yang dibawa oleh liberisasi dan globalisasi pasaran kewangan, 2011 akan menguji dengan lebih kuat karekter, inovasi dan daya tahan Bank.*

DATO' ZAFER HASHIM  
Presiden/Pengarah Urusan Kumpulan



# Corporate Highlight

# 2010 Corporate Highlights

1. **4 Januari 2010 • 4 January 2010**  
Lawatan daripada Hong Kong Polytechnic University / *International study tour from Hong Kong Polytechnic University.*
2. **5 Januari 2010 • 5 January 2010**  
Penghantaran MT Orkim Power / *The delivery of MT Orkim Power.*
3. **4-5 Februari 2010 • 4-5 February 2010**  
Bank menyertai pameran Malaysia Technology Expo di PWTC / *Bank participated in the Malaysia Technology Expo held at PWTC.*
4. **22 Februari 2010 • 22 February 2010**  
Pelancaran program Bank Pembangunan Leadership Development Programme (BPLDP) di Sheraton Imperial, Kuala Lumpur / *Bank Pembangunan Leadership Development Programme (BPLDP) was launched at Sheraton Imperial, Kuala Lumpur.*
5. **3 Mac 2010 • 3 March 2010**  
Perlantikan Kapten A Ghani Ishak sebagai Ahli Lembaga Pengarah / *The appointment of Captain A.Ghani Ishak as Board of Director.*
6. **8 Mac 2010 • 8 March 2010**  
Perlantikan Encik Zainul Rahim Mohd. Zain sebagai Ahli Lembaga Pengarah / *The appointment of Encik Zainul Rahim Mohd. Zain as Boad of Director.*
7. **23 Mac 2010 • 23 March 2010**  
Lawatan daripada delegasi Central Bank of Nigeria / *Visit from the delegation of Central Bank of Nigeria.*



# 2010 Corporate Highlights

8. **26 Mac 2010 • 26 March 2010**  
Lawatan daripada Nigerian Maritime Administration & Safety Agency (NIMASA) / *Visit from the Nigerian Maritime Administration & Safety Agency (NIMASA).*
9. **28-30 Mac 2010 • 28-30 March 2010**  
Pelancaran MT Gagasan Kedah dan MV JM Bayu / *The launching of MT Gagasan Kedah and MV JM Bayu.*
10. **31 Mac 2010 • 31 March 2010**  
Jamuan penghargaan kepada Tuan Haji Zarif Mohd. Zaman di Sheraton Imperial Kuala Lumpur / *Appreciation lunch for Tuan Haji Zarif Mohd. Zaman held at Sheraton Imperial, Kuala Lumpur.*
11. **16-19 April 2010 • 16-19 April 2010**  
Program latihan kepada Setiausaha Eksekutif di Bayu Beach Resort, Port Dickson / *Training programme for Executive Secretaries at Bayu Beach Resort, Port Dickson.*
12. **8-9 Mei 2010 • 8-9 May 2010**  
Kembara ADFIM 2010 dari Menara SME Bank ke Village Beach Resort, Beserah, Kuantan / *ADFIM 2010 Road Trip from Menara SME Bank to Village Beach Resort, Beserah, Kuantan.*
13. **16 Mei 2010 • 16 May 2010**  
Program Boling Bersama Media di Ampang Superbowl, Ampang / *Bowling programme with Media held at Ampang Superbowl, Ampang.*



# 2010 Corporate Highlights

**14. 1 Jun 2010 • 1 June 2010**  
 Perlantikan Dato' Dr. Syed Jaafar Syed Aznan dan Tan Sri Faizah Mohd. Tahir sebagai Ahli Lembaga Pengarah /  
*The appointment of Dato' Dr. Syed Jaafar Syed Aznan and Tan Sri Faizah Mohd. Tahir to the Board of Directors.*



**15. 15-18 Jun 2010 • 15-18 June 2010**  
 Bank menyertai pameran Malaysia Electrical and Mechanical Engineering Expo di Kuala Lumpur Convention Centre /  
*Bank participated in the Malaysia Electrical and Mechanical Engineering Expo held at Kuala Lumpur Convention Centre.*



**16. 22 Jun 2010 • 22 June 2010**  
 Kempen derma darah /  
*Blood donation campaign.*



**17. 6 Julai 2010 • 6 July 2010**  
 GMV mengadakan bengkel Commercial Ship Management /  
*GMV conducted a workshop on Commercial Ship Management.*



**18. 10 Julai 2010 • 10 July 2010**  
 Kejohanan Golf Jemputan Bank Pembangunan di Kelab Golf Sultan Abdul Aziz Shah /  
*Bank Pembangunan Invitational Golf Tournament held at Sultan Abdul Aziz Shah Golf Club.*



# 2010 Corporate Highlights

**19. 26-29 Julai 2010 • 26-29 July 2010**

Bank menyertai pameran *2<sup>nd</sup> International Conference and Exhibition on Waste to Wealth* di PWTC / *Bank participated in the 2<sup>nd</sup> International Conference and Exhibition on Waste to Wealth exhibition held at PWTC.*



**20. 6 Ogos 2010 • 6 August 2010**

Pesta Makan Durian dan Buah-buah Tempatan di Menara Bank Pembangunan / *Durian Feast and Local Fruits Fiesta held at Menara Bank Pembangunan.*

**21. 9 Ogos 2010 • 9 August 2010**

Bank menyumbang peralatan perubatan kepada Institut Pediatrik Kuala Lumpur / *Bank donated health equipment to Kuala Lumpur Pediatric Institute.*



**22. 30 Ogos 2010 • 30 August 2010**

Bank memberi duit raya kepada 100 kanak-kanak di Wad Pediatrik, Institut Pediatrik, Kuala Lumpur sempena Hari Raya / *Duit Raya giveaways to 100 children from Pediatric Institute, Kuala Lumpur in conjunction with Hari Raya.*

**23. 2 dan 6 September 2010 • 2 and 6 September 2010**

Bank menyumbang kepada Rumah Titian Kasih dan Baitul Fiqh sebagai sebahagian daripada program CSR / *Bank donated to Rumah Titian Kasih and Baitul Fiqh as part of CSR Programme.*



**24. 1 Oktober 2010 • 1 October 2010**

Pendeposit diraikan di Teater Muzikal Tun Mahathir di Istana Budaya / *Depositors entertained at Tun Mahathir Musical Theatre at Istana Budaya.*



# 2010 Corporate Highlights

**25. 8 Oktober 2010 • 8 October 2010**

Rumah Terbuka Korporat diadakan di Hotel Concorde Kuala Lumpur /  
*Corporate Open House held at Concorde Hotel, Kuala Lumpur.*



**26. 18 Oktober 2010 • 18 October 2010**

Jamuan penghargaan kepada Dato' Ab. Halim Mohyiddin dan Tuan Syed Hussein Syed Hamzah di Sheraton Imperial /  
*Appreciation dinner for Dato' Ab. Halim Mohyiddin and Tuan Syed Hussein Syed Hamzah held at Sheraton Imperial.*

**27. 7 November 2010 • 7 November 2010**

Majlis Makan Malam Tahunan di Hotel Shangri-La bertemakan "Glam and Elegant Nite" /  
*Annual Dinner themed "Glam and Elegant Nite" held at Shangri-La Hotel.*



**28. 1 Disember 2010 • 1 December 2010**

Datuk Idris Abdullah dilantik sebagai Ahli Lembaga Pengarah yang baru /  
*Datuk Idris Abdullah appointed as new Board Member.*

**29. 4 Disember 2010 • 4 December 2010**

Sesi pengujian BCP dan DRP-IT melibatkan fungsi-fungsi kritikal di Bank /  
*Trial session of BCP and DRP-IT for crucial functions in the Bank.*



**30. 15 Disember 2010 • 15 December 2010**

Majlis menandatangani perjanjian antara Bank Pembangunan dan MBSB di The Royale Chulan, Kuala Lumpur /  
*Signing ceremony between Bank Pembangunan and MBSB held at The Royale Chulan, Kuala Lumpur.*





# *financial statements*

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## 2010

LAPORAN TAHUNAN 2010 ANNUAL REPORT  
Bank Pembangunan Malaysia Berhad (116562-3)

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# DIRECTORS' REPORT

## Directors' report

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2010.

## Principal activities

The Bank is principally engaged to undertake infrastructure project financing and to carry out the functions of a development bank focusing on maritime, advanced manufacturing industries, high technology and export oriented industries. The principal activities of the subsidiary companies are as disclosed in Note 39 to the financial statements.

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

## Results

	<b>Group</b>	<b>Bank</b>
	<b>RM'000</b>	<b>RM'000</b>
Profit for the year	<u>424,431</u>	<u>385,351</u>
Attributable to:		
Equity holders of the Bank	420,864	385,351
Minority interests	<u>3,567</u>	<u>-</u>
	<u>424,431</u>	<u>385,351</u>

There were no material transfers to or from reserves or provisions during the year other than as disclosed in 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.

## Dividends

Final tax exempt dividend on 3,078,724,049 ordinary shares, amounting to RM100,000,000 (3.25 sen net per ordinary share), in respect of the financial year ended 31 December 2009 was declared on 24 February 2010 and approved for payment on 26 May 2010.

The dividend has been accrued and accounted for in equity as an appropriation of retained profit during the financial year.

## DIRECTORS' REPORT *(continued)*

### Dividends (contd.)

At the forthcoming Annual General Meeting, a final tax exempt dividend in respect of the financial year ended 31 December 2010, 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 2011.

### Directors

The names of the Directors of the Bank in office since the date of the last report and at the date of this report are:

Datuk Dr. Abdul Samad bin Hj Alias	
Dato' Mohd Zafer bin Mohd Hashim	
Siti Zauyah binti Md Desa	
Zainul Rahim bin Mohd Zain	(appointed on 8 March 2010)
A Ghani bin Ishak	(appointed on 26 March 2010)
Tan Sri Faizah binti Mohd Tahir	(appointed on 1 June 2010)
Dato' Dr. Syed Jaafar bin Syed Aznan	(appointed on 1 June 2010)
Datuk Idris bin Abdullah @ Das Murthy	(appointed on 1 December 2010)
Rosli bin Abdullah	(appointed on 3 January 2011)
Mohd Zarif Mohd Zaman	(term ended on 10 March 2010)
Dato' Ab. Halim bin Mohyiddin	(term ended on 29 July 2010)
Syed Hussain bin Syed Hamzah	(term ended on 5 October 2010)

### Directors' benefits

Neither at the end of the financial year, nor at any time during that 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 as shown in Note 29 or the fixed salary of a full time employee of the Bank) 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' REPORT *(continued)*

### Directors' interest

None of the Directors holding office at 31 December 2010 had any interest in the ordinary shares of the Bank and of its related corporations during the financial year.

### Rating by external rating agencies

Details of the Bank's ratings are as follows:

Rating agency	Date	Rating classification	Received
RAM Rating	25 November 2010	Issue rating on RM7 billion Conventional Medium-Term Notes Programme and Islamic Murabahah Medium-Term Notes Programme	AAA
MARC Rating	1 July 2010	Financial Institution rating	AAA
RAM Rating	25 November 2010	Financial Institution rating	AAA

### Business outlook

The financial landscape is expected to continue to be challenging as the external environment is expected to remain uncertain in the coming year despite recovery in the global economy. The Bank will continue to facilitate to deliver growth in private sector investment of over 12% per annum to bring the economic to developed status by 2020, as per Economic Transformation Programme roadmap. The Bank will continue to support development of the main engine of economy i.e. Public-Private Partnership (PPP) by financing relevant initiatives identified by the Government. The Bank will enhance effective management of its liquidity and funding gaps, in order to achieve stability, mitigate risks and optimize funding cost.

### Other statutory information

- (a) Before the statements of financial position and income statements 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 provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision 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.

## DIRECTORS' REPORT *(continued)*

### Other statutory information (contd.)

- (b) At the date of this report, the Directors are not aware of any circumstances:
- (i) which would render the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Bank inadequate to any substantial extent and the values attributed to current assets in the financial statements of the Group and of the Bank misleading;
  - (ii) 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; and
  - (iii) not otherwise dealt with in this report or financial statements of the Group and of the Bank which would render any amount stated in the financial statements misleading.
- (c) 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.
- (d) In the opinion of the Directors:
- (i) no contingent liability 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 its obligations when they fall due; 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.

### Auditors

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

Signed on behalf of the Board in accordance with a resolution of the Directors dated 25 February 2011.



Datuk Dr. Abdul Samad bin Hj Alias



Dato' Mohd Zafer bin Mohd Hashim

Kuala Lumpur, Malaysia

## STATEMENT BY DIRECTORS

Persuant To Section 169(15) Of The Companies Act, 1965

We, Datuk Dr. Abdul Samad bin Hj Alias and Dato' Mohd Zafer bin Mohd Hashim, 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 80 to 222 are drawn up in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia/Development Financial Institutions Guidelines 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 2010 and of their financial performance and cash flows of the Group and of the Bank for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 25 February 2011.



Datuk Dr. Abdul Samad bin Hj Alias

Kuala Lumpur, Malaysia



Dato' Mohd Zafer bin Mohd Hashim

# STATUTORY DECLARATION

Persuant To Section 169(15) Of The Companies Act, 1965  
Section 73(1)(e) Of The Development Financial Institutions Act, 2002

We, Rosli bin Abdullah and Dato' Mohd Zafer bin Mohd Hashim, the Director and President/ Managing Director, respectively, of the Bank who are primarily responsible for the financial management of Bank Pembangunan Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 80 to 222 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 25 February 2011.

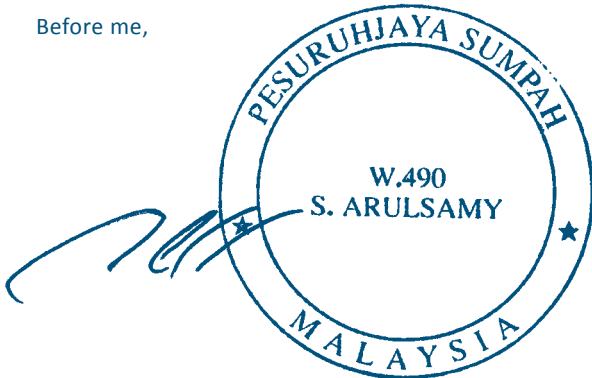


Rosli bin Abdullah



Dato' Mohd Zafer bin Mohd Hashim

Before me,



16 - Tingkat Bawah Jalan Pudu  
55100 Kuala Lumpur.

# INDEPENDENT AUDITORS' REPORT

To The Members Of Bank Pembangunan Malaysia Berhad (Incorporated In Malaysia)

## Report on the financial statements

We have audited the financial statements of Bank Pembangunan Malaysia Berhad, which comprise the statements of financial position as at 31 December 2010 of the Group and of the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flow of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 80 to 222.

### *Directors' responsibility for the financial statements*

The directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia/Development Financial Institutions guidelines and the Companies Act 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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



# INDEPENDENT AUDITORS' REPORT

To The Members Of Bank Pembangunan Malaysia Berhad (Incorporated In Malaysia) *(continued)*

## *Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia/Development Financial Institutions guidelines 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 2010 and of their financial performance and cash flows of the Group and of the Bank for the year then ended.

## **Report on other legal and regulatory requirements**

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (c) The auditors' reports on the accounts of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

## **Other matters**

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

  
Ernst & Young  
AF: 0039  
Chartered Accountants

  
Abdul Rauf bin Rashid  
No. 2305/05/12(J)  
Chartered Accountant

Kuala Lumpur, Malaysia  
25 February 2011

# STATEMENTS OF FINANCIAL POSITION

As At 31 December 2010

	Note	Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Assets</b>					
Cash and short term deposits	3	3,832,993	1,782,493	3,084,990	1,069,687
Deposits and placements with financial institutions	4	238,302	256,600	238,256	256,554
Financial investments - available-for-sale ("AFS")	5	1,852,455	2,183,841	1,846,263	2,180,905
Financial investments - held-to-maturity	6	265,124	423,032	265,102	423,032
Loans, advances and financing	7	21,435,096	20,027,407	21,321,719	19,894,198
Deferred tax assets	15	139,224	-	139,224	-
Other assets	8	1,472,846	1,796,433	1,291,252	1,687,897
Investments in subsidiaries	9	-	-	930,296	930,296
Interest in associates	10	-	978	-	-
Interest in jointly controlled entities	11	211,303	177,992	-	-
Property, plant and equipment	12	562,309	738,049	123,497	131,654
Prepaid land leases	13	3,801	3,911	3,801	3,911
Investment properties	14	17,468	17,866	8,090	8,267
		<u>30,030,921</u>	<u>27,408,602</u>	<u>29,252,490</u>	<u>26,586,401</u>
Asset classified as held for sale	40	-	79,402	-	-
<b>Total assets</b>		<u>30,030,921</u>	<u>27,488,004</u>	<u>29,252,490</u>	<u>26,586,401</u>
<b>Liabilities</b>					
Deposits from customers	16	7,457,626	8,232,906	7,457,626	8,232,906
Other liabilities	17	250,744	190,592	147,637	79,253
Redeemable notes	18	4,491,287	1,990,325	4,491,287	1,990,325
Term loans	19	9,901,658	8,613,109	9,614,892	8,246,901
Infrastructure support fund	20	380,294	715,882	380,294	715,882
Deferred income	21	292,208	152,232	292,208	152,232
Deferred tax liabilities	15	10,892	17,918	-	38,369
<b>Total liabilities</b>		<u>22,784,709</u>	<u>19,912,964</u>	<u>22,383,944</u>	<u>19,455,868</u>

## STATEMENTS OF FINANCIAL POSITION

As At 31 December 2010 *(continued)*

	Note	Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Equity attributable to equity holders of the Bank</b>					
Share capital	22	3,078,724	3,078,724	3,078,724	3,078,724
Reserves	23	3,959,857	4,263,897	3,789,822	4,051,809
		<u>7,038,581</u>	<u>7,342,621</u>	<u>6,868,546</u>	<u>7,130,533</u>
<b>Minority interests</b>		<u>207,631</u>	<u>232,419</u>	<u>-</u>	<u>-</u>
<b>Total equity</b>		<u>7,246,212</u>	<u>7,575,040</u>	<u>6,868,546</u>	<u>7,130,533</u>
<b>Total equity and liabilities</b>		30,030,921	27,488,004	29,252,490	26,586,401
<b>Commitments and contingencies</b>	35(a)	<u>5,542,371</u>	<u>9,307,014</u>	<u>5,195,231</u>	<u>9,160,904</u>

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

# INCOME STATEMENTS

For The Year Ended 31 December 2010

	Note	Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Interest income	25	1,545,541	1,473,978	1,496,108	1,427,300
Interest expense	26	(725,204)	(661,052)	(724,389)	(659,498)
Net interest income		820,337	812,926	771,719	767,802
Profit equalisation reserve		1,071	(1,071)	1,071	(1,071)
Non-interest income	27	422,875	282,534	303,332	120,671
Net income		1,244,283	1,094,389	1,076,122	887,402
Overhead expenses	28	(237,736)	(255,260)	(82,901)	(67,444)
Allowance for impairment of loans and financing	31	(381,026)	(507,230)	(403,772)	(434,332)
Impairment losses on financial investments available-for-sale		(1,000)	(869)	(1,000)	(1,000)
Impairment losses on financial investments held-to-maturity		(85,139)	(4,820)	(84,958)	(1,022)
<b>Operating profit</b>		539,382	326,210	503,491	383,604
Share of results of jointly controlled entities		9,706	13,251	-	-
<b>Profit before taxation</b>		549,088	339,461	503,491	383,604
Tax expense	32	(124,657)	(19,397)	(118,140)	(7,606)
<b>Profit for the year</b>		424,431	320,064	385,351	375,998
<b>Attributable to:</b>					
Shareholders of the Bank		420,864	307,553	385,351	375,998
Minority interests		3,567	12,511	-	-
		424,431	320,064	385,351	375,998
<b>Earnings per share attributable to the equity holders of the Bank (sen) (Note 34):</b>					
Basic earnings per share		13.67	9.99		

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

# STATEMENTS OF COMPREHENSIVE INCOME

For The Year Ended 31 December 2010

Note	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Profit for the year	424,431	320,064	385,351	375,998
<b>Other comprehensive income</b>				
Exchange difference on translation of foreign operations	(36,885)	(6,809)	-	-
Net unrealised (loss)/gain on revaluation of financial investments available-for-sale	(100,320)	81,658	(74,197)	81,658
<b>Other comprehensive income for the year, net of tax</b>	<u>(137,205)</u>	<u>74,849</u>	<u>(74,197)</u>	<u>81,658</u>
<b>Total comprehensive income for the year, net of tax</b>	<u>287,226</u>	<u>394,913</u>	<u>311,154</u>	<u>457,656</u>
<b>Total comprehensive income attributable to:</b>				
Shareholders of the Bank	292,694	386,808	311,154	457,656
Minority interests	(5,468)	8,105	-	-
	<u>287,226</u>	<u>394,913</u>	<u>311,154</u>	<u>457,656</u>

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For The Year Ended 31 December 2010

Group	Note	Attributable to equity holders of the Bank						Total equity RM'000
		Share capital RM'000	Capital reserve RM'000	Statutory reserve RM'000	Unrealised holding reserve RM'000	Exchange translation reserve RM'000	Distributable retained profits RM'000	
<b>At 1 January 2010, as previously stated</b>		3,078,724	1,000	1,384,641	274,055	(20,579)	2,624,780	7,342,621
Effects of adopting FRS 139		-	-	-	-	-	(496,734)	(496,734)
<b>At 1 January 2010, as restated</b>		3,078,724	1,000	1,384,641	274,055	(20,579)	2,128,046	6,845,887
Total comprehensive income for the year		-	-	-	(100,320)	(27,850)	420,864	292,694
Transfer to statutory reserve		-	-	154,721	-	-	(154,721)	-
Dividends paid	33	-	-	-	-	-	(100,000)	(100,000)
<b>At 31 December 2010</b>		3,078,724	1,000	1,539,362	173,735	(48,429)	2,294,189	7,038,581
<b>At 1 January 2009</b>		3,078,724	1,000	1,196,642	192,397	(18,176)	2,585,226	7,035,813
Total comprehensive income for the year		-	-	-	81,658	(2,403)	307,553	386,808
Transfer to statutory reserve		-	-	187,999	-	-	(187,999)	-
Dividends paid	33	-	-	-	-	-	(80,000)	(80,000)
<b>At 31 December 2009</b>		3,078,724	1,000	1,384,641	274,055	(20,579)	2,624,780	7,342,621
								Minority interests RM'000
								232,419
								232,419
								(5,468)
								(19,320)
								207,631
								230,802
								8,105
								(6,488)
								(86,488)
								232,419
								7,266,615
								394,913
								(86,488)
								7,575,040

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

# STATEMENTS OF CHANGES IN EQUITY

For The Year Ended 31 December 2010

Bank	Note	<----- Non distributable ----->				Total RM'000
		Share capital RM'000	Statutory reserve RM'000	Unrealised holding reserve RM'000	Distributable retained profits RM'000	
<b>At 1 January 2010, as previously stated</b>		3,078,724	1,384,641	365,211	2,301,957	7,130,533
Effects of adopting FRS 139		-	-	-	(473,141)	(473,141)
<b>At 1 January 2010, as restated</b>		3,078,724	1,384,641	365,211	1,828,816	6,657,392
Total comprehensive income for the year		-	-	(74,197)	385,351	311,154
Transfer to statutory reserve		-	154,721	-	(154,721)	-
Dividends paid	33	-	-	-	(100,000)	(100,000)
<b>At 31 December 2010</b>		<b>3,078,724</b>	<b>1,539,362</b>	<b>291,014</b>	<b>1,959,446</b>	<b>6,868,546</b>
<b>At 1 January 2009</b>		3,078,724	1,196,642	283,553	2,193,958	6,752,877
Total comprehensive income for the year		-	-	81,658	375,998	457,656
Transfer to statutory reserve		-	187,999	-	(187,999)	-
Dividends paid	33	-	-	-	(80,000)	(80,000)
<b>At 31 December 2009</b>		<b>3,078,724</b>	<b>1,384,641</b>	<b>365,211</b>	<b>2,301,957</b>	<b>7,130,533</b>

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

# STATEMENTS OF CASH FLOW

For The Year Ended 31 December 2010

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Cash flow from operating activities</b>				
Profit before taxation	549,088	339,461	503,491	383,604
Adjustments for:				
Share of profits in jointly controlled entity	(9,706)	(13,251)	-	-
Depreciation	59,189	74,434	12,243	13,719
Amortisation of prepaid lease rental	110	110	110	110
Depreciation of investment properties	398	430	177	177
Net gain on disposal of property, plant and equipment	(28,300)	(296)	(211)	(369)
Gain on sale of financial investments available-for-sale	(10,695)	(13,264)	(10,695)	(13,234)
Dividend income:				
- subsidiaries	-	-	(21,600)	(24,580)
- financial investments available-for-sale	(27,592)	(55,610)	(27,592)	(55,448)
Amortisation of premium less accretion of discount of financial investments	(15,109)	(12,613)	(15,109)	(12,613)
Impairment for:				
- financial investments available-for-sale	1,000	869	1,000	1,000
- financial investments held-to-maturity	85,139	4,820	84,958	1,022
- investment in associates	978	-	-	-
Property, plant and equipment written off	76	-	76	-
Unrealised (gain)/loss on foreign exchange	(24,952)	7,179	(24,952)	7,179
Balance carried forward	579,624	332,269	501,896	300,567



## STATEMENTS OF CASH FLOW

For The Year Ended 31 December 2010 (*continued*)

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Cash flow from operating activities (contd.)</b>				
Balance brought forward	579,624	332,269	501,896	300,567
Individual impairment allowance	359,760	-	352,566	-
Collective impairment allowance	47,263	-	47,650	-
Individual impairment allowance written back	(27,734)	-	(2,457)	-
Allowance for doubtful debts and financing	-	607,657	-	504,484
Allowance for doubtful debt and financing written back	-	(102,052)	-	(70,948)
Bad debts and financing written off	5,542	5,652	5,542	1,486
Profit equalisation reserve	(1,071)	1,071	(1,071)	1,071
Infrastructure Support Fund (utilised)/written back	(185,920)	15,169	(185,920)	15,169
Deferred income recognised	(161,111)	(137,437)	(161,111)	(137,437)
Unrealised loss on derivative instruments	-	8,212	-	8,212
Operating profit before working capital changes	616,353	730,541	557,095	622,604
(Increase)/decrease in operating capital changes:				
Deposits and placements with financial institutions	18,297	(10,723)	18,297	(10,723)
Loans, advances and financing	(2,445,111)	(3,531,437)	(2,444,349)	(3,513,074)
Other assets	376,311	111,794	353,205	(93,243)
Fixed deposits and acceptances	(775,279)	3,055,229	(775,279)	3,055,229
Other liabilities	(15,539)	(147,308)	72,034	105,442
Cash (used in)/generated from operations	(2,224,968)	208,096	(2,218,997)	166,235
Income taxes paid	(124,657)	(42,782)	(118,141)	(30,534)
Net cash (used in)/generated from operating activities	(2,349,625)	165,314	(2,337,138)	135,701

## STATEMENTS OF CASH FLOW

For The Year Ended 31 December 2010 (continued)

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Cash flow from investing activities</b>				
Dividends from financial investments available-for-sale	27,592	55,610	27,592	55,448
Dividends from subsidiaries	-	-	21,600	24,580
Purchase of financial investments available-for-sale	(209,389)	(362,904)	(209,389)	(362,904)
Purchase of property, plant and equipment	(26,200)	(12,747)	(4,235)	(1,739)
Proceeds from disposal/maturity of financial investments	476,079	386,969	476,079	386,969
Proceeds from disposal of property, plant and equipment	170,975	3,565	284	3,085
Proceeds from redemption of preference shares in investment securities	-	749	-	1
Net cash generated from investing activities	<u>439,057</u>	<u>71,242</u>	<u>311,931</u>	<u>105,440</u>

## STATEMENTS OF CASH FLOW

For The Year Ended 31 December 2010 (continued)

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Cash flows from financing activities</b>				
Net receipt from long-term loans	1,330,617	-	1,410,059	-
Proceeds from issuance of bond	2,500,000	-	2,500,000	-
Net repayment of term loan	-	(1,294,817)	-	(1,268,660)
Proceeds from Government compensation	230,451	185,220	230,451	185,220
Dividends paid	(100,000)	(80,000)	(100,000)	(80,000)
Net cash generated from/(used in) financing activities	<u>3,961,068</u>	<u>(1,189,597)</u>	<u>4,040,510</u>	<u>(1,163,440)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	2,050,500	(953,041)	2,015,303	(922,299)
<b>Cash and cash equivalents at beginning of year</b>	<u>1,782,493</u>	<u>2,735,534</u>	<u>1,069,687</u>	<u>1,991,986</u>
<b>Cash and cash equivalents at end of year</b>	<u>3,832,993</u>	<u>1,782,493</u>	<u>3,084,990</u>	<u>1,069,687</u>
<b>Cash and cash equivalents comprise:</b>				
Cash and short term deposits (Note 3)	<u>3,832,993</u>	<u>1,782,493</u>	<u>3,084,990</u>	<u>1,069,687</u>

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

# Notes To The Financial Statements

31 December 2010

## 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 Bank is principally engaged to undertake infrastructure projects financing and to carry out the functions of a development bank focusing on maritime, advanced manufacturing industries, high technology and export oriented industries while the other entities within the Group are primarily involved in provision of financial services as a development bank, venture capital investment and ship owning activities.

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 25 February 2011.

## 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 Financial Reporting Standards (“FRSs”) as modified by Bank Negara Malaysia/Development Financial Institutions (“BNM/DFIs”) Guidelines and the Companies Act, 1965 in Malaysia. At the beginning of the current financial year, the Group and the Bank adopted new and revised FRS which are mandatory for financial periods beginning on or after 1 January 2010 as described fully in Note 2.2.

The financial statements incorporate those activities relating to Islamic Banking, which have been undertaken by the Group. Islamic Banking refers generally to the granting of financing under Syariah principles.

The financial statements of the Group and of the Bank have been prepared under the historical cost convention unless otherwise indicated in the accounting policies below.

# Notes To The Financial Statements

31 December 2010 (continued)

## 2. Significant accounting policies (contd.)

### 2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs

The accounting policies adopted by the Group and the Bank are consistent with those adopted in previous years, except as follows:-

The Group and the Bank adopted the following FRSs, amendments to FRS and IC Interpretations beginning on or after 1 January 2010:

<b>FRSs, Amendments and Interpretations</b>	<b>Effective for financial period beginning on or after</b>
FRS 7 Financial Instruments: Disclosures	1 January 2010
FRS 101 Presentation of Financial Statements	1 January 2010
FRS 123 Borrowing Costs	1 January 2010
FRS 139 Financial Instruments: Recognition and Measurement,	1 January 2010
Amendments to FRS 1 First-time Adoption of Financial Reporting	1 January 2010
Standards and FRS 127: Consolidated and Separate Financial	
Statements: Cost of an Investment in a Subsidiary, Jointly	
Controlled Entity or Associate	
Amendments to FRS 2 Share-based Payment: Vesting Conditions	1 January 2010
and Cancellations	
Amendments to FRS 5 Non-current Assets Held for Sale and	1 January 2010
Discontinued Operations	
Amendments to FRS 7: Financial Instruments: Disclosures and IC	1 January 2010
Interpretation 9: Reassessment of Embedded Derivatives	
Amendments to FRS 8: Operating Segments	1 January 2010
Amendments to FRS 107: Cash Flow Statements	1 January 2010
Amendments to FRS 108: Accounting Policies, Changes in Accounting	1 January 2010
Estimates and Errors	
Amendments to FRS 110: Events After the Balance Sheet Date	1 January 2010
Amendments to FRS 117: Leases	1 January 2010
Amendments to FRS 118: Revenue	1 January 2010
Amendments to FRS 119: Employee Benefits	1 January 2010
Amendments to FRS 120: Accounting for Government Grants	1 January 2010
and Disclosure of Government Assistance	
Amendments to FRS 123: Borrowing Costs	1 January 2010
Amendments to FRS 127: Consolidated and Separate Financial	1 January 2010
Statements: Cost of an Investment in a Subsidiary, Jointly Controlled	
Entity or Associate	

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 2. Significant accounting policies (contd.)

### 2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (contd.)

FRSs, Amendments and Interpretations	Effective for financial period beginning on or after
Amendments to FRS 128: Investments in Associates	1 January 2010
Amendments to FRS 129: Financial Reporting in Hyperinflationary Economies	1 January 2010
Amendments to FRS 131: Interest in Joint Ventures	1 January 2010
Amendments to FRS 132: Financial Instruments: Presentation	1 January 2010
Amendments to FRS 134: Interim Financial Reporting	1 January 2010
Amendments to FRS 136: Impairment of Assets	1 January 2010
Amendments to FRS 138: Intangible Assets	1 January 2010
Amendments to FRS 140: Investment Property	1 January 2010
IC Interpretation 9 Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10 Interim Financial Reporting and Impairment	1 January 2010
IC Interpretation 11 FRS 2 - Group and Treasury Share Transactions	1 January 2010
IC Interpretation 14 FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2010
Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives	1 January 2010
TRi-3 Presentation of Financial Statements of Islamic Financial Institutions	1 January 2010

#### 2.2.1 Impact due to adoption of new standards

FRS 4 and Amendments to FRS 129 are not applicable to the Group and the Bank. The adoption of the above standards and interpretation did not have any effects on the financial performance or the position of the Group and the Bank except as discussed below:

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (*continued*)

## 2. Significant accounting policies (*contd.*)

### 2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (*contd.*)

#### 2.2.1 Impact due to adoption of new standards (*contd.*)

(a) FRS 7 Financial Instruments: Disclosures

Prior to 1 January 2010, information about financial instruments was disclosed in accordance with the requirements of FRS 132 Financial Instruments: Disclosure and Presentation. FRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

The Group and the Bank have applied FRS 7 prospectively in accordance with the transitional provisions. Hence, the new disclosures have not been applied to the comparatives. The new disclosures are included throughout the Group's and the Bank's financial statements for the year ended 31 December 2010.

(b) FRS 101 Presentation of Financial Statements (Revised)

The revised FRS 101 introduces changes in the presentation and disclosures of financial statements. The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. The Standard also introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group and the Bank have elected to present this statement as two linked statements.

In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the classification of items in the financial statements.

The revised FRS 101 also requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

The revised FRS 101 was adopted retrospectively by the Group and the Bank.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 2. Significant accounting policies (contd.)

### 2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (contd.)

#### 2.2.1 Impact due to adoption of new standards (contd.)

##### (c) FRS 139 Financial Instruments: Recognition and Measurement

FRS 139 establishes the principles for the recognition, derecognition and measurement of an entity's financial instruments and for hedge accounting. However, since the adoption of BNM's revised BNM/GP8 - Guidelines on Financial Reporting for Licensed Institutions on 1 January 2005, and voluntarily adopted by the Group and the Bank on 1 January 2007, certain principles in connection with the recognition, derecognition and measurement of financial instruments, including derivative instruments, and hedge accounting which are similar to those prescribed by FRS 139 have already been adopted by the Group and the Bank. Therefore, the adoption of FRS 139 on 1 January 2010 has resulted in the following material changes in accounting policies as follows:

##### (i) Impairment of loans and advances

The adoption of FRS 139 has resulted in a change in the accounting policy relating to the assessment for impairment of financial assets, particularly loans and advances. The existing accounting policies relating to the assessment of impairment of other financial assets of the Group and the Bank are already largely in line with those of FRS 139. Prior to the adoption of FRS 139, allowances for impaired loans and advances (previously referred to as non-performing loans) were computed in conformity with the Bank Negara Malaysia/Development Financial Institutions Guideline ("BNM/DFI/GP3") Guidelines on Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts. Upon the adoption of FRS 139, the Group and the Bank assesses at the end of each reporting period whether there is any objective evidence that a loan or group of loans is impaired. The loan or group of loans is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the loan (an incurred 'loss event') and that the loss event has an impact on future estimated cash flows of the loan or group of loans that can be reliably estimated.

The Group and the Bank first assess individually whether objective evidence of impairment exists individually for loans which are individually significant, and collectively for loans which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed loan, the loan is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment.



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (*continued*)

## 2. Significant accounting policies (contd.)

### 2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (contd.)

#### 2.2.1 Impact due to adoption of new standards (contd.)

#### (c) FRS 139 *Financial Instruments: Recognition and Measurement* (contd.)

##### (i) Impairment of loans and advances (contd.)

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

In the Amendments to FRS 139 listed above, MASB has included an additional transitional arrangement for entities in the financial sector, whereby BNM may prescribe an alternative basis for collective assessment of impairment by banking institutions. This transitional arrangement is prescribed in BNM's guidelines on Classification and Impairment Provisions for Loans/Financing issued on 8 January 2010, whereby banking institutions are required to maintain collective assessment impairment allowances of at least 1.5% of total outstanding loans/financing, net of individual impairment allowance. Subject to the written approval by BNM, banking institutions are allowed to maintain a lower collective assessment impairment allowance. The collective assessment impairment allowance of the Bank as at the reporting date have been arrived at based on this transitional arrangement issued by BNM.

The changes in accounting policy above have been accounted for prospectively, in line with the transitional arrangements under para 103AA of FRS 139, with adjustments to the carrying values of financial assets affecting the income statement as at the beginning of the current financial period being adjusted to opening retained profits. As a result of the adoption of the loans impairment basis under FRS 139 and the transitional arrangements under BNM's guidelines on Classification and Impairment Provisions for Loans/Financing, the Group and the Bank has recognised an additional allowances of RM481,517,000 and RM457,924,000 respectively against the retained earnings as at 1 January 2010. Any further allowances charged subsequent to the adoption of FRS139 is recognised as allowances for losses on loans, advances and financing in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (*continued*)

## 2. Significant accounting policies (contd.)

### 2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (contd.)

#### 2.2.1 Impact due to adoption of new standards (contd.)

#### (c) FRS 139 Financial Instruments: Recognition and Measurement (contd.)

##### (ii) Classification of loans and advances as impaired

Prior to the adoption of FRS 139, loans were classified as non-performing when principal or interest or both are past due for six (6) months or more. Upon the adoption of FRS 139, loans are classified as impaired when principal, or interest or both are past due for three (3) months or more or where loans in arrears for less than three (3) months exhibit indications of credit weakness. The change in the criteria for classification of impaired loans has resulted in an increase in opening impaired loans of RM2,986,207,000 and RM2,936,813,000 for the Group and the Bank respectively.

##### (iii) Interest income recognition

Prior to the adoption of FRS 139, interest accrued and recognised as income prior to the date that a loan is classified as non-performing is reversed out of income and set-off against the interest receivable account in the statement of financial position. Thereafter, interest on the non-performing loan is recognised as income on a cash basis. Upon adoption of FRS 139, once a loan has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss. This change in accounting policy has no impact to the retained profit of the Group and the Bank.

##### (iv) Amount due from Minister of Finance Inc. ("MOF")

The amount due from MOF, the holding company of Bank Pembangunan Malaysia Berhad relates to proceeds receivable from disposal of Bank's interest in SME Bank that took place in March 2008 amounting to RM1,052,000,000. As per the letter from MOF dated 15 December 2008, this amount will be offset against the amount due to MOF that comprise the term loan and commitment fee amounting to RM794,696,708 on 31 March 2013. The net amount owing by MOF amounting to RM257,303,292 bears interest of 2% per annum and is repayable via bullet repayment in March 2013. The interest charge of 2% per annum is below the interest market rate of 3.5% which is based on Malaysian Government Securities. The difference between the cash payable and fair value on initial recognition is charged to retained profits while subsequent interest on the net amount due from MOF is recognized at the Market Interest Rate of 3.5%.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 2. Significant accounting policies (contd.)

### 2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (contd.)

#### 2.2.1 Impact due to adoption of new standards (contd.)

(d) The following are effects arising from the above changes in accounting policies:

(i) Statements of financial position

<b>Group</b>	<b>Increase/(decrease)</b>
	<b>As at</b>
	<b>1.1.2010</b>
	<b>RM'000</b>
	<b>Assets</b>
Financial investment - AFS	(13,179)
Financial investment - held-to-maturity	(85,843)
Loans, advances and financing	
- third parties	(718,184)
Other assets	
- amount due from Minister of Finance Inc.	(51,579)
Deferred tax assets	153,111
	<hr/>
	<b>Liabilities</b>
Other liabilities	
- amount due to Minister of Finance Inc.	(115)
Term loan	
- amount due to Minister of Finance Inc.	(36,247)
Infrastructure support fund	(182,578)
	<hr/>
	<b>Shareholders' equity</b>
Retained profits	(496,734)
	<hr/>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 2. Significant accounting policies (contd.)

### 2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (contd.)

#### 2.2.1 Impact due to adoption of new standards (contd.)

(d) The following are effects arising from the above changes in accounting policies: (contd.)

##### (i) Statements of financial position

	Increase/(decrease)
	As at
<b>Bank</b>	<b>1.1.2010</b>
	<b>RM'000</b>
<b>Assets</b>	
Financial investment - AFS	(13,179)
Financial investment - held-to-maturity	(85,843)
Loans, advances and financing	
- third parties	(694,121)
Other assets	
- amount due to Minister of Finance Inc.	(51,579)
Deferred tax assets	152,641
	<hr/>
<b>Liabilities</b>	
Other liability	
- amount due to Minister of Finance Inc.	(115)
Term loan	
- amount due to Minister of Finance Inc.	(36,247)
Infrastructure support fund	(182,578)
	<hr/>
<b>Shareholders' equity</b>	
Retained profits	(473,141)
	<hr/>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 2. Significant accounting policies (contd.)

### 2.3 Standards issued but not yet effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to FRS 132: Financial Instruments: Presentation*	1 March 2010
FRS 1 First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3 Business Combinations (revised)	1 July 2010
Amendments to FRS 2 Share-based Payment	1 July 2010
Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations	1 July 2010
Amendments to FRS 127 Consolidated and Separate Financial Statements	1 July 2010
Amendments to FRS 138 Intangible Assets	1 July 2010
Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives	1 July 2010
IC Interpretation 12 Service Concession Arrangements	1 July 2010
IC Interpretation 15 Agreements for the Construction of Real Estate	1 July 2010
IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17 Distributions of Non-cash Assets to Owners	1 July 2010
Amendments to FRS 132: Classification of Rights Issues	1 March 2010
Amendments to FRS 1: Limited Exemption from Comparative RS 7 Disclosures for First-time Adopters	1 January 2011
Amendments to FRS 7: Improving Disclosures about Financial Instruments	1 January 2011
Amendments to FRS 7: Financial Instruments: Disclosure	1 January 2011
Amendments to FRS 101: Presentation of Financial Statements	1 January 2011
Amendments to FRS 121: The Effects of Changes in Foreign Exchange Rates	1 January 2011
Amendments to FRS 128: Investments in Associates	1 January 2011
Amendments to FRS 131: Interests in Joint Ventures	1 January 2011
Amendments to FRS 132: Financial Instruments: Presentation	1 January 2011
Amendments to FRS 134: Interim Financial Reporting	1 January 2011
Amendments to FRS 139: Financial Instruments: Recognition and Measurement	1 January 2011
IC Interpretation 4: Determining Whether an Arrangement Contains a Lease	1 January 2011
IC Interpretation 18: Transfers of Assets from Customers	1 January 2011

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 2. Significant accounting policies (contd.)

### 2.3 Standards issued but not yet effective (contd.)

Description	Effective for annual periods beginning on or after
Amendments to IC Interpretation 13: Customer Loyalty Programmes	1 January 2011
TR 3: Guidance on Disclosures of Transition to IFRSs	1 January 2011
TR i-4: Shariah Compliant Sale Contracts	1 January 2011
IC Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments	1 July 2011
Amendments to IC Interpretation 14 Prepayments of a Minimum Funding Requirement	1 July 2011
FRS 124: Related Party Disclosures	1 January 2012
IC Interpretation 15: Agreements for the Construction of Real Estate	1 January 2012

- \* The Amendments to FRS 132 as identified in paragraphs 95A, 97AA and 97AB of the Standard shall apply to financial statements of annual periods beginning on or after 1 January 2010. The amendments in paragraphs 11, 16 and 97E of the Standard, relating to Classification of Rights Issues shall apply to financial statements of annual periods beginning on or after 1 March 2010.

The directors expect that the adoption of the standards and interpretation above will have no material impact on the financial statements in the period of initial application.

### 2.4 Summary of significant accounting policies

#### (a) 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 used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Bank. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 *(continued)*

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (a) Basis of consolidation

Acquisitions of subsidiaries are accounted for by applying the purchase method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in other comprehensive income. The cost of a business combination is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the business combination. Any excess of the cost of business combination over the Groups share in the net fair value of the acquired subsidiarys identifiable assets, liabilities and contingent liabilities is recorded as goodwill on the statement of financial position. The accounting policy for goodwill is set out in Note 2.4(k). Any excess of the Groups share in the net fair value of the acquired subsidiarys identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised as income in profit or loss on the date of acquisition. When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

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.

#### (b) Transactions with minority interests

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in profit or loss of the Group and within equity in the consolidated statements of financial position, separately from parent shareholders' equity. Transactions with minority interests are accounted for using the entity concept method, whereby, transactions with minority interests are accounted for as transactions with owners. On acquisition of minority interests, the difference between the consideration and book value of the share of the net assets acquired is recognised directly in equity. Gain or loss on disposal to minority interests is recognised directly in equity.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 *(continued)*

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (c) Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Bank's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

#### (d) Associates

An associate is an entity, not being a subsidiary or a joint venture, in which the Group has significant influence. An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

The Group's investments in associates are accounted for using the equity method. Under the equity method, the investment in associates is measured in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to associates is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss for the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss.



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 *(continued)*

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (d) Associates (contd.)

The financial statements of the associates are prepared as of the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

#### (e) Jointly controlled entities

The Group has interests in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investments in jointly controlled entities are accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the investment in jointly controlled entity is carried in the consolidated balance sheet at cost adjusted for post-acquisition changes in the Group's share of net assets of the jointly controlled entity. The Group's share of the net profit or loss of the jointly controlled entity is recognised in the consolidated profit or loss. Where there has been a change recognised directly in the equity of the jointly controlled entity, the Group recognises its share of such changes.

In applying the equity method, unrealised gains and losses on transactions between the Group and the jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the jointly controlled entity. The jointly controlled entity is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the jointly controlled entity.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (*continued*)

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (e) **Jointly controlled entities (contd.)**

Goodwill relating to the jointly controlled entity is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the jointly controlled entity's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the jointly controlled entity's profit or loss in the period in which the investment is acquired.

When the Group's share of losses in the jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

The most recent available audited financial statements of the jointly controlled entities are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the accounting period. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

#### (f) **Foreign currency transactions**

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. 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.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 *(continued)*

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (f) Foreign currency transactions (contd.)

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss 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 profit or loss of the Group on disposal of the foreign operation.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss 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.

#### (g) Property, plant and equipment

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

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (g) Property, plant and equipment (contd.)

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 to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Building	50 years
Vessels	25 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 to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

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 profit or loss.

#### (h) 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. Investment property is carried at cost less accumulated depreciation and any impairment losses.

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.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (h) Investment properties (Contd.)

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 profit and loss in the year in which they arise.

#### (i) Leases

##### (i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Group 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 (Note 2.4(h)); 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; and
- Leasehold land held for own use is classified as operating lease and where necessary, the minimum lease payments or the up-front payments made are allocated 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 straight-line basis over the lease term.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 *(continued)*

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (j) Impairment of non-financial assets

The Group assesses 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 makes 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 profit or loss except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

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 profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (*continued*)

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (k) Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired is allocated, from the acquisition date, to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired, by comparing the carrying amount of the cash-generating unit, including the allocated goodwill, with the recoverable amount of the cash-generating unit. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

#### (l) 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.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (I) Financial assets (contd.)

##### Initial recognition and subsequent measurement (contd.)

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, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

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

Financial assets are classified as financial assets at fair value through profit or loss 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 profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

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

#### (ii) Loan 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 in "Interest income" in the profit or loss. Impairment losses on loans and receivables are recognised in profit or loss as "Allowances for impairment on loans, advances and financing".



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 *(continued)*

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (I) Financial assets (contd.)

##### Initial recognition and subsequent measurement (contd.)

#### (iii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Interest income on held-to-maturity investments is recognised in "Interest income" in the profit or loss. Impairment losses on held-to-maturity investments are recognised in profit or loss as "Impairment on held-to-maturity investments".

Unquoted shares in organisations set up for socio-economic purposes and equity instruments received as a result of loan restructuring or loan conversion which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are also classified as securities held-to-maturity.

Regular way purchases and sales of held-to-maturity investments are recognised on settlement date.

#### (iv) Available-for-sale investments

Available-for-sale are financial assets that are designated as available for sale or are not classified in any of the three preceding categories. Available-for-sale investments 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.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (I) Financial assets (contd.)

##### Initial recognition and subsequent measurement (contd.)

#### (iv) Available-for-sale investments (contd.)

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

If an available-for-sale investment is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases and sales of held-to-maturity investments are recognised on settlement date.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period 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.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 *(continued)*

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (l) Financial assets (contd.)

##### Fair value determination (contd.)

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 reporting date.

##### Derecognition

Financial instruments are derecognised when the risks and rewards associated with the instruments are substantially transferred, cancelled or expired. On 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 profit and loss account.

#### (m) 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, within the scope of FRS 139, 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 fund.

Financial liabilities are derecognised when they are redeemed or extinguished.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (n) Impairment of financial assets

The Group and the Bank assesses at each statement 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 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 classifies a loan, advance or financing as impaired when there is objective evidence that the loan is impaired. In addition the Group also complies 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:

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

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (n) Impairment of financial assets (contd.)

##### (i) Loans and receivables (contd.)

##### Classification of impaired loans, advances and financing (contd.)

De-classification of an impaired account shall be supported by a credit assessment of the repayment capabilities, cash flow and financial position of the borrower. The Group must be satisfied that once the account is de-classified, the account is unlikely to be classified again in the near future.

##### Impairment

The Group first assesses 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 determines 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.

If there is 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 statement. 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 income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (n) Impairment of financial assets (contd.)

##### (i) Loans and receivables (contd.)

###### Impairment (contd.)

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. 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 statement.

For loans, advances and financing that are collectively assessed, the Group have applied the transitional provision issued by Bank Negara Malaysia via its guidelines on Classification and Impairment Provision for Loans/Financing, whereby collective assessment impairment allowance is maintained at a minimum of 1.5% of total loan outstanding, net of individual assessment impairment allowance.

##### (ii) Held-to maturity investments

The Group assess at each reporting date whether objective evidence of impairment of held-to-maturity investments 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

31 December 2010 (*continued*)

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (n) Impairment of financial assets (contd.)

##### (iii) Available-for-sale investments

The Group assess at each reporting date whether objective evidence that financial investment classified as available-for-sale is impaired.

In the case of quoted investments, a significant and 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 profit and loss. For unquoted equity investment 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 profit or loss on equity investments are not reversed through the profit and loss.

For debt instruments, impairment is assessed based on the same criteria as other available-for-sale financial investments. Where impairment losses have been previously recognised in the profit or loss, if 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 loan was recognized in the profit or loss, the impairment loss is reversed through profit and loss.

#### (o) Financial derivatives

All derivative financial instruments are measured at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gain or loss arising from a change in the fair value of the derivatives is recognised in the income statement. Derivatives embedded in other financial instruments are accounted for separately as derivatives if the economic characteristics and risks are not closely related to those of the host contracts and the host contracts are carried at fair value through profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 *(continued)*

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (p) 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.

#### (q) Inventories

Inventories consist of lubricants on board for own consumption and are stated at cost in US Dollars and converted to Ringgit Malaysia at a rate that approximates the rate of exchange at balance sheet date. The cost of lubricants is based on the weighted average cost and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

#### (r) 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 has 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 contribution to the Employees Provident Fund is charged to the income statements in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 *(continued)*

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (s) Government Grants

Government grants are recognised at their fair value in the balance sheet 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 balance sheet as “Infrastructure Support Fund” and “Deferred Income”.

Deferred income comprises claims received in relation to interest rate differentials on financing of Government Infrastructure projects. Other claims received are recorded in the “Infrastructure Support Fund”.

Grants that compensate the Group 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.

#### (t) Provisions

Provisions are recognised when the Group has 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 balance sheet 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.

#### (u) 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.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (v) 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 FRSs. 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 FRS 5 that is at the lower of carrying amount and fair value less costs to sell. Any differences are included in profit or loss.

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 resale.

#### (w) Revenue

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

#### (i) Interest and similar income and expense

For all financial instruments measured at amortised cost, interest/profit bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. 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 rate, but not future credit losses.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (w) Revenue (contd.)

##### (i) Interest and similar income and expense (contd.)

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

##### (ii) Income recognition for leasing, hire purchase financing, confirming and factoring

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

##### (iii) Dividend income

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

##### (iv) Charter hire, demurrage and freight Income

Revenue and expenses up to the balance sheet date are recognised for voyage which remain uncompleted as at the balance sheet date, the income receivable for the voyage are pro-rated up to the balance sheet date and all relevant costs are accrued.

#### (x) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 *(continued)*

## 2. Significant accounting policies (contd.)

### 2.4 Summary of significant accounting policies (contd.)

#### (x) Income tax (contd.)

Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised as income or an expense and included in the profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity.

#### (y) Foreclosed properties

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

#### (z) Cash and cash equivalent

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

### 2.5 Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Bank's functional currency. Some of the Group's subsidiaries have identified United States Dollar (USD) as their functional currency and have measured its results and financial position for the current year in USD. The results and financial position of these companies were subsequently translated into RM in accordance Note 2.4(f). All financial information presented in RM has been rounded to the nearest thousand (RM'000) unless otherwise stated.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 *(continued)*

## 2. Significant accounting policies (contd.)

### 2.6 Significant accounting judgements and estimates

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

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

#### (i) Fair value estimation of financial investments available-for-sale (Note 5)

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 balance sheet date, including reference to quoted market prices and independent dealer quotes for similar securities and discounted cash flow method.

#### (ii) Deferred Tax (Note 15)

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowance to the extent that it is probable that taxable profit will be available against which the losses and capital allowances can be utilised.

Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The Group did not recognise any deferred tax assets on unutilised tax losses and unabsorbed capital allowance relating to a subsidiary as at 31 December 2010 (2009 - Nil). The total carrying value of unutilised tax losses and unabsorbed capital allowances of the Group was RM54,836,000 (2009 - RM95,463,000) and RM10,663,000 (2009 - RM10,658,000) respectively.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 *(continued)*

## 2. Significant accounting policies (contd.)

### 2.6 Significant accounting judgements and estimates (contd.)

#### (iii) Allowance for impairment on loans, advances and financing (Note 31)

Prior to the adoption of FRS 139, allowances for impaired loans and advances were computed in conformity with the BNM/DFI/GP3 Guidelines on Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful debts. Upon the adoption of FRS139, the Bank assesses 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.

The amendments to FRS139 also include additional transitional arrangement for entities in the financial services sector, whereby BNM may prescribe the use of an alternative basis for collective assessment of impairment for banking institutions. This transitional arrangement is prescribed in BNM's guidelines on Classification and Impairment Provision for Loan/Financing issued on 8 January 2010, whereby banking institutions are required to maintain collective impairment provisions of at least 1.5% of total outstanding loans/financing, net of individual impairment provision.

#### (iv) Classification between Investment Properties and Property, Plant and Equipment

The Group has developed certain criteria based on FRS 140 in making judgement whether a property qualifies as an investment property. Investment property is a property held to earn rentals or for capital appreciation or both.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group would account for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 3. Cash and short term deposits

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cash and balances with other financial institutions	66,514	20,579	26,066	4,487
Money at call and deposit placements maturing within one month	<u>3,766,479</u>	<u>1,761,914</u>	<u>3,058,924</u>	<u>1,065,200</u>
	<u>3,832,993</u>	<u>1,782,493</u>	<u>3,084,990</u>	<u>1,069,687</u>

## 4. Deposits and placements with financial institutions

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Licensed banks	237,302	195,429	237,256	195,383
Other financial institutions	<u>1,000</u>	<u>61,171</u>	<u>1,000</u>	<u>61,171</u>
	<u>238,302</u>	<u>256,600</u>	<u>238,256</u>	<u>256,554</u>

## 5. Financial investments - available-for-sale ("AFS")

At fair value	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Money market instruments:				
Malaysian Government Securities	<u>40,470</u>	<u>40,500</u>	<u>40,470</u>	<u>40,500</u>
Quoted securities:				
(In Malaysia)				
Shares	528,489	601,212	522,318	600,226
Others	<u>21</u>	<u>734</u>	<u>-</u>	<u>-</u>
	<u>528,510</u>	<u>601,946</u>	<u>522,318</u>	<u>600,226</u>
Balance carried forward	568,980	642,446	562,788	640,726

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 5. Financial investments - available-for-sale ("AFS") (contd.)

At fair value	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Balance brought forward	568,980	642,446	562,788	640,726
Unquoted securities: (In Malaysia)				
Shares	324	1,401	324	1,378
Loan stock #	258,748	318,669	258,748	318,647
Private debt securities	1,024,403	1,221,325	1,024,403	1,220,154
	<u>1,283,475</u>	<u>1,541,395</u>	<u>1,283,475</u>	<u>1,540,179</u>
	<u>1,852,455</u>	<u>2,183,841</u>	<u>1,846,263</u>	<u>2,180,905</u>
# Stated at cost, net of impairment loss amounting to	13,179	-	13,179	-

## 6. Financial investments - held-to-maturity

At amortised cost	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Money market instruments:				
Cagamas	94,593	97,903	94,593	97,903
	<u>94,593</u>	<u>97,903</u>	<u>94,593</u>	<u>97,903</u>
Unquoted securities: (In Malaysia)				
Private debt securities	342,332	324,553	342,332	324,553
Loan stock	1,732	1,598	-	1,598
	<u>344,064</u>	<u>326,151</u>	<u>342,332</u>	<u>326,151</u>
Less: Accumulated impairment	<u>(173,533)</u>	<u>(1,022)</u>	<u>(171,823)</u>	<u>(1,022)</u>
<b>Total financial investments held-to-maturity</b>	<u>265,124</u>	<u>423,032</u>	<u>265,102</u>	<u>423,032</u>



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 6. Financial investments - held-to-maturity (contd.)

Indicative market value of the securities held-to-maturity are as follows:

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cagamas	95,562	97,078	95,562	97,078
Unquoted private debt securities	171,956	241,608	171,956	241,608

#### Other disclosures

The maturity structure of money market instruments available-for-sale and held-to-maturity are as follows:

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
One year to three years	50,644	3,000	50,644	3,000
Three years to five years	79,419	50,500	79,419	50,500
Over five years	5,000	84,903	5,000	84,903

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 7. Loans, advances and financing

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Loans and financing to industries				
- Government Guaranteed	7,619,498	5,797,092	7,619,498	5,797,092
- Others	15,871,440	15,224,355	15,751,957	15,070,096
	<u>23,490,938</u>	<u>21,021,447</u>	<u>23,371,455</u>	<u>20,867,188</u>
Allowance for impaired loans and financing:				
- individual assessment allowance	(1,792,620)	-	(1,673,137)	-
- collective assessment allowance	(660,901)	-	(660,901)	-
- specific allowance	-	(1,112,789)	-	(958,530)
- general allowance	-	(302,686)	-	(298,630)
	<u>(2,453,521)</u>	<u>(1,415,475)</u>	<u>(2,334,038)</u>	<u>(1,257,160)</u>
Net loans and financing to industries	<u>21,037,417</u>	<u>19,605,972</u>	<u>21,037,417</u>	<u>19,610,028</u>
Staff loan	16,827	18,194	16,613	18,110
Loan to subsidiaries	-	-	271,995	270,387
Lease receivable	95,352	98,270	-	-
Block discounting and factoring receivables	71,186	129,464	-	-
Hire purchase receivables	241,117	168,829	-	-
Ijarah receivables	42,425	54,795	-	-
Other loans, advances and financing	<u>466,907</u>	<u>469,552</u>	<u>288,608</u>	<u>288,497</u>
Allowance for impaired loans and financing:				
- individual assessment allowance	(57,061)	-	-	-
- collective assessment allowance	(12,167)	-	(4,306)	-
- specific allowance	-	(39,598)	-	-
- general allowance	-	(8,519)	-	(4,327)
	<u>(69,228)</u>	<u>(48,117)</u>	<u>(4,306)</u>	<u>(4,327)</u>
Net other loans, advances and financing	<u>397,679</u>	<u>421,435</u>	<u>284,302</u>	<u>284,170</u>
Net loans, advances and financing	<u>21,435,096</u>	<u>20,027,407</u>	<u>21,321,719</u>	<u>19,894,198</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 7. Loans, advances and financing (contd.)

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Gross loans, advances and financing	23,957,845	21,490,999	23,660,063	21,155,685
Allowance for impaired loans and financing:				
- individual assessment allowance	(1,849,681)	-	(1,673,137)	-
- collective assessment allowance	(673,068)	-	(665,207)	-
- specific allowance	-	(1,152,387)	-	(958,530)
- general allowance	-	(311,205)	-	(302,957)
	<u>(2,522,749)</u>	<u>(1,463,592)</u>	<u>(2,338,344)</u>	<u>(1,261,487)</u>
Net loans, advances and financing	<u>21,435,096</u>	<u>20,027,407</u>	<u>21,321,719</u>	<u>19,894,198</u>

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

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Bai' Bithaman Ajil	294,050	246,420	251,479	199,503
Bank Guarantee	83,066	35,132	83,066	35,132
Bai Al-Inah	72,137	59,035	72,137	59,035
Bai Murabahah	96,583	57,792	96,583	57,792
Bai Istisna'	2,193,637	1,736,816	2,193,637	1,736,816
Bridging financing	99,426	570,445	81,746	550,826
Murabahah Dayn	7,790	1,454	7,790	1,454
Hire purchase	241,117	168,647	-	-
Factoring	71,186	129,773	-	-
Ijarah	63,105	79,610	20,680	24,814
Ijarah Muntahia Bittamalik	290,863	192,436	290,863	192,436
Infra support loan	198,106	225,985	198,106	225,985
Leasing	95,353	98,242	-	-
Revolving financing	43,270	53,912	-	-
Revolving working capital	116,609	158,576	116,609	158,576
Revolving working capital without invoice	29,158	25,562	29,158	25,562
Term loan	19,829,384	17,550,479	20,085,204	17,787,071
Working capital	<u>133,005</u>	<u>100,683</u>	<u>133,005</u>	<u>100,683</u>
Gross loans, advances and financing	<u>23,957,845</u>	<u>21,490,999</u>	<u>23,660,063</u>	<u>21,155,685</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 7. Loans, advances and financing (contd.)

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

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Allowance for impaired loans and financing:				
- individual assessment allowance	(1,849,681)	-	(1,673,137)	-
- collective assessment allowance	(673,068)	-	(665,207)	-
- specific allowance	-	(1,152,387)	-	(958,530)
- general allowance	-	(311,205)	-	(302,957)
	(2,522,749)	(1,463,592)	(2,338,344)	(1,261,487)
Net loans, advances and financing	21,435,096	20,027,407	21,321,719	19,894,198

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

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Domestic business enterprises	23,941,018	21,472,805	23,643,450	21,137,575
Individual	16,827	18,194	16,613	18,110
Gross loans, advances and financing	23,957,845	21,490,999	23,660,063	21,155,685

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

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Fixed rate				
- Housing loans/financing	24,317	27,404	16,613	18,110
- Hire purchase receivables	241,117	166,529	-	-
- Other fixed rate loans/financing	13,520,442	11,629,601	13,471,481	11,470,110
Variable rate				
- Cost plus	9,168,100	8,616,687	9,168,100	8,616,687
- Other variable rates	1,003,869	1,050,778	1,003,869	1,050,778
Gross loans, advances and financing	23,957,845	21,490,999	23,660,063	21,155,685

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 7. Loans, advances and financing (contd.)

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

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Agriculture, hunting & forestry	4,403	5,224	3,627	4,390
Applications & Instruments	-	515	-	515
Construction	10,215,782	8,058,896	10,161,023	7,979,874
Education	274,239	274,204	274,239	274,204
Electrical & Electronics	10,811	9,473	10,811	9,473
Electricity, gas and water supply	3,284,242	3,448,507	3,283,844	3,447,095
Finance, Insurance & Business	63,999	48,776	271,995	270,387
Food Processing	-	1,293	-	1,293
Hotel and restaurants	685,340	472,150	587,554	363,876
Housing	23,265	18,110	16,613	18,110
Manufacturing	1,183,294	1,515,273	1,074,605	1,355,773
Marine Related	18,915	209	18,915	209
Materials Technology	18,678	1,658	18,678	1,658
Medical & Pharmaceuticals	54,755	34,625	54,755	34,625
Mining & Quarrying	2,924	3,180	-	-
Other community, social and personal service activities	111,526	164,262	69,297	102,020
Production Engineering	13,966	29,896	13,966	29,896
Public administration and defense	41,981	21,847	41,981	21,847
Real estate, renting and business activities	1,168,570	1,074,473	1,151,171	1,069,269
Shipping	591,675	128,554	591,675	128,554
Shipyards	212,971	28,047	212,971	28,047
Transport, storage and communications	5,976,509	6,151,827	5,802,343	6,014,570
Gross loans, advances and financing	<u>23,957,845</u>	<u>21,490,999</u>	<u>23,660,063</u>	<u>21,155,685</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 7. Loans, advances and financing (contd.)

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

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Maturity within one year	3,757,576	3,536,703	3,634,874	3,377,023
One year to three years	3,016,435	3,151,237	2,930,713	3,121,208
Three years to five years	3,924,690	4,213,875	3,745,321	4,072,954
Over five years	13,259,144	10,589,184	13,349,155	10,584,500
	<u>23,957,845</u>	<u>21,490,999</u>	<u>23,660,063</u>	<u>21,155,685</u>

(vi) The loans and advances to subsidiaries are repayable over a period of three to seven years commencing from the date of drawdown and are at interest rates ranging from 3.5% to 5.0% (2009 - 3.5% to 4.0%) per annum. Included in these advances is a revolving facility amounting to RM60,000,000 (2009 - RM60,000,000) at an interest rate equivalent to the Bank's average return on deposits.

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

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Balance at beginning of year				
- as previously stated	1,068,899	889,102	878,998	663,963
- effect of adopting FRS 139	2,986,207	-	2,936,813	-
At 1 January, as restated #	4,055,106	889,102	3,815,811	663,963
Impaired during the year	1,039,682	356,618	878,924	310,997
Reclassified as non-impaired	(1,727,369)	(40,153)	(1,660,098)	(33,644)
Recovered during the year	(204,090)	(64,713)	(143,180)	(26,350)
Amount written off	(296,670)	(71,955)	(274,354)	(35,968)
Balance at end of year	<u>2,866,659</u>	<u>1,068,899</u>	<u>2,617,103</u>	<u>878,998</u>
Gross impaired loans as % of gross loans, advances and financing	<u>11.97%</u>	<u>4.97%</u>	<u>11.06%</u>	<u>4.15%</u>
# Gross impaired loans as % of gross loans, advances and financing as at 1 January 2010, restated for the effect of adopting FRS 139.	<u>18.87%</u>		<u>18.04%</u>	

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 7. Loans, advances and financing (contd.)

(viii) Impaired loans analysed by industry as follows:

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Agro resources-based	472	-	472	-
Construction	694,958	275,802	645,442	204,277
Education	22,651	20,040	22,651	20,040
Electrical & Electronics	10,812	9,474	10,812	9,474
Electricity, gas and water supply	98,028	41,093	98,028	40,612
Finance, Insurance & Business	11,576	3,443	-	-
Food Processing	-	1,293	-	1,293
Hotel and Restaurants	175,492	83,051	145,501	70,097
Manufacturing	762,401	271,104	684,646	213,085
Marine Related	18,898	-	18,898	-
Materials Technology	-	1,658	-	1,658
Medicals & Pharmaceuticals	54,755	-	54,755	-
Other community, social and personal service activities	64,222	56,565	32,949	20,827
Production Engineering	151	2,883	151	2,883
Real estate, renting and business activities	282,743	11,051	265,344	11,051
Shipping	129,706	754	129,706	754
Shipyards	98,729	14,999	98,729	14,999
Transport, storage and communications	441,065	275,689	409,019	267,948
	<u>2,866,659</u>	<u>1,068,899</u>	<u>2,617,103</u>	<u>878,998</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 7. Loans, advances and financing (contd.)

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

Individual assessment allowance	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Balance as at 1 January				
- as previously stated	-	-	-	-
- effect of adopting FRS 139	1,810,089	-	1,592,169	-
At 1 January, as restated	1,810,089	-	1,592,169	-
Allowance made during the year	258,798	-	251,604	-
Allowance made during the year against Infrastructure Support Fund	100,962	-	100,962	-
Amount written back in respect of recoveries	(27,734)	-	(2,457)	-
Amount written off	(292,434)	-	(269,141)	-
Balance at end of year	1,849,681	-	1,673,137	-
<b>Collective assessment allowance</b>				
Balance as at 1 January				
- as previously stated	-	-	-	-
- effect of adopting FRS 139	625,805	-	617,557	-
At 1 January, as restated	625,805	-	617,557	-
Allowance made during the year	47,263	-	47,650	-
Balance at end of year	673,068	-	665,207	-



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 7. Loans, advances and financing (contd.)

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

Specific allowance:	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Balance as at 1 January				
- as previously stated	1,152,387	669,519	958,530	529,363
- effect of adopting FRS 139	(1,152,387)	-	(958,530)	-
At 1 January, as restated	-	669,519	-	529,363
Allowance made during the year	-	603,441	-	500,400
Allowance made during the year against Infrastructure Support Fund	-	4,084	-	4,084
Amount written back in respect of recoveries	-	(55,324)	-	(24,180)
Amount written back in respect of recoveries transferred to Infrastructure Support Fund	-	(15,169)	-	(15,169)
Amount written off	-	(54,164)	-	(35,968)
Balance at end of year	-	1,152,387	-	958,530
<b>General allowance:</b>				
Balance as at 1 January				
- as previously stated	311,205	342,632	302,957	334,556
- effect of adopting FRS 139	(311,205)	-	(302,957)	-
At 1 January, as restated	-	342,632	-	334,556
Allowance made during the year	-	132	-	-
Amount written back	-	(31,559)	-	(31,599)
Balance at end of year	-	311,205	-	302,957
As a % of gross loans, advances and financing less specific provisions	-	1.5%	-	1.5%

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 8. Other assets

	Note	Group 2010 RM'000	2009 RM'000	Bank 2010 RM'000	2009 RM'000
Sundry receivables, deposits and prepayment	(i)	247,392	434,085	42,588	344,373
Less: Allowance for doubtful debts		(1,688)	(802)	(1,688)	(802)
		<u>245,704</u>	<u>433,283</u>	<u>40,900</u>	<u>343,571</u>
Trade receivables		4,829	37,745	-	-
Less: Allowance for doubtful debts		-	(8)	-	-
		<u>4,829</u>	<u>37,737</u>	<u>-</u>	<u>-</u>
Amount receivable from Government in respect of compensation for:					
- Foreign exchange differences		76,765	91,888	76,765	91,888
- Infrastructure projects		85,361	85,361	85,361	85,361
Amount due from Minister of Finance Incorporated	(ii)	1,029,607	1,061,373	1,029,607	1,061,373
Accrued interest receivable		23,657	21,122	23,657	21,117
Subsidiaries		-	-	34,962	33,288
Tax recoverable		-	51,358	-	51,299
Pool working fund	(iii)	2,929	3,594	-	-
Foreclosed properties		2,617	8,014	-	-
Inventories		1,377	2,703	-	-
		<u>1,472,846</u>	<u>1,796,433</u>	<u>1,291,252</u>	<u>1,687,897</u>

- (i) Included in the sundry receivables, deposits and prepayments of the Group is an amount due from related parties of Global Maritime Ventures Berhad amounting to RM205,270,000 (2009 - RM94,416,000). Amounts due from related parties relate to fund placements with fund managers for short term deposits and bear floating interest rates of 0.06% to 0.22% (2009: 0.17% to 0.28%).

Included in prior year's sundry receivables, deposits and prepayments of the Group and the Bank was an amount due from a former subsidiary, SME Bank, of RM301,273,973 relating to loan from Pension Trust Fund Council which has now been transferred to SME Bank. The loan bears interest of 5.0% per annum and repayable over a period of 20 years, commencing on 22 November 2006.

- (ii) The amount due from Minister of Finance Incorporated relates to proceeds receivable from disposal of the Bank's interest in SME Bank. The amount bears interest of 2% per annum and is repayable via a bullet repayment in 2013.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 8. Other assets (contd.)

- (iii) The amount due from subsidiaries are unsecured, interest free and repayable on demand.
- (iv) Pool working fund represents advances from subsidiaries to the pool operators for operating funds of the vessels in the pool. These advances are interest free, unsecured and are refundable only upon termination of the pool agreement signed between the subsidiaries with the pool operators.

## 9. Investment in subsidiaries

	Bank	
	2010 RM'000	2009 RM'000
Unquoted shares, at cost	862,700	862,700
Additional capital contribution due to waiver of debt	68,570	68,570
	<u>931,270</u>	<u>931,270</u>
Less: Impairment losses	(974)	(974)
	<u>930,296</u>	<u>930,296</u>

Details of the subsidiaries are disclosed in Note 39.

## 10. Interest in associates

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
At cost:				
Unquoted ordinary shares	15	15	15	15
Group's share of retained post acquisition reserve	978	978	-	-
	<u>993</u>	<u>993</u>	<u>15</u>	<u>15</u>
Unquoted redeemable preference shares	5,627	5,627	5,627	5,627
	<u>6,620</u>	<u>6,620</u>	<u>5,642</u>	<u>5,642</u>
Less: Accumulated impairment losses	(6,620)	(5,642)	(5,642)	(5,642)
	<u>-</u>	<u>978</u>	<u>-</u>	<u>-</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 10. Interest in associates (contd.)

(i) Details of the associates are as follows:

Name of Associates (incorporated in Malaysia)	Proportion of Ownership Interest		Principal Activities
	2010 %	2009 %	
<b>Held through a subsidiary:</b>			
Ekuiti Teroka (Malaysia) Sdn Bhd	28.60	28.60	Venture capital company

The summarised financial statements of the associates are as follows:

	2010 RM'000	2009 RM'000
<b>Assets and liabilities</b>		
Total assets	1,695	1,851
Total liabilities	4	3
	<hr/>	<hr/>
<b>Results:</b>		
Revenue	8	15
Profit for the year	(130)	(4)
	<hr/>	<hr/>

## 11. Interest in jointly controlled entities

	Group	
	2010 RM'000	2009 RM'000
At cost:		
Unquoted ordinary shares	100,122	77,953
Group's share of retained post acquisition reserve	31,523	21,817
	<hr/>	<hr/>
	131,645	99,770
Long term loans to jointly controlled entities	79,658	78,222
	<hr/>	<hr/>
	211,303	177,992
	<hr/>	<hr/>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 11. Interest in jointly controlled entities (contd.)

(i) Included in long term loans to jointly controlled entities is an amount of RM4,702,331.60 (2009 - RM24,677,502) which bears interest rate of 7% per annum (2009 - 7%), payable every quarter and will be maturing in 2018. The remaining amounts are unsecured, interest free and is payable on demand.

(ii) Details of the jointly controlled entities are as follows:

Name of Jointly Controlled Entities (incorporated in Malaysia)	Proportion of Ownership Interest		Principal Activities
	2010 %	2009 %	
<b>Held through a subsidiary:</b>			
Wawasan Bulk Services Sdn Bhd	30.00	30.00	Ship management
Alam Eksplorasi Sdn Bhd	40.00	40.00	Ship-owning, ship operating, ship agency, chartering and other related to shipping industry
Alam Synergy I (L) Inc	40.00	40.00	Ship-owning, ship operator and charter hire of vessel
Alam Synergy II (L) Inc	40.00	40.00	Ship-owning, ship operator and charter hire of vessel
Alam Synergy III (L) Inc	40.00	40.00	Ship-owning, ship operator and charter hire of vessel
Baycorp Ship Management Sdn Bhd	40.00	40.00	Ship management
Gagasan Sembilan Sdn Bhd	40.00	40.00	Ship-owning
Gagasan Ked Sdn Bhd	60.00	60.00	Ship-owning

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 11. Interest in jointly controlled entities (contd.)

(ii) Details of the jointly controlled entities are as follows:

Name of Jointly Controlled Entities (incorporated in Malaysia)	Proportion of Ownership Interest		Principal Activities
	2010 %	2009 %	
<b>Held through a subsidiary: (contd.)</b>			
Gagasan Paha Sdn Bhd	60.00	60.00	Ship-owning
Formasi Cekal Sdn Bhd	40.00	40.00	Ship-owning, ship operator and to undertake all kinds of contract to carry merchant goods
Orkim Leader Sdn Bhd	40.00	40.00	Ship-owning and freighting
Orkim Power Sdn Bhd	40.00	40.00	Ship-owning and freighting
Orkim Merit Sdn Bhd	40.00	40.00	Ship-owning and freighting
Orkim Express Sdn Bhd	40.00	40.00	Ship-owning and freighting
Orkim Challenger Sdn Bhd	60.00	60.00	Ship-owning and freighting
Orkim Discovery Sdn Bhd	60.00	60.00	Ship-owning and freighting
Orkim Reliance Sdn Bhd	60.00	60.00	Ship-owning and freighting
JM Global 1 (L) Plc	49.00	49.00	Ship-owning and freighting
JM Global 2 (L) Plc	49.00	49.00	Ship-owning and freighting
JM Global 3 (L) Plc	49.00	-	Ship-owning and freighting
JM Global 4 (L) Plc	49.00	-	Ship-owning and freighting
Omni Offshore (L) Inc	40.00	40.00	Ship-owning and freighting
Global BMesra Sdn Bhd(f.k.a Budisukma Mesra Sdn Bhd)	49.00	49.00	Ship-owning and freighting

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 11. Interest in jointly controlled entities (contd.)

(ii) Details of the jointly controlled entities are as follows: (contd.)

Name of Jointly Controlled Entities (incorporated in Malaysia)	Proportion of Ownership Interest		Principal Activities
	2010 %	2009 %	
<b>Held through a subsidiary: (contd.)</b>			
Global Bmesra Dua Sdn Bhd (f.k.a Budisukma Mesra Dua Sdn Bhd)	49.00	49.00	Ship-owning and freighting
Global Bikhlas Sdn Bhd (f.k.a Budisukma Ikhlas Sdn Bhd)	49.00	49.00	Ship-owning and freighting
Sea Weasel Ltd	49.00	-	Ship-owning and freighting
GBSB Thahirah Oceanic Ltd	40.00	-	Ship-owning and freighting
GBSB Thahirah Marine Ltd	40.00	-	Ship-owning and freighting

The voting rights for all the jointly controlled entities mentioned above are equal for both the joint venture parties.

During the financial year.

- (a) The subsidiary, Global Maritime Ventures Berhad (“GMV”) entered into a joint venture agreement with Jasa Merin (M) Sdn Bhd via its wholly owned subsidiary, GMV-Jasa Sdn Bhd to set up 2 new joint venture ship-owning companies, JM Global 3 (L) Plc and JM Global 4 (L) Plc with a subscription of 49% equity interest in the respective company. The total cash consideration for both companies amounted to RM4,410,000. Both JM Global 3 (L) Plc and JM Global 4 (L) Plc are incorporated in Labuan.
- (b) GMV entered into a joint venture agreement with Syarikat Borcos Shipping Sdn Bhd via its wholly owned subsidiary, GMV-Borcos Sdn Bhd to set up 2 new joint venture ship-owning companies, GBSB Thahirah Oceanic Ltd and GBSB Thahirah Marine Ltd with a subscription of 40% equity interest in the respective company. The total investment for both companies amounted to RM55,240,000. Both GBSB Thahirah Oceanic Ltd and GBSB Thahirah marine Ltd are incorporated in Labuan.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 11. Interest in jointly controlled entities (contd.)

(ii) Details of the jointly controlled entities are as follows: (contd.)

- (c) GMV entered into a joint venture agreement with Efogen Sdn Bhd via its wholly owned subsidiary, GMV-Efogen Sdn Bhd to set up a new joint venture ship-owning company, Sea Weasel Ltd with a subscription of 49% equity interest. The total cash consideration for the company amounted to RM8,391,500. Sea Weasel Ltd is incorporated in Labuan.
- (d) GMV-Jasa Sdn Bhd increased its investment in JM Global 1 (L) Plc and JM Global 2 (L) Plc in the form of additional equity participation, for a total contribution of RM6,100,500. The effective interest in these companies remain unchanged.
- (e) A subsidiary, GMV-Orkim Sdn Bhd increased its investment in Orkim Discovery Sdn Bhd and Orkim Reliance Sdn Bhd in the form of additional equity participation, for a total contribution of RM7,200,000. The effective interest in these companies remain unchanged.

The summarised financial statements of the jointly controlled entities are as follows:

	<b>2010</b> <b>RM'000</b>	<b>2009</b> <b>RM'000</b>
<b>Assets and liabilities</b>		
Total assets	662,724	417,643
Total liabilities	531,079	320,053
<b>Results:</b>		
Revenue	64,889	39,468
Profit for the year	<u>9,706</u>	<u>13,251</u>



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 12. Property, plant and equipment

Group	Freehold land RM'000	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
<b>Cost</b>									
1 January 2010	19,909	82,125	50,870	2,937	37,438	1,042,501	5,769	32,125	1,273,674
Additions	-	-	2,379	796	44	3,447	2,008	17,526	26,200
Disposals/write-off	-	-	(1,286)	(1,439)	(87)	(178,643)	-	(5,321)	(186,776)
Effect of movements in exchange rates	-	-	-	-	-	(83,579)	-	(5,652)	(89,231)
At 31 December 2010	19,909	82,125	51,963	2,294	37,395	783,726	7,777	38,678	1,023,867
<b>Accumulated depreciation</b>									
1 January 2010	-	9,992	37,077	2,725	8,851	455,161	-	21,819	535,625
Charge for the year	-	1,545	6,535	240	5,609	35,101	-	10,159	59,189
Disposals/write-off	-	-	(968)	(1,439)	(25)	(82,277)	-	(5,091)	(89,800)
Effect of movements in exchange rates	-	-	-	-	-	(38,528)	-	(4,928)	(43,456)
At 31 December 2010	-	11,537	42,644	1,526	14,435	369,457	-	21,959	461,558
<b>Net Carrying Amount</b>	19,909	70,588	9,319	768	22,960	414,269	7,777	16,719	562,309

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 12. Property, plant and equipment (contd.)

Group	Freehold land RM'000	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
<b>Cost</b>									
1 January 2009	19,909	82,125	46,074	2,941	35,778	1,175,421	13,980	42,651	1,418,879
Additions	-	-	10,341	-	1,660	29,640	(8,008)	7,344	40,977
Disposals/write-off	-	-	(5,545)	(4)	-	-	(203)	(11,267)	(17,019)
Transfer to assets held for sale	-	-	-	-	-	(145,130)	-	(6,156)	(151,286)
Effect of movements in exchange rates	-	-	-	-	-	(17,430)	-	(447)	(17,877)
At 31 December 2009	19,909	82,125	50,870	2,937	37,438	1,042,501	5,769	32,125	1,273,674
<b>Accumulated depreciation</b>									
1 January 2009	-	8,447	32,887	2,526	3,138	482,984	-	25,165	555,147
Charge for the year	-	1,545	7,209	203	5,713	48,728	-	11,036	74,434
Disposals/write-off	-	-	(3,019)	(4)	-	-	-	(11,267)	(14,290)
Transfer to assets held for sale	-	-	-	-	-	(69,069)	-	(2,815)	(71,884)
Effect of movements in exchange rates	-	-	-	-	-	(7,482)	-	(300)	(7,782)
At 31 December 2009	-	9,992	37,077	2,725	8,851	455,161	-	21,819	535,625
<b>Net Carrying Amount</b>	<b>19,909</b>	<b>72,133</b>	<b>13,793</b>	<b>212</b>	<b>28,587</b>	<b>587,340</b>	<b>5,769</b>	<b>10,306</b>	<b>738,049</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 12. Property, plant and equipment (contd.)

Bank	Freehold land	Buildings	Furniture and equipment	Mechanical and Electricals	Motor vehicles	Capital work-in progress	Total
2010	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Cost</b>							
At 1 January 2010	19,740	76,521	28,605	37,438	2,212	722	165,238
Additions	-	-	1,556	44	627	2,008	4,235
Disposals/write off	-	-	(554)	(87)	(1,267)	-	(1,908)
At 31 December 2010	19,740	76,521	29,607	37,395	1,572	2,730	167,565
<b>Accumulated depreciation</b>							
1 January 2010	-	4,385	18,141	8,852	2,206	-	33,584
Charge for the year	-	1,542	4,978	5,609	114	-	12,243
Disposals/write off	-	-	(467)	(25)	(1,267)	-	(1,759)
At 31 December 2010	-	5,927	22,652	14,436	1,053	-	44,068
<b>Net Carrying Amount</b>	<b>19,740</b>	<b>70,594</b>	<b>6,955</b>	<b>22,959</b>	<b>519</b>	<b>2,730</b>	<b>123,497</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 12. Property, plant and equipment (contd.)

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
<b>Cost</b>							
At 1 January 2009	19,740	76,521	39,930	35,778	2,212	8,933	183,114
Additions	-	-	8,087	1,660	-	(8,008)	1,739
Disposals/write off	-	-	(19,412)	-	-	(203)	(19,615)
At 31 December 2009	19,740	76,521	28,605	37,438	2,212	722	165,238
<b>Accumulated depreciation</b>							
1 January 2009	-	2,843	28,667	3,139	2,115	-	36,764
Charge for the year	-	1,542	6,373	5,713	91	-	13,719
Disposals/write off	-	-	(16,899)	-	-	-	(16,899)
At 31 December 2009	-	4,385	18,141	8,852	2,206	-	33,584
<b>Net Carrying Amount</b>	<b>19,740</b>	<b>72,136</b>	<b>10,464</b>	<b>28,586</b>	<b>6</b>	<b>722</b>	<b>131,654</b>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 13. Prepaid land lease

	Group and Bank	
	2010 RM'000	2009 RM'000
<b>Cost</b>		
At 1 January	5,521	5,521
At 31 December	5,521	5,521
<b>Depreciation</b>		
At 1 January	1,610	1,500
Charge for the year	110	110
At 31 December	1,720	1,610
<b>Carrying amount</b>	<b>3,801</b>	<b>3,911</b>

## 14. Investment properties

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Cost</b>				
At 1 January	24,750	25,440	10,538	10,538
Disposals/write off	-	(690)	-	-
At 31 December	24,750	24,750	10,538	10,538
<b>Depreciation and impairment loss</b>				
At 1 January	6,884	6,604	2,271	2,094
Charge for the year	398	430	177	177
Disposals/write off	-	(150)	-	-
At 31 December	7,282	6,884	2,448	2,271
<b>Carrying amount</b>	<b>17,468</b>	<b>17,866</b>	<b>8,090</b>	<b>8,267</b>
Included in the above are:				
Freehold land	3,339	3,339	1,683	1,683
Buildings	14,129	14,527	6,407	6,584
	17,468	17,866	8,090	8,267

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 14. Investment properties (contd.)

- (i) The Directors of the Group and the Bank estimated the fair values of the investment properties of the Group and the Bank is RM25,577,000 (2009 - RM22,345,000) and RM14,874,000 (2009 - RM10,520,000) respectively based on comparison with indicative market value stated in the Property Market Report 2009.

## 15. Deferred tax assets/(liabilities)

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
At 1 January	(17,918)	28,219	(38,369)	2,748
Effect of adopting FRS 139	153,111	-	152,641	-
	<u>135,193</u>	<u>28,219</u>	<u>114,272</u>	<u>2,748</u>
Recognised in income statement	(2,429)	(18,800)	(1,002)	(13,780)
Recognised in equity	(4,432)	(27,337)	(25,954)	(27,337)
At 31 December	<u>128,332</u>	<u>(17,918)</u>	<u>139,224</u>	<u>(38,369)</u>
Presented after appropriate offsetting as follows:				
Deferred tax assets	139,224	-	139,224	-
Deferred tax liabilities	(10,892)	(17,918)	-	(38,369)
	<u>128,332</u>	<u>(17,918)</u>	<u>139,224</u>	<u>(38,369)</u>

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 relates 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 of the Group:

	Loan loss and allowances RM'000	Impairment loss on securities RM'000	Property, plant and equipment RM'000	Other temporary differences RM'000	Total RM'000
At 1 January 2010	75,739	9,616	-	12	85,367
Effect of adopting FRS 139	153,111	-	-	-	153,111
Recognised in income statement	12,063	(9,616)	-	164	2,611
At 31 December 2010	<u>240,913</u>	<u>-</u>	<u>-</u>	<u>176</u>	<u>241,089</u>
At 1 January 2009	83,639	10,170	27	4,632	98,468
Recognised in income statement	(7,900)	(554)	(27)	(4,620)	(13,101)
At 31 December 2009	<u>75,739</u>	<u>9,616</u>	<u>-</u>	<u>12</u>	<u>85,367</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 15. Deferred tax assets/(liabilities) (contd.)

### Deferred tax liabilities of the Group:

	Unrealised holding reserve RM'000	Property, plant and equipment RM'000	Other temporary differences RM'000	Total RM'000
At 1 January 2010	92,572	10,713	-	103,285
Recognised in income statement	-	5,040	-	5,040
Recognised in equity	4,432	-	-	4,432
At 31 December 2010	97,004	15,753	-	112,757
At 1 January 2009	65,235	-	5,014	70,249
Recognised in income statement	-	10,713	(5,014)	5,699
Recognised in equity	27,337	-	-	27,337
At 31 December 2009	92,572	10,713	-	103,285

### Deferred tax assets of the Bank:

	Loan loss and allowances RM'000	Impairment loss on securities RM'000	Property, plant and equipment RM'000	Other temporary differences RM'000	Total RM'000
At 1 January 2010	75,739	9,626	-	201	85,566
Effects of adopting FRS 139	152,641	-	-	-	152,641
Recognised in income statement	12,063	(9,626)	-	164	2,601
At 31 December 2010	240,443	-	-	365	240,808
At 1 January 2009	83,639	9,486	5,035	209	98,369
Recognised in income statement	(7,900)	140	(5,035)	(8)	(12,803)
At 31 December 2009	75,739	9,626	-	201	85,566

### Deferred tax liabilities of the Bank:

	Unrealised holding reserve RM'000	Property, plant and equipment RM'000	Total RM'000
At 1 January 2010	122,958	977	123,935
Recognised in income statement	-	3,603	3,603
Recognised in equity	(25,954)	-	(25,954)
At 31 December 2010	97,004	4,580	101,584
At 1 January 2009	95,621	-	95,621
Recognised in income statement	-	977	977
Recognised in equity	27,337	-	27,337
At 31 December 2009	122,958	977	123,935

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 15. Deferred tax assets/(liabilities) (contd.)

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

	Group	
	2010 RM'000	2009 RM'000
Unutilised tax losses	54,836	95,463
Unabsorbed capital allowances	10,663	10,658
	<u>65,499</u>	<u>106,121</u>

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.

## 16. Deposits from customers

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Fixed deposits and negotiable instruments of deposits				
- One year or less	7,457,626	8,232,906	7,457,626	8,232,906
- More than one year	-	-	-	-
	<u>7,457,626</u>	<u>8,232,906</u>	<u>7,457,626</u>	<u>8,232,906</u>

(a) The deposits are sourced from the following types of deposit:

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Non-Mudharabah				
Others	6,633,826	8,028,906	6,633,826	8,028,906
Mudharabah				
General investment deposits	823,800	204,000	823,800	204,000
	<u>7,457,626</u>	<u>8,232,906</u>	<u>7,457,626</u>	<u>8,232,906</u>

(b) The deposits are sourced from the following types of customers:

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Business enterprises	3,675,220	4,407,346	3,675,220	4,407,346
Government and statutory bodies	3,782,406	3,825,560	3,782,406	3,825,560
	<u>7,457,626</u>	<u>8,232,906</u>	<u>7,457,626</u>	<u>8,232,906</u>



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 16. Deposits from customers (contd.)

(c) The deposits maturity structure are as follows:

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Less than six months	6,638,403	6,462,027	6,638,403	6,462,027
Six months to one year	819,223	1,770,879	819,223	1,770,879
	<u>7,457,626</u>	<u>8,232,906</u>	<u>7,457,626</u>	<u>8,232,906</u>

### 17. Other liabilities

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Amount due to related companies	9,820	3,656	-	-
Provision for taxation	32,558	1,615	30,958	-
Provision for zakat	2,458	286	2,458	286
Accrued interest payable	73,391	51,036	73,391	51,036
Trade creditors	7,769	14,938	2,874	2,567
Sundry creditors and accruals	122,348	90,124	37,956	24,293
Profit equalisation reserve (Note 17 (i))	-	1,071	-	1,071
Dividend payable	2,400	2,400	-	-
Minority shareholders' advance to subsidiaries	-	25,466	-	-
	<u>250,744</u>	<u>190,592</u>	<u>147,637</u>	<u>79,253</u>

The amount due to related companies and minority shareholder's advances to subsidiaries are unsecured, non-interest bearing and are repayable on demand.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 17. Other liabilities (contd.)

(i) Movement in profit equalisation reserve ("PER")

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
At beginning of year	1,071	-	1,071	-
Provided during the year	21,219	5,705	21,219	5,705
Written back during the year	(22,290)	(4,634)	(22,290)	(4,634)
At end of the year *	<u>-</u>	<u>1,071</u>	<u>-</u>	<u>1,071</u>

\* PER at the end of the financial year of which the shareholders' portion is nil (2009 - RM696,000).

## 18. Redeemable notes

	Group and Bank	
	2010 RM'000	2009 RM'000
<b>Redeemable non guaranteed notes</b>		
Medium term notes*	<u>1,000,000</u>	<u>1,000,000</u>
	<u>1,000,000</u>	<u>1,000,000</u>
<b>Redeemable guaranteed notes</b>		
Medium term notes-GGC**	2,000,000	-
Medium term notes-GGM***	<u>500,000</u>	<u>-</u>
	<u>2,500,000</u>	<u>1,000,000</u>
Infrastructure notes - nominal value****	1,000,000	1,000,000
Less: Unamortised discount	<u>(8,713)</u>	<u>(9,675)</u>
	<u>991,287</u>	<u>990,325</u>
	<u>4,491,287</u>	<u>1,990,325</u>
Discount upon issuance	18,500	18,500
Amortisation to date	<u>(9,787)</u>	<u>(8,825)</u>
Unamortised discount	<u>8,713</u>	<u>9,675</u>

\* These notes carry coupon rates ranging between 5.00% to 6.30% (2009 - 5.00% to 6.30%) per annum and are for tenures of 5 years to 15 years.

\*\* These notes were issued on 12 April 2010 and are guaranteed by the Government of Malaysia. These 3 years and 5 years notes carry coupon rates of 3.66% per annum (RM500.0 million) and 4.15% per annum (RM1.50 billion) respectively.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (*continued*)

## 18. Redeemable notes (contd.)

\*\*\* These notes were issued on 12 April 2010 and are guaranteed by the Government of Malaysia. These 3 years notes carry profit rates of 3.64% per annum.

\*\*\*\* These notes are guaranteed by the Government of Malaysia. These 15 years and 25 years notes carry coupon rates of 7.00% and 7.50% per annum (2009:7.00% and 7.50%) respectively.

## 19. Term loans

Group	2010		2009	
	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 Government of Malaysia				
- Unsecured: (Note 19(a))				
Principal	764,935	-	790,029	-
Interest	2,152	-	2,152	-
	<u>767,087</u>	<u>-</u>	<u>792,181</u>	<u>-</u>
Loans from Employees Provident Fund				
- Unsecured: (Note 19(b))				
Principal	7,150,000	-	5,350,000	-
Interest	-	56,922	-	36,336
	<u>7,150,000</u>	<u>56,922</u>	<u>5,350,000</u>	<u>36,336</u>
Other loans - Unsecured: (Note 19(c))				
Principal	1,354,816	266,550	1,540,141	507,021
Interest	-	19,517	-	21,222
	<u>1,354,816</u>	<u>286,067</u>	<u>1,540,141</u>	<u>528,243</u>
Other loans - Secured: (Note 19(d))				
Principal	286,766	-	366,208	-
	<u>286,766</u>	<u>-</u>	<u>366,208</u>	<u>-</u>
	<u>9,558,669</u>	<u>342,989</u>	<u>8,048,530</u>	<u>564,579</u>
		<b>2010</b>		<b>2009</b>
		<b>RM'000</b>		<b>RM'000</b>
Total term loans		<u>9,901,658</u>		<u>8,613,109</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 19. Term loans (contd.)

Bank	2010		2009	
	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 Government of Malaysia				
- Unsecured: (Note 19(a))				
Principal	764,935	-	790,029	-
Interest	2,152	-	2,152	-
	<u>767,087</u>	<u>-</u>	<u>792,181</u>	<u>-</u>
Loans from Employees Provident Fund				
- Unsecured: (Note 19(b))				
- Unsecured:				
Principal	7,150,000	-	5,350,000	-
Interest	-	56,922	-	36,336
	<u>7,150,000</u>	<u>56,922</u>	<u>5,350,000</u>	<u>36,336</u>
Other loans - Unsecured: (Note 19(c))				
Principal	1,354,816	266,550	1,540,141	507,021
Interest	-	19,517	-	21,222
	<u>1,354,816</u>	<u>286,067</u>	<u>1,540,141</u>	<u>528,243</u>
	<u>9,271,903</u>	<u>342,989</u>	<u>7,682,322</u>	<u>564,579</u>
		<b>2010</b>		<b>2009</b>
		<b>RM'000</b>		<b>RM'000</b>
Total term loans		<u>9,614,892</u>		<u>8,246,901</u>

### (a) Loans from Government of Malaysia

The loans from the Government of Malaysia due after twelve months are repayable as follows:

Year due	Group and Bank Principal	
	2010 RM'000	2009 RM'000
Due after 2011	<u>764,935</u>	<u>790,029</u>

Interest on the loan is charged at rates of 2.0% (2009 - 2.00%) per annum.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 19. Term loans (contd.)

#### (b) Loan from Employee Provident Fund

	Note	Group and Bank Principal	
		2010 RM'000	2009 RM'000
Loan 1	19(b)(i)	2,000,000	2,000,000
Loan 2	19(b)(ii)	2,800,000	3,100,000
Loan 3	19(b)(iii)	350,000	250,000
Loan 4	19(b)(iv)	1,000,000	-
Loan 5	19(b)(v)	1,000,000	-
		<u>7,150,000</u>	<u>5,350,000</u>

- (i) The loan is repayable in 5 equal installments over a period of 5 years, commencing 2019.
- (ii) On 27 May 2010, the facility has been revised to 5 years maturity (bullet repayment in year 2015). The total loan has been reduced to RM2,800,000,000 and the balance of RM300,000,000 was transferred to a former subsidiary, SME Bank.
- (iii) Interest is repayable in semi-annual instalments and the final repayment schedule is not fixed until the loan is fully drawn down.
- (iv) The loan was drawn down on 7 July 2010 and is repayable via bullet repayment in July 2015.
- (v) The loan was drawn down on 9 December 2010 and is repayable via bullet repayment in December 2015.

All the above loans are guaranteed by the Government of Malaysia and bear interest at rates of 3.840% to 5.225% (2009: 4.518% to 5.225%) per annum.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 19. Term loans (contd.)

### (c) Other Loan - unsecured:

	Note	Group and Bank Principal	
		2010 RM'000	2009 RM'000
Japan Bank of International Corporation			
- Loan 1	19(c)(i)	-	134,572
- Loan 2	19(c)(ii)	975,359	1,123,370
Export Credit Agency	19(c)(iii)	132,912	267,649
Pension Trust Fund Council	19(c)(iv)	500,000	500,000
Bank Negara Malaysia	19(c)(v)	219	7,445
Pusat Tenaga Malaysia	19(c)(v)	14,125	14,125
		<u>1,622,615</u>	<u>2,047,161</u>

Included in other loan - unsecured are:

- (i) Loan from the Japan Bank for International Cooperation was fully settled in November 2010 [2009 - RM134,572,141 (¥9,110,627,300)]. Realised foreign exchange gain/loss on interest payment, if any, from the long term Yen loan is accounted for in the income statements. The loan will mature in November 2010.
- (ii) IT7 Loan from Japan Bank for International Cooperation amounting to RM975,358,689 (¥30,184,638 [2009 - RM1,123,370,392 (¥34,828,430,000)]) out of total loan facility of RM1,747,580,000 (¥59,000,000,000). The loan will mature in March 2017.
- (iii) Loan from Export Credit Agency (ECA) lenders amounting to RM132,912,302 (€32,496,098) [2009 - RM267,648,722 (€54,160,169)]. This loan is repayable in semi-annual instalments of Ringgit Malaysia equivalent of €10,832,034 and will mature in June 2012.
- (iv) Loan from Pension Trust Fund amounting to RM500,000,000 (2009 - RM500,000,000) is repayable in 12 instalments over a period of 6 years, commencing from 2015. This loan will mature in 2020.
- (v) Loans from other institutions, namely from Bank Negara Malaysia ("BNM") and Pusat Tenaga Malaysia amounting to RM219,080 and RM14,124,970, respectively (2009 - RM7,445,703 and RM14,124,970).

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 19. Term loans (contd.)

### (c) Other Loan - unsecured: (contd.)

Loans from Japan Bank for International Cooperation and ECA Lenders are guaranteed by Government of Malaysia. The interest rates on other loans - unsecured range from 0% to 5.875% (2009 - 0% to 5.875%) per annum during the year.

### (d) Other Loan - secured:

	Note	Group Principal	
		2010 RM'000	2009 RM'000
Term loan 1	19(d)(i)	286,766	366,208
		<u>286,766</u>	<u>366,208</u>

Included in other loan - secured of the Group are:

- (i) Loans for tankers are secured by a first preferred cross-collateralised mortgage of the vessel, an assignment of earnings derived from the pool and insurance of the vessels concerned.

## 20. Infrastructure support fund

	Group and Bank Principal	
	2010 RM'000	2009 RM'000
At 1 January, as previously stated	715,882	662,326
FRS139 adjustment	(182,578)	-
At 1 January, as restated	<u>533,304</u>	<u>662,326</u>
Net receivable during the year	32,910	42,471
Allowance made during the year against Infra Support Fund	(100,962)	(4,084)
Impairment of financial investments made during the year against Infra Support Fund	(84,958)	-
Specific allowance written back	-	15,169
At 31 December	<u>380,294</u>	<u>715,882</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 20. Infrastructure support fund (contd.)

The Government provides funds to the Bank in relation to its mandate to provide financing for Government infrastructure projects. The amounts received are non-repayable and are accounted for during the year as follows:

- (i) amounts to compensate against related costs are recognised in the income statement in relation to infrastructure financing.
- (ii) amounts utilised for purpose of payments on financing costs relating to the funding for an infrastructure loan are transferred to Infrastructure Support Fund.

The amount was accounted as at 31 December as follows:

	2010 RM'000	2009 RM'000
Amount received/receivable from Government during the year	15,794	51,769
Amount matched against costs and recognised as income	17,116	(9,298)
Transferred to Infrastructure Support Fund	<u>(32,910)</u>	<u>(42,471)</u>
	<u>-</u>	<u>-</u>

## 21. Deferred income

	Group and Bank	
	2010 RM'000	2009 RM'000
At 1 January	152,232	447,689
Received from Government during the year	301,087	137,437
Transferred to loans, advances and financing	-	(295,457)
Utilised during the year	<u>(161,111)</u>	<u>(137,437)</u>
At 31 December	<u>292,208</u>	<u>152,232</u>

The Government provides funds to the Bank in relation to its mandate to provide financing for Government infrastructure projects financed by Employee Provident Fund and Pension Trust Fund Council. The above amounts received are non-repayable and are utilised to compensate for the cost of fund differential and loss of profit margin.



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 22. Share capital

	Number of Ordinary Shares of RM1 Each		Amount	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Authorised	10,000,000	10,000,000	10,000,000	10,000,000
Issued and fully paid	3,078,724	3,078,724	3,078,724	3,078,724

## 23. Reserves

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Non-distributable:</b>				
Capital reserve	1,000	1,000	-	-
Statutory reserve	1,539,362	1,384,641	1,539,362	1,384,641
Unrealised holding reserve	173,735	274,055	291,014	365,211
Exchange translation reserve	(48,429)	(20,579)	-	-
	1,665,668	1,639,117	1,830,376	1,749,852
<b>Distributable:</b>				
Retained profits (Note 24)	2,294,189	2,624,780	1,959,446	2,301,957
	3,959,857	4,263,897	3,789,822	4,051,809

The capital reserve of the Group arose from the capitalisation of bonus issue in certain subsidiaries in previous years.

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 50% of its profit after tax, up to 50% of its paid-up capital.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 24. Retained earnings

Prior to the year of assessment 2008, Malaysian companies adopted the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act 2007.

As at 31 December 2010, the Bank did not elect for the irrevocable option to disregard the 108 balance. Accordingly, during the transitional period, the Bank may utilise the credit in the 108 balance to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007.

## 25. Interest income

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Loans, advances and financing	1,223,139	1,175,722	1,199,261	1,151,945
Deferred income recognised	161,111	137,437	161,111	137,437
Money at call and deposit placement with financial institutions	64,568	53,336	39,013	30,435
Financial investments available-for-sale	71,492	83,604	71,492	83,604
Financial investments held-to-maturity	10,122	11,266	10,122	11,266
	<u>1,530,432</u>	<u>1,461,365</u>	<u>1,480,999</u>	<u>1,414,687</u>
Amortisation of premium less accretion of discount	15,109	12,613	15,109	12,613
	<u>1,545,541</u>	<u>1,473,978</u>	<u>1,496,108</u>	<u>1,427,300</u>
Of which:				
Interest income earned on impaired loans, advances and financing	<u>40,500</u>	<u>-</u>	<u>40,500</u>	<u>-</u>

Included in the interest income from loans, advances and financing of the Bank is interest income from a subsidiary amounting to RM12,059,818 (2009 - RM9,561,585).

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 26. Interest expense

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Deposits and acceptances	206,206	198,912	206,206	198,912
Term loans	315,388	329,244	315,367	329,124
Redeemable notes	202,816	131,462	202,816	131,462
Others	794	1,434	-	-
	<u>725,204</u>	<u>661,052</u>	<u>724,389</u>	<u>659,498</u>

## 27. Non-interest income

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
(a) Other operating income:				
Charter hire, demurrage and freight income	107,930	174,006	-	-
	<u>107,930</u>	<u>174,006</u>	<u>-</u>	<u>-</u>
(b) Investment income:				
Gain/(loss) on sale of:				
- financial investments available-for-sale	10,695	13,264	10,695	13,234
Gross dividends from:				
- financial investments available-for-sale	27,592	55,610	27,592	55,448
- subsidiaries	-	-	21,600	24,580
(Impairment)/write back of impairment for:				
- investment in associates	(978)	-	-	-
	<u>37,309</u>	<u>68,874</u>	<u>59,887</u>	<u>93,262</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 27. Non-interest income (contd.)

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
(c) Other income:				
Fee income	23,425	37,136	16,770	29,821
Rental income:				
- subsidiaries	-	-	512	453
- others	2,851	2,686	2,500	2,523
Gain on disposal of property, plant and equipment	28,300	296	211	369
(Loss)/gain on foreign exchange:				
- realised	(1,017)	(710)	(74)	(1,026)
- unrealised	24,952	(7,179)	24,952	(7,179)
Compensation from the Government:				
- Infrastructure Support Fund („ISF”) for specific provision written back	-	(15,169)	-	(15,169)
- allowance on impaired loans made during the year against ISF	100,962	4,084	100,962	4,084
- financial investments impairment made during the year against ISF	84,958	-	84,958	-
- on foreign exchange	4,012	5,998	4,012	5,998
Interest income on amount due from Minister of Finance Incorporated	8,625	5,356	8,625	5,356
Realised income/(loss) from:				
- Interest rate swap	-	9,945	-	9,945
Unrealised (loss)/income from:				
- Interest rate swap	-	(8,212)	-	(8,212)
Others	568	5,423	17	446
	<u>277,636</u>	<u>39,654</u>	<u>243,445</u>	<u>27,409</u>
Total non-interest income	<u>422,875</u>	<u>282,534</u>	<u>303,332</u>	<u>120,671</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 28. Overhead expenses

	Note	Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Personnel costs	(i)	86,751	85,365	47,839	38,124
Establishment related expenses	(ii)	63,446	80,382	15,763	18,097
Promotion and marketing expenses	(iii)	1,488	1,049	1,348	931
General administrative expenses	(iv)	86,051	88,464	17,951	10,292
		<u>237,736</u>	<u>255,260</u>	<u>82,901</u>	<u>67,444</u>
<b>(i) Personnel costs</b>					
Salaries, allowances and bonuses		63,125	66,052	32,922	29,775
Social security cost		257	279	201	222
Pension costs - Defined contribution plan		4,962	5,147	4,165	4,158
Compensation for loss employment		6,400	-	6,400	-
Other staff related expenses		12,007	13,887	4,151	3,969
		<u>86,751</u>	<u>85,365</u>	<u>47,839</u>	<u>38,124</u>
<b>(ii) Establishment related expenses</b>					
Depreciation:					
- Property, plant and equipment		59,189	74,434	12,243	13,719
- Investment properties		398	430	177	177
Amortisation of prepaid lease rental		110	110	110	110
Rental of leasehold land and premises		74	214	76	150
Repairs and maintenance of property, plant and equipment		1,979	2,360	1,789	1,209
Information technology expenses		1,696	2,834	1,368	2,732
		<u>63,446</u>	<u>80,382</u>	<u>15,763</u>	<u>18,097</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 28. Overhead expenses (contd.)

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>(iii) Promotion and marketing expenses</b>				
Advertisement and publicity	1,488	1,049	1,348	931
<b>(iv) General administrative expenses</b>				
General administrative expenses	85,287	87,560	17,577	10,077
Auditors' remuneration:				
Statutory audit:				
-Current year	525	326	215	178
-Underprovision in prior year	-	10	-	10
Other services	163	64	83	27
Fixed asset written off	76	-	76	-
Sundry debtors written off	-	504	-	-
	<u>86,051</u>	<u>88,464</u>	<u>17,951</u>	<u>10,292</u>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 29. Directors' fees and remuneration

The total remuneration (including benefits-in-kind) of the Directors of the Bank are as follows:

Group 2010	Remuneration received from the Bank					Remuneration received from Subsidiary Companies				
	Salary RM'000	Fees RM'000	Bonus 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
Executive Directors:										
Dato' Mohd Zafer bin Mohd Hashim	540	-	-	81	5	626	-	-	-	626
	540	-	-	81	5	626	-	-	-	626
Non-Executive Directors:										
Datuk Dr. Abdul Samad bin Hj Alias	-	120	-	25	5	150	60	8	-	218
Siti Zauyah binti Md Desa	-	12	-	36	-	48	-	2	-	50
Zainul Rahim bin Mohd Zain	-	10	-	29	-	39	-	-	-	39
A. Ghani bin Ishak	-	10	-	24	-	34	-	-	-	34
Tan Sri Faizah binti Mohd Tahir	-	7	-	10	-	17	10	8	-	35
Dato' Dr. Syed Jaafar bin Syed Aznan	-	7	-	10	-	17	-	-	-	17
Datuk Idris bin Abdullah @ Das Murthy	-	1	-	1	-	2	-	-	-	2
Rosli bin Abdullah	-	-	-	-	-	-	-	-	-	-
Mohd Zarif Mohd Zaman	-	2	-	7	-	9	-	5	-	14
Dato' Ab. Halim bin Mohyiddin	-	7	-	18	-	25	21	16	-	62
Syed Hussain bin Syed Hamzah	-	10	-	16	-	26	-	13	-	39
	-	186	-	176	5	367	91	52	-	510
Total Directors' remuneration	540	186	-	257	10	993	91	52	-	1,136

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 29. Directors' fees and remuneration (contd.)

The total remuneration (including benefits-in-kind) of the Directors of the Bank are as follows:

Group 2009	Remuneration received from the Bank					Remuneration received from Subsidiary Companies				
	Salary RM'000	Fees RM'000	Bonus 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
Executive Directors:										
Dato' Tajuddin bin Atan	227	-	250	63	6	546	-	-	-	546
Dato' Mohd Zafer bin Mohd Hashim	218	-	-	32	-	250	-	-	-	250
	445	-	250	95	6	796	-	-	-	796
Non-Executive Directors:										
Datuk Dr. Abdul Samad bin Hj Alias	-	120	-	31	-	151	60	10	-	221
Dato' Ab. Halim bin Mohyiddin	-	12	-	43	-	55	-	18	-	73
Mohd Zarif Mohd Zaman	-	12	-	38	-	50	-	14	-	64
Syed Hussain bin Syed Hamzah	-	12	-	24	-	36	-	-	-	36
Siti Zauyah binti Md Desa	-	12	-	31	-	43	-	-	-	43
Haini binti Hasan	-	3	-	3	-	6	-	-	-	6
Dato' Othman bin Jusoh	-	3	-	10	-	13	-	8	-	21
Datuk Zakiah binti Hashim	-	9	-	20	-	29	-	-	-	29
Dato' Abdul Rahim bin Abu Bakar	-	11	-	32	-	43	78	37	-	158
	-	194	-	232	-	426	138	87	-	651
Total Directors' remuneration	445	194	250	327	6	1,222	138	87	-	1,447



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 30. Compensation to key management personnel

Key management personnel are defined as persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Bank directly or indirectly, including any director of the Group and the Bank. The remuneration and compensation of Directors and other members of key management during the year was as follows:

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Short term employee benefits				
Total (excluding benefits-in-kind)	<u>1,170</u>	<u>1,551</u>	<u>621</u>	<u>790</u>

Included in the total key management personnel are:

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Executive Directors' remuneration (Note 29)	<u>626</u>	<u>796</u>	<u>626</u>	<u>796</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 31. Loans and financing loss and allowances

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Allowance for impaired loans and financing:				
Collective assessment allowance				
- made during the year	47,263	-	47,650	-
General allowance				
- made during the year	-	132	-	-
- written back	-	(31,559)	-	(31,599)
Individual impairment allowance				
- made during the year	359,760	-	352,566	-
- written back	(27,734)	-	(2,457)	-
Specific allowance				
- made during the year	-	607,525	-	504,484
- written back	-	(70,493)	-	(39,349)
Bad debts and financing				
- other receivables	228	-	228	-
- resigned staff	658	-	658	-
- written off	5,542	5,652	5,542	1,486
- recovered	(4,691)	(4,027)	(415)	(690)
	<u>381,026</u>	<u>507,230</u>	<u>403,772</u>	<u>434,332</u>

## 32. Tax expense

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Current income tax	121,266	14,061	115,023	7,290
Under/(over) provision in prior years	962	(13,464)	2,115	(13,464)
	<u>122,228</u>	<u>597</u>	<u>117,138</u>	<u>(6,174)</u>
Deferred tax expense:				
Origination and reversal of temporary differences	(9,809)	13,220	(11,457)	10,821
Effect of changes in tax rate		-		-
Under provision in prior year	12,238	5,580	12,459	2,959
	<u>2,429</u>	<u>18,800</u>	<u>1,002</u>	<u>13,780</u>
	<u>124,657</u>	<u>19,397</u>	<u>118,140</u>	<u>7,606</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 32. Tax expense (contd.)

The Bank was exempted from paying tax on its statutory income from infrastructure projects approved by the Government of Malaysia via Income Tax Act 1967: Income Tax Order (Exemption) (No. 46) 2002 from year assessment 2000 to year assessment 2009.

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2008: 26%) of the estimated assessable profit for the year.

A reconciliation of income tax expense applicable to profit before taxation 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 tax expense

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Profit before tax	549,088	339,461	503,491	383,604
Tax using Malaysian tax rate of 25% (2009 - 25%)	137,272	84,865	125,873	95,901
Income not subject to tax	(35,385)	(104,955)	(27,971)	(93,372)
Non-deductible expenses	19,581	34,466	5,664	18,102
Over provision of deferred tax	12,238	5,580	12,459	2,959
Deferred tax assets not recognised on unabsorbed business losses	-	17,662	-	-
Utilisation of previously unrecognised unabsorbed capital allowances and tax losses	(10,011)	(4,757)	-	(2,520)
	123,695	32,861	116,025	21,070
Under/(over) provision in prior years	962	(13,464)	2,115	(13,464)
Tax expense	124,657	19,397	118,140	7,606

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 33. Dividends

Dividends recognised in the current year by the Bank are:

	2010		2009	
	Sen per share	Total amount RM'000	Sen per share	Total amount RM'000
Final 2009 ordinary	3.25	100,000	-	-
Final 2008 ordinary	-	-	2.60	80,000
	<u>3.25</u>	<u>100,000</u>	<u>2.60</u>	<u>80,000</u>

At the forthcoming Annual General Meeting, a final tax exempt dividend in respect of the financial year ended 31 December 2009, 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 shareholder, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2010.

## 34. Earnings per share

The basic earnings per share ("EPS") of the Group and the Bank are calculated by dividing the net profit for the year by the weighted average number of ordinary shares in issue during the financial year.

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Profit from continuing operations attributable to shareholders' of the Bank	<u>420,864</u>	<u>307,553</u>	<u>385,351</u>	<u>375,998</u>
Number of ordinary shares in issue ('000)	<u>3,078,724</u>	<u>3,078,724</u>	<u>3,078,724</u>	<u>3,078,724</u>
Basic EPS (sen) for:				
Net profit for the year	<u>13.67</u>	<u>9.99</u>	<u>12.52</u>	<u>12.21</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (*continued*)

## 35. Commitments and contingencies

- (a) Loan and financing related commitments and contingencies of the Group and the Bank not included in these financial statements are as follows:

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Disbursement of loans to industries	4,728,253	8,704,751	4,728,253	8,704,751
Direct credit substitutes	21,823	44,818	21,823	44,818
Corporate guarantees issued by a subsidiary to financial institutions for credit facilities granted to jointly controlled entities	792,295	557,445	445,155	411,335
	<u>5,542,371</u>	<u>9,307,014</u>	<u>5,195,231</u>	<u>9,160,904</u>

The above contingent liability on corporate guarantees is based on the outstanding balances of the credit facilities granted to jointly controlled entities.

- (b) Capital commitments of the Group and the Bank not included in these financial statements are as follows:

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Capital expenditure - approved but not contracted for	102,126	69,316	30,982	33,771

## 36. 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 able 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.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (*continued*)

## 36. Capital adequacy (contd.)

### Capital Management (contd.)

#### 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.

The following table sets forth capital resources and capital adequacy for the Bank as at 31 December 2010.

	<b>Bank</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Tier 1 capital		
Paid-up share capital	3,078,724	3,078,724
Other reserves	3,789,822	4,051,809
Total Tier 1 capital	<u>6,686,546</u>	<u>7,130,533</u>
Tier 2 capital		
Governments grants and subsidies	672,502	868,114
General allowance for bad and doubtful debts	-	302,957
Collective assessment allowance #	650,975	-
Total Tier 2 capital	<u>1,323,477</u>	<u>1,171,071</u>
Total capital	8,192,023	8,301,604
Less: Investment in subsidiaries	<u>(930,296)</u>	<u>(930,296)</u>
Total capital base	<u>7,261,727</u>	<u>7,371,308</u>

# Excludes collective assessment allowance on impaired loans restricted from Tier 2 capital of the Bank by BNM of RM14,232,000.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 36. Capital adequacy (contd.)

### Capital Management (contd.)

#### Regulatory capital (contd.)

Breakdown of risk-weighted assets in the various categories of risk-weights:

	Bank	
	2010	2009
	RM'000	RM'000
10%	-	-
20%	817,460	451,818
50%	892,109	1,635,709
100%	20,228,154	21,280,036
	<u>21,937,723</u>	<u>23,367,563</u>

Without deducting proposed dividend:

	Bank	
	2010	2009
	RM'000	RM'000
	%	%
Core capital ratio	31.31	30.51
Risk-weighted capital adequacy ratio	<u>33.10</u>	<u>31.55</u>
After deducting proposed dividend:		
Core capital ratio	30.85	30.09
Risk-weighted capital adequacy ratio	<u>32.65</u>	<u>31.12</u>

#### 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.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 37. Other contingencies

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

	<b>Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Contingent liabilities not considered remote</b>		
<b>Litigation (unsecured)</b>		
A subsidiary is being sued by its client alleging for losses and damages arising from the non-performance breach of the bridging loan and financial guarantee. No defense is filed yet pending serving of the amended statement of claim.	15,196	15,196
A subsidiary is defending an action brought up by a client on negligence issue which has resulted in collateral being forfeited by the Government. Based on legal advice, the subsidiary has a fair chance in this case.	13,848	13,848
Litigation case against a subsidiary by a property developer who accuse that a property charged to one of the subsidiary's client was void. The same property has been used by the subsidiary's client as a collateral charged to the subsidiary. Therefore, the third party is claiming for the collateral from the subsidiary. The case was dismissed on 31 January 2011.	-	2,000
	<b>Bank</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
The Bank is defending an action brought up by a client on misrepresentation issue which has resulted in collateral being disposed without informing the client. During the year, the court has struck out the claim and no appeal was made by the client.	-	20,000



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 38. Related party transactions

The Bank's major transactions with its related companies consist mainly of extending credit facilities and giving of loans and advances. The Directors of the Bank are of the opinion that these transactions have been entered into in the normal course of business and have been established under negotiated basis. In addition to the transaction detailed elsewhere in the financial statements, the Group and the Bank has the following transactions with related parties during the financial year:

	Bank	
	2010 RM'000	2009 RM'000
Subsidiaries:		
Rental income from a subsidiary	513	453
Income from service level agreement	958	439
Building maintenance	-	540
	-	540

## 39. Companies in the group

(a) The subsidiaries, all incorporated in Malaysia, are as follows:

Name of the Company	Effective interest held by the Bank		Principal activities
	2010 %	2009 %	
Pembangunan Leasing Corporation Sdn Bhd	100.00	100.00	Lease, hire purchase financing, factoring, block discounting and investment holding
Maju Nominees (Tempatan) Sdn Bhd	100.00	100.00	Nominee for the holding company
BPF Properties Sdn Bhd*	100.00	100.00	Property investment
BPMB Urus Harta Sdn Bhd	100.00	100.00	Property investment
Pembangunan Ekuiti Sdn Bhd	54.80	54.80	Investment manager and provision of advisory, consultancy and related services pertaining to investments
Global Maritime Venture Berhad	90.00	90.00	Venture capital investment
Emerald Upline Sdn Bhd	100.00	100.00	Ship-owning

\* In members' voluntary liquidation

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 39. Companies in the group (contd.)

(b) Details of subsidiary companies of Global Maritime Ventures Berhad, all of which are incorporated in Malaysia, are as follows:

Name of the Company	Effective interest held by the Group		Principal activities
	2010 %	2009 %	
Mutiara Navigation Sdn Bhd	70.00	70.00	Ship-owning
Intan Navigation Sdn Bhd	70.00	70.00	Ship-owning
Nilam Navigation Sdn Bhd	70.00	70.00	Ship-owning
Kasa Navigation Sdn Bhd	70.00	70.00	Ship-owning
Mayang Navigation Sdn Bhd	70.00	70.00	Ship-owning
Sari Navigation Sdn Bhd	70.00	70.00	Ship-owning
Tiara Navigation Sdn Bhd	70.00	70.00	Dormant
Glory Incentive Sdn Bhd	100.00	100.00	Investment holding
GMV-ALAM Sdn Bhd (f.k.a. Synergy Sparkle Sdn Bhd)	100.00	100.00	Investment holding
GMV-Gagasan Sdn Bhd (f.k.a. Prestige Polar Sdn Bhd)	100.00	100.00	Investment holding
Tegas Senja Sdn Bhd1	-	100.00	Investment holding
GMV-Bahtera Sdn Bhd (f.k.a. Nilam Inisiatif Sdn Bhd)	100.00	100.00	Investment holding
GMV-Efogen Sdn Bhd (f.k.a. GMV-Orion Sdn Bhd)	100.00	100.00	Investment holding
GMV-Regional Sdn Bhd (f.k.a. Modular Majoriti Sdn Bhd)	100.00	100.00	Investment holding

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 39. Companies in the group (contd.)

- (b) Details of subsidiary companies of Global Maritime Ventures Berhad, all of which are incorporated in Malaysia, are as follows: (contd.)

Name of the Company	Effective interest held by the Group		Principal activities
	2010 %	2009 %	
GMV-Orkim Sdn Bhd (f.k.a. Megakey Ventures Sdn Bhd)	100.00	100.00	Investment holding
GMV-Offshore Sdn Bhd (f.k.a. Megan Metropolis Sdn Bhd)	100.00	100.00	Investment holding
GMV-Global Sdn Bhd (f.k.a. Oriental Point Sdn Bhd)	100.00	100.00	Investment holding
GMV-Jasa Sdn Bhd (f.k.a. Magna Jubilee Sdn Bhd)	100.00	100.00	Investment holding
GMV-Omni Sdn Bhd (f.k.a. Implikasi Hebat Sdn Bhd)	100.00	100.00	Investment holding
GMV-Borcoss Sdn Bhd (f.k.a. Exiwealth Resources Sdn Bhd)	100.00	100.00	Investment holding

<sup>1</sup> Tegas Senja Sdn Bhd has been struck off from the register of companies with effect from 4 August 2010, being the date of publication of the notice of striking off pursuant to Section 308(4) of the Companies Act, 1965 in the Gazette.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 39. Companies in the group (contd.)

(c) Details of subsidiary companies of Glory Incentive Sdn Bhd, all of which are incorporated in Malaysia, are as follows:

Name of the Company	Effective interest held by the Group		Principal activities
	2010 %	2009 %	
Permata Navigation Sdn Bhd	70.00	70.00	Ship-owning
Gemala Navigation Sdn Bhd	70.00	70.00	Ship-owning
Ratna Navigation Sdn Bhd	70.00	70.00	Ship-owning
Kencana Navigation Sdn Bhd	70.00	70.00	Ship-owning
Ayu Navigation Sdn Bhd	70.00	70.00	Dormant

(d) Details of subsidiaries of Pembangunan Leasing Corporation Sdn Bhd, which are incorporated in Malaysia, are as follows:

Name of the Company	Effective interest held by the Group		Principal activities
	2010 %	2009 %	
PLC Credit & Factoring Sdn Bhd	100.00	100.00	Hire purchase financing, confirming and factoring, insurance agency and letting out properties.
BI Credit & Leasing Berhad	100.00	100.00	Credit and leasing

(e) Details of a subsidiary company of BI Credit & Leasing Berhad, which is incorporated in Malaysia, are as follows:

Name of the Company	Effective interest held by the Group		Principal activities
	2010 %	2009 %	
KIB Nominee (Tempatan) Sdn Bhd	100.00	100.00	Nominee services

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 40. Assets held for sale

	Group	
	2010 RM'000	2009 RM'000
As at 1 January	79,402	-
Reclassified from property, plant and equipment	-	79,402
Disposed of during the year	(79,402)	-
As at 31 December	<u>-</u>	<u>79,402</u>

## 41. Financial instruments risk

### Financial risk management objectives and policies

The Group's financial risk management policies seek to enhance shareholder value. The Group focuses on the enterprise wide risk exposure, which include credit, market, liquidity and operation risk and seeks to minimise potential adverse effects on the financial performance of the Group.

As part of the Group's strategy to integrate the management and control of risks across the various risk segments, a dedicated function known as the Group Risk Management was established.

Financial risks management is carried out through risk assessment and reviews, internal control systems and adhered 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 arising from customers or counterparties failing to meet their financial contractual obligations. Management of credit risk is principally through lending directions and policies, which are instituted based on prevailing business and economic conditions. Credit processes are also structured to ensure adherence of credit policies and to establish impartiality in loan origination, approval, documentation, disbursement and settlement.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 *(continued)*

## 41. Financial instruments risk (contd.)

### (a) Credit risk (contd.)

The Group Risk Management is primarily involved in managing, enhancing asset quality, reviews concentration limits according to various categories such as customer and economic segment and monitoring credit portfolio risk. Industry risk is also evaluated and monitored, as dynamic changes in the economic environment has a direct impact on the Bank's assets quality.

The internal credit risk rating system is in place to measure the credit worthiness of each customer. The primary objectives are to provide a consistent approach in risk grading of the Group's borrowers and to measure the risk of default by borrowers objectively.

Internal single customer limit are regularly monitored to minimise the risk of over-concentration. The overall credit risk management is subject to an ongoing process for reviewing and enhancement.

Credit risk assessment and rating on loan applications are conducted before being approved by the approving authorities. Various credit committees have been established at the Bank and subsidiaries to approve loans. The respective credit committees have approving authority up to a specified limit.

Credit risk exposures are managed through a robust credit monitoring process. The process includes monitoring of risk profile of credit portfolio, where any changes in credit quality and significant movement in risk profile of credit portfolio are reported to the Risk Management Committee. Limits are also monitored to minimise undesirable concentration. In addition, credit review on existing loans 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. Meanwhile, audit is periodically performed to ensure that credit policies and procedure are complied with.

Collateral is taken whenever possible to mitigate the credit risk assumed. The value of the collateral is monitored periodically through frequent valuation. The main types of collateral taken by the Bank are fixed assets financed by the Bank which include plant, machinery and equipment, land and building and vessels. Policies and processes are in place to monitor collateral value.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 41. Financial instruments risk (contd.)

### (a) Credit risk (contd.)

#### (i) Credit exposure

	Note	Group 2010 RM'000	Bank 2010 RM'000
<b>On balance sheet:</b>			
Cash and short term deposits	3	3,832,993	3,084,990
Deposits and placements with banks and other financial institutions	4	238,302	238,256
Financial investments available-for-sale	5	1,852,455	1,846,263
Financial investments held-to-maturity	6	265,124	265,102
Amount due from MOF		1,191,733	1,191,733
Loans, advances and financing	7	21,435,096	21,321,719
Others		210,531	34,962
		<u>29,026,234</u>	<u>27,983,025</u>
Other assets not subject to credit risk		1,004,687	1,269,465
		<u>30,030,921</u>	<u>29,252,490</u>
<b>Off balance sheet:</b>			
Commitments	35(a)	5,542,371	5,195,231
		<u>35,573,292</u>	<u>34,447,721</u>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 41. Financial instruments risk (contd.)

#### (a) Credit risk (contd.)

(ii) The following table set out the credit risk concentration by economic sectors (contd.):

Group 2010	Short-term	Held-to maturity securities RM'000	Available- for-sale securities RM'000	Loans, advances and financing RM'000	Other assets RM'000	Total RM'000	Commitments and contingencies RM'000
	funds, and placements with financial institutions RM'000						
Agriculture, hunting & forestry	-	-	15,021	4,349	-	19,370	4,765
Construction	-	-	267,858	9,567,896	-	9,835,754	2,870,240
Diversified holdings	-	490	101,635	-	-	102,125	-
Education	-	-	-	255,977	-	255,977	137,281
Electrical & Electronics	-	-	-	-	-	-	-
Electricity, gas and water supply	-	-	-	3,182,008	-	3,182,008	91,936
Finance, Insurance & Business	4,071,295	-	125,710	49,381	1,191,733	5,438,119	-
Hotel and restaurants	-	-	-	639,612	-	639,612	280,338
Housing	-	-	-	23,016	-	23,016	-
Infrastructure & Utilities	-	168,915	528,183	-	-	697,098	-
Manufacturing	-	-	-	526,178	-	526,178	644,340
Marine Related	-	-	-	17	-	17	-
Materials Technology	-	-	-	18,398	-	18,398	-
Balance carried forward	4,071,295	169,405	1,038,407	14,266,832	1,191,733	20,737,672	4,028,900



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 41. Financial instruments risk (contd.)

#### (a) Credit risk (contd.)

Group (contd.) 2010	Short-term funds, and placements with financial institutions RM'000	Held-to maturity securities RM'000	Available- for-sale securities RM'000	Loans, advances and financing RM'000	Other assets RM'000	Total RM'000	Commitments and Contingencies RM'000
Balance brought forward	4,071,295	169,405	1,038,407	14,266,832	1,191,733	20,737,672	4,028,900
Medical & Pharmaceuticals	-	-	-	23,643	-	23,643	-
Mining & Quarrying	-	-	152,321	2,924	-	155,245	-
Other community, social and personal service activities	-	22	6,192	56,354	-	62,568	8,067
Production Engineering	-	-	-	13,487	-	13,487	26,700
Public administration and defence	-	95,697	40,471	41,351	-	177,519	24,278
Real estate, renting and business activities	-	-	97,072	1,117,355	-	1,214,427	37,162
Shipping	-	-	517,992	531,222	210,531	1,259,745	786,642
Shipyard	-	-	-	124,991	-	124,991	70,408
Transport, storage and communications	-	-	-	5,256,937	-	5,256,937	560,214
	4,071,295	265,124	1,852,455	21,435,096	1,402,264	29,026,234	5,542,371
Other assets not subject to credit risk	-	-	-	-	1,004,687	1,004,687	-
	4,071,295	265,124	1,852,455	21,435,096	2,406,951	30,030,921	5,542,371

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 41. Financial instruments risk (contd.)

#### (a) Credit risk (contd.)

(ii) The following table set out the credit risk concentration by economic sectors:

Bank 2010	Short-term funds, and placements with financial institutions RM'000	Held-to maturity securities RM'000	Available- for-sale securities RM'000	Loans, advances and financing RM'000	Other assets RM'000	Total RM'000	Commitments and Contingencies RM'000
Agriculture, hunting & forestry	-	-	15,021	3,573	-	18,594	4,765
Construction	-	-	267,858	9,562,225	-	9,830,083	2,870,240
Diversified holdings	-	490	101,635	-	-	102,125	-
Education	-	-	-	255,977	-	255,977	137,281
Electrical & Electronics	-	-	-	-	-	-	-
Electricity, gas and water supply	-	-	-	3,181,610	-	3,181,610	91,936
Finance, Insurance & Business	3,323,246	-	125,710	267,915	1,226,695	4,943,566	-
Hotel and restaurants	-	-	-	559,912	-	559,912	280,338
Housing	-	-	-	16,364	-	16,364	-
Infrastructure & Utilities	-	168,915	528,183	-	-	697,098	-
Manufacturing	-	-	-	454,696	-	454,696	644,340
Marine Related	-	-	-	17	-	17	-
Materials Technology	-	-	-	18,398	-	18,398	-
Balance carried forward	3,323,246	169,405	1,038,407	14,320,687	1,226,695	20,078,440	4,028,900

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 41. Financial instruments risk (contd.)

#### (a) Credit risk (contd.)

Bank (contd.) 2010	Short-term funds, and placements with financial institutions RM'000	Held-to maturity securities RM'000	Available- for-sale securities RM'000	Loans, advances and financing RM'000	Other assets RM'000	Total RM'000	Commitments and Contingencies RM'000
Balance brought forward	3,323,246	169,405	1,038,407	14,320,687	1,226,695	20,078,440	4,028,900
Medical & Pharmaceuticals	-	-	-	23,643	-	23,643	-
Mining & Quarrying	-	-	152,321	-	-	152,321	-
Other community, social and personal service activities	-	-	-	63,493	-	63,493	8,067
Production Engineering	-	-	-	13,487	-	13,487	26,700
Public administration and defence	-	95,697	40,471	41,351	-	177,519	24,278
Real estate, renting and business activities	-	-	97,072	1,117,355	-	1,214,427	37,163
Shipping	-	-	517,992	531,222	-	1,049,214	439,502
Shipyard	-	-	-	124,991	-	124,991	70,408
Trading	-	-	-	-	-	-	-
Transport, storage and communications	-	-	-	5,085,490	-	5,085,490	560,213
	3,323,246	265,102	1,846,263	21,321,719	1,226,695	27,983,025	5,195,231
Other assets not subject to credit risk	-	-	-	-	1,269,465	1,269,465	-
	3,323,246	265,102	1,846,263	21,321,719	2,496,160	29,252,490	5,195,231

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 41. Financial instruments risk (contd.)

### (a) Credit risk (contd.)

(iii) Gross loans are rated based on internal rating by the Bank:

Group 2010	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Total RM'000
Highest safety	7,470,038	-	-	7,470,038
Adequate safety	1,814,696	159	-	1,814,855
Moderate safety	4,520,281	203,472	-	4,723,753
Low safety	6,141,535	60,079	-	6,201,614
High risk	821,289	59,637	-	880,926
Very high risk	-	-	-	-
Impaired	-	-	2,866,659	2,866,659
	<u>20,767,839</u>	<u>323,347</u>	<u>2,866,659</u>	<u>23,957,845</u>

Bank 2010	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Total RM'000
Highest safety	7,742,033	-	-	7,742,033
Adequate safety	1,814,696	-	-	1,814,696
Moderate strategy	4,442,375	188,866	-	4,631,241
Low safety	5,972,542	15,434	-	5,987,976
High risk	816,374	50,640	-	867,014
Very high risk	-	-	-	-
Impaired	-	-	2,617,103	2,617,103
	<u>20,788,020</u>	<u>254,940</u>	<u>2,617,103</u>	<u>23,660,063</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 41. Financial instruments risk (contd.)

### (a) Credit risk (contd.)

#### (iv) Aging analysis of past due but not impaired and impaired loans, advances and financing

Analysis of loans and advances that are past due but not impaired based on the Group and Bank's internal credit rating system are as follows:

	<b>Group 2010 RM'000</b>	<b>Bank 2010 RM'000</b>
Impaired:		
0 months overdue	475,024	475,024
1 month overdue	95,211	95,211
2 months overdue	73,126	73,126
3 months overdue	117,969	117,969
> 3 months overdue	<u>2,105,329</u>	<u>1,855,773</u>
	<u>2,866,659</u>	<u>2,617,103</u>
Past due but not impaired:		
1 Month Overdue	106,591	83,234
2 Months Overdue	150,776	121,066
3 Months Overdue	<u>65,980</u>	<u>50,640</u>
	<u>323,347</u>	<u>254,940</u>

#### (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 should the customer is unable to repay the facility obtained from the Bank.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 41. Financial instruments risk (contd.)

### (a) Credit risk (contd.)

### (v) Collateral and credit enhancement for loans, advances and financing (contd.)

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 types and amounts held by the Group and the Bank are as follows:

2010				Estimated fair value of collateral RM'000
Group	Secured RM'000	Unsecured RM'000	Total RM'000	
Past due but not impaired	254,940	71,291	326,231	307,004
Impaired	2,230,154	636,505	2,866,659	2,129,419
	<u>2,485,094</u>	<u>707,796</u>	<u>3,192,890</u>	<u>2,436,423</u>
<b>Bank</b>				
Past due but not impaired	254,940	-	254,940	307,004
Impaired	2,103,252	513,851	2,617,103	2,129,419
	<u>2,358,192</u>	<u>513,851</u>	<u>2,872,043</u>	<u>2,436,423</u>

Estimated fair value of collateral for secured past due but not impaired and impaired loans, advances and financing:

2010			
Group	Properties, equipment and vessels RM'000	Cash RM'000	Total RM'000
Past due but not impaired	304,314	2,690	307,004
Impaired	2,119,786	9,633	2,129,419
	<u>2,424,100</u>	<u>12,323</u>	<u>2,436,423</u>
<b>Bank</b>			
Past due but not impaired	304,314	2,690	307,004
Impaired	2,119,786	9,633	2,129,419
	<u>2,424,100</u>	<u>12,323</u>	<u>2,436,423</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 41. Financial instruments risk (contd.)

### (a) Credit risk (contd.)

#### (vi) Restructured items

Restructured loans refers to the financial assets that would otherwise be past due or impaired where there is fundamental revision in the principal terms and conditions of the facility. 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 held by the Group and the Bank stood at RM9,341.6 million and RM9,341.6 million respectively.

#### (vii) Credit quality for treasury credit risk exposures

The table below shows treasury credit risk exposures by the current counterparties' rating:

	2010	
	Group RM'000	Bank RM'000
<u>Available-for-sale investment securities</u>		
Sovereign	40,471	40,471
AAA	189,273	189,273
AA	562,126	562,126
A	231,487	231,487
BBB	41,518	41,518
Non-rated	787,580	781,388
	<u>1,852,455</u>	<u>1,846,263</u>
<u>Held-to-maturity securities</u>		
Long term		
AAA	184,949	184,949
BBB	79,576	79,576
BB	577	577
Non-rated	22	-
	<u>265,124</u>	<u>265,102</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 41. Financial instruments risk (contd.)

### (b) Market risk

#### (i) Foreign exchange risk

The Group is exposed to foreign currency risk as a result of its borrowings made in currencies other than Ringgit Malaysia. The Group's policy in managing its 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:

Functional currency of the Group	Net financial assets/(liabilities) held in non-functional currencies	
	Ringgit Malaysia RM'000	Total RM'000
Euro (EUR)	(132,912)	(132,912)
Japanese Yen (JPY)	(974,110)	(974,110)
United states dollar (USD)	(27,752)	(27,752)
<b>Functional currency of the Bank</b>		
EUR	(132,912)	(132,912)
JPY	(974,110)	(974,110)

The table below show the Group 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 RM'000	Decrease in FX rate RM'000	Increase in FX rate RM'000	Decrease in FX rate RM'000
<b>Group</b>					
USD	10	(2,775)	2,775	(2,775)	2,775
EUR	10	27,676	40,968	27,676	40,968
JPY	10	(16,992)	(4,356)	(16,992)	(4,356)
<b>Bank</b>					
EUR	10	27,676	40,968	27,676	40,968
JPY	10	(16,992)	(4,356)	(16,992)	(4,356)



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 41. Financial instruments risk (contd.)

### (b) Market risk (contd.)

#### (ii) Interest rate risk

Interest rate risk is the impact to earnings and economic value of the Group due to fluctuations in interest rates.

Interest 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 rate risk management process which is conducted in accordance with the Group's policies as approved by the Board.

The Group may be exposed to a loss in earnings due to the interest rates structure of the balance sheet arising from interest rates and yield curves changes. The sensitivity to interest rates arises from the mismatches in the repricing rates, cash flows and other characteristic of the assets and their corresponding liability funding. The Group manages its interest rate risk exposure through the use of fixed/floating rate debts and financial instruments.

The table below show the Bank's net interest income sensitivity based on possible parallel shift in interest rate.

	Group		Bank	
	Impact on profit RM'000	Impact on equity RM'000	Impact on profit RM'000	Impact on equity RM'000
Interest rate - parallel shift				
+ 50 basis points	160,420	160,420	160,420	160,420
- 50 basis points	(160,420)	(160,420)	(160,420)	(160,420)

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 41. Financial instruments risk (contd.)

#### (b) Market risk (contd.)

#### (ii) Interest rate risk (contd.)

The table below summarises the Group's and Bank's exposure to interest rate risk. The table indicates effective average interest rates at the balance sheet date and the periods in which the financial instruments repriced or mature, whichever is earlier.

Group 2010	Non-trading book							Effective interest 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 sensitive RM'000	Total RM'000	
Assets								
Cash and short term deposits	3,764,254	-	-	-	-	68,739	3,832,993	3.03
Deposits and placements with financial institutions	-	188,284	-	50,000	18	-	238,302	3.07
Financial investments - available-for-sale ("AFS")	29,072	25,141	180,293	796,053	805,063	16,833	1,852,455	6.06
Financial investments - Held-to-maturity	-	-	90,357	90,169	5,000	79,598	265,124	5.59
Loans, advances and financing - non-impaired	1,083,338	31,745	1,198,536	6,062,661	12,713,883	-	21,090,163	7.01
- impaired *	-	-	-	-	-	344,933	344,933	-
Deferred tax assets	-	-	-	-	-	139,224	139,224	-
Other assets	5,600	1,387	4,673	1,039,163	2,441	419,582	1,472,846	-
Interest in jointly controlled entities	-	-	-	-	-	211,303	211,303	-
Property, plant and equipment	-	-	-	-	-	562,309	562,309	-
Prepaid land lease	-	-	-	-	-	3,801	3,801	-
Investment properties	-	-	-	-	-	17,468	17,468	-
<b>Total Assets</b>	<b>4,882,264</b>	<b>246,557</b>	<b>1,473,859</b>	<b>8,038,046</b>	<b>13,526,405</b>	<b>1,863,790</b>	<b>30,030,921</b>	

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 41. Financial instruments risk (contd.)

#### (b) Market risk (contd.)

#### (ii) Interest rate risk (contd.)

Group 2010 (contd.)	Non-trading book							Effective interest 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 sensitive RM'000	Total RM'000	
<b>Liabilities and Shareholders' Equity</b>								
Deposits from customers	2,796,343	3,730,571	930,712	-	-	-	7,457,626	3.17
Other liabilities	8,790	15,540	6,264	27,719	15,079	177,352	250,744	-
Redeemable notes	-	-	200,000	2,997,319	1,293,968	-	4,491,287	5.09
Term loans	77,342	102,361	207,543	2,691,903	6,822,509	-	9,901,658	4.57
Infrastructure support fund	-	-	-	-	-	380,294	380,294	-
Deferred income	-	-	-	-	-	292,208	292,208	-
Deferred tax liabilities	-	-	-	-	-	10,892	10,892	-
<b>Total Liabilities</b>	<b>2,882,475</b>	<b>3,848,472</b>	<b>1,344,519</b>	<b>5,716,941</b>	<b>8,131,556</b>	<b>860,746</b>	<b>22,784,709</b>	
Shareholders' equity	-	-	-	-	-	7,038,581	7,038,581	-
Minority interests	-	-	-	-	-	207,631	207,631	-
<b>Total Liabilities and Shareholders' Equity</b>	<b>2,882,475</b>	<b>3,848,472</b>	<b>1,344,519</b>	<b>5,716,941</b>	<b>8,131,556</b>	<b>8,106,958</b>	<b>30,030,921</b>	
On-balance sheet interest sensitivity gap	1,999,789	(3,601,915)	129,340	2,321,105	5,394,849	(6,243,168)	-	
Off-balance sheet interest sensitivity gap	-	-	-	-	-	-	-	
<b>Total interest sensitivity gap</b>	<b>1,999,789</b>	<b>(3,601,915)</b>	<b>129,340</b>	<b>2,321,105</b>	<b>5,394,849</b>	<b>(6,243,168)</b>	<b>-</b>	

\* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired loans.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 41. Financial instruments risk (contd.)

#### (b) Market risk (contd.)

#### (ii) Interest rate risk (contd.)

Group 2009	Assets	Non-trading book						Effective interest 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 sensitive RM'000		
	Cash and short term deposits	1,762,029	-	-	-	-	20,464	1,782,493	2.28
	Deposits and placements with financial institutions	-	202,554	4,028	50,000	18	-	256,600	4.91
	Financial investments - available-for-sale ("AFS")	9,299	14,996	95,386	836,636	1,207,651	19,873	2,183,841	6.05
	Financial investments - Held-to-maturity	-	-	4,022	101,414	84,785	232,811	423,032	5.56
	Loans, advances and financing - non-impaired	594,634	293,264	1,919,381	7,129,695	10,485,126	-	20,422,100	7.45
	- impaired #	-	-	-	-	-	(394,693)	(394,693)	-
	Other assets	1,088	1,223	2,748	1,074,591	2,845	713,938	1,796,433	3.50
	Investment in associates	-	-	-	-	-	978	978	-
	Investment in jointly controlled entities	-	-	-	-	-	177,992	177,992	-
	Property, plant and equipment	-	-	-	-	-	738,049	738,049	-
	Prepaid land lease	-	-	-	-	-	3,911	3,911	-
	Investment properties	-	-	-	-	-	17,866	17,866	-
	Asset classified as held for sale	-	-	-	-	-	79,402	79,402	-
	<b>Total Assets</b>	<b>2,367,050</b>	<b>512,037</b>	<b>2,025,565</b>	<b>9,192,336</b>	<b>11,780,425</b>	<b>1,610,591</b>	<b>27,488,004</b>	

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 41. Financial instruments risk (contd.)

#### (b) Market risk (contd.)

##### (ii) Interest rate risk (contd.)

Group	Non-trading book								Effective interest 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 sensitive RM'000	Total RM'000		
<b>2009 (contd.)</b>									
<b>Liabilities and Shareholders' Equity</b>									
Deposits from customers	3,371,114	3,856,337	1,005,455	-	-	-	8,232,906	2.36	
Other liabilities	8,770	11,217	7,957	1,836	21,256	139,556	190,592	-	
Redeemable notes	-	-	-	200,000	1,790,325	-	1,990,325	6.53	
Term loans	59,710	-	442,999	882,902	7,227,498	-	8,613,109	4.70	
Infrastructure support fund	-	-	-	-	-	715,882	715,882	-	
Deferred income	-	-	-	-	-	152,232	152,232	-	
Deferred tax liabilities	-	-	-	-	-	17,918	17,918	-	
<b>Total Liabilities</b>	<b>3,439,594</b>	<b>3,867,554</b>	<b>1,456,411</b>	<b>1,084,738</b>	<b>9,039,079</b>	<b>1,025,588</b>	<b>19,912,964</b>		
Shareholders' equity	-	-	-	-	-	7,342,621	7,342,621	-	
Minority interests	-	-	-	-	-	232,419	232,419	-	
<b>Total Liabilities and Shareholders' Equity</b>	<b>3,439,594</b>	<b>3,867,554</b>	<b>1,456,411</b>	<b>1,084,738</b>	<b>9,039,079</b>	<b>8,600,628</b>	<b>27,488,004</b>		
On-balance sheet interest sensitivity gap	(1,072,544)	(3,355,517)	569,154	8,107,598	2,741,346	(6,990,037)	-		
Off-balance sheet interest sensitivity gap	-	-	-	-	-	-	-		
<b>Total interest sensitivity gap</b>	<b>(1,072,544)</b>	<b>(3,355,517)</b>	<b>569,154</b>	<b>8,107,598</b>	<b>2,741,346</b>	<b>(6,990,037)</b>	<b>-</b>		

# This is arrived at after deducting general allowance and specific allowance from the outstanding gross non performing loans.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 41. Financial instruments risk (contd.)

#### (b) Market risk (contd.)

#### (ii) Interest rate risk (contd.)

Bank 2010	Non-trading book							Effective interest 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 sensitive RM'000	Total RM'000	
<b>Assets</b>								
Cash and short term deposits	3,058,925	-	-	-	-	26,065	3,084,990	3.07
Deposits and placements with financial institutions	-	188,256	-	50,000	-	-	238,256	3.07
Financial investments - available-for-sale ("AFS")	22,879	25,141	180,293	796,053	805,063	16,834	1,846,263	6.08
Financial investments - held-to-maturity	-	-	90,357	90,169	5,000	79,576	265,102	5.59
Loans, advances and financing - non-impaired	1,084,537	41,790	1,128,366	5,904,384	12,883,883	-	21,042,960	7.00
- impaired *	-	-	-	-	-	278,759	278,759	-
Deferred tax	-	-	-	-	-	139,224	139,224	-
Other assets	5,600	1,387	4,673	1,039,163	2,441	237,988	1,291,252	3.50
Investment in subsidiaries	-	-	-	-	-	930,296	930,296	-
Property, plant and equipment	-	-	-	-	-	123,497	123,497	-
Prepaid land lease	-	-	-	-	-	3,801	3,801	-
Investment properties	-	-	-	-	-	8,090	8,090	-
<b>Total Assets</b>	<b>4,171,941</b>	<b>256,574</b>	<b>1,403,689</b>	<b>7,879,769</b>	<b>13,696,387</b>	<b>1,844,130</b>	<b>29,252,490</b>	

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 41. Financial instruments risk (contd.)

#### (b) Market risk (contd.)

##### (ii) Interest rate risk (contd.)

Bank 2010 (contd.)	----- Non-trading book ----->						Effective interest 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 sensitive RM'000	
<b>Liabilities and Shareholders' Equity</b>							
Deposits from customers	2,796,343	3,730,571	930,712	-	-	-	3.17
Other liabilities	8,790	15,540	6,264	27,719	15,079	74,245	-
Redeemable notes	-	-	200,000	2,997,319	1,293,968	-	5.09
Term loans	77,342	102,361	207,543	2,597,043	6,630,603	-	4.67
Infrastructure support fund	-	-	-	-	-	380,924	-
Deferred income	-	-	-	-	-	292,208	-
<b>Total Liabilities</b>	<b>2,882,475</b>	<b>3,848,472</b>	<b>1,344,519</b>	<b>5,622,081</b>	<b>7,939,650</b>	<b>746,747</b>	<b>22,383,944</b>
Shareholders' equity	-	-	-	-	-	6,868,546	-
<b>Total Liabilities and Shareholders' Equity</b>	<b>2,882,475</b>	<b>3,848,472</b>	<b>1,344,519</b>	<b>5,622,081</b>	<b>7,939,650</b>	<b>7,615,293</b>	<b>29,252,490</b>
On-balance sheet interest sensitivity gap	1,289,466	(3,591,898)	59,170	2,257,688	5,756,737	(5,771,163)	-
Off-balance sheet interest sensitivity gap	-	-	-	-	-	-	-
<b>Total interest sensitivity gap</b>	<b>1,289,466</b>	<b>(3,591,898)</b>	<b>59,170</b>	<b>2,257,688</b>	<b>5,756,737</b>	<b>(5,771,163)</b>	<b>-</b>

\* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired loans.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 41. Financial instruments risk (contd.)

#### (b) Market risk (contd.)

#### (ii) Interest rate risk (contd.)

Bank 2009	Non-trading book							Effective interest 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 sensitive RM'000	Total RM'000	
<b>Assets</b>								
Cash and short term deposits	1,065,199	-	-	-	-	4,488	1,069,687	2.14
Deposits and placements with financial institutions	-	202,554	4,000	50,000	-	-	256,554	4.91
Financial investments - available-for-sale ("AFS")	9,299	14,996	95,386	836,636	1,207,634	16,954	2,180,905	6.06
Financial investments - held-to-maturity	-	-	4,022	101,414	84,785	232,811	423,032	5.56
Loans, advances and financing - non-impaired	594,984	302,912	1,849,164	7,040,221	10,489,406	-	20,276,687	7.43
- impaired #	-	-	-	-	-	(382,489)	(382,489)	-
Other assets	1,083	1,223	2,748	1,074,591	2,845	605,407	1,687,897	3.50
Investment in subsidiaries	-	-	-	-	-	930,296	930,296	-
Property, plant and equipment	-	-	-	-	-	131,654	131,654	-
Prepaid land lease	-	-	-	-	-	3,911	3,911	-
Investment properties	-	-	-	-	-	8,267	8,267	-
<b>Total Assets</b>	<b>1,670,565</b>	<b>521,685</b>	<b>1,955,320</b>	<b>9,102,862</b>	<b>11,784,670</b>	<b>1,551,299</b>	<b>26,586,401</b>	



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 41. Financial instruments risk (contd.)

#### (b) Market risk (contd.)

#### (ii) Interest rate risk (contd.)

Bank 2009 (contd.)	Non-trading book							Effective interest 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 sensitive RM'000	Total RM'000	
<b>Liabilities and Shareholders' Equity</b>								
Deposits from customers	3,371,114	3,856,337	1,005,455	-	-	-	8,232,906	2.36
Other liabilities	8,770	11,217	7,957	1,836	21,256	28,217	79,253	-
Redeemable notes	-	-	-	200,000	1,790,325	-	1,990,325	6.53
Term loans	59,710	-	442,999	733,256	7,010,936	-	8,246,901	4.82
Infrastructure support fund	-	-	-	-	-	715,882	715,882	-
Deferred income	-	-	-	-	-	152,232	152,232	-
Deferred tax liabilities	-	-	-	-	-	38,369	38,369	-
<b>Total Liabilities</b>	<b>3,439,594</b>	<b>3,867,554</b>	<b>1,456,411</b>	<b>935,092</b>	<b>8,822,517</b>	<b>934,700</b>	<b>19,455,868</b>	
Shareholders' equity	-	-	-	-	-	7,130,533	7,130,533	-
<b>Total Liabilities and Shareholders' Equity</b>	<b>3,439,594</b>	<b>3,867,554</b>	<b>1,456,411</b>	<b>935,092</b>	<b>8,822,517</b>	<b>8,065,233</b>	<b>26,586,401</b>	
On-balance sheet interest sensitivity gap	(1,769,029)	(3,345,869)	498,909	8,167,770	2,962,153	(6,513,934)	-	-
Off-balance sheet interest sensitivity gap	-	-	-	-	-	-	-	-
<b>Total interest sensitivity gap</b>	<b>(1,769,029)</b>	<b>(3,345,869)</b>	<b>498,909</b>	<b>8,167,770</b>	<b>2,962,153</b>	<b>(6,513,934)</b>	<b>-</b>	

# This is arrived at after deducting general allowance and specific allowance from the outstanding gross non performing loans.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 *(continued)*

## 41. Financial instruments risk (contd.)

### (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 manages its 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 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.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 41. Financial instruments risk (contd.)

#### (c) Liquidity risk (contd.)

The following table shows the maturity analysis of the Group's assets and liabilities based on remaining contractual maturities. The contractual maturity profile often does not reflect the actual behavioural patterns. In particular, the Bank has 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 Bank.

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	
<b>2010</b>							
<b>Assets</b>							
Cash and short term deposits	3,764,254	-	-	-	-	68,739	3,832,993
Deposits and placements with financial institutions	-	188,284	-	50,000	18	-	238,302
Financial investments - available-for-sale ("AFS")	34,439	25,000	180,000	794,350	823,727	-	1,857,516
Financial investments - Held-to-maturity	-	-	90,000	88,597	84,576	-	263,173
Loans, advances and financing	607,267	63,954	1,333,146	6,793,863	12,636,866	-	21,435,096
Other assets	5,600	1,387	4,673	1,171,050	2,441	419,582	1,604,733
<b>Total undiscounted financial assets</b>	<b>4,411,560</b>	<b>278,625</b>	<b>1,607,819</b>	<b>8,897,860</b>	<b>13,547,628</b>	<b>488,321</b>	<b>29,231,813</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 41. Financial instruments risk (contd.)

#### (c) Liquidity risk (contd.)

Group 2010	----- 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	
<b>Liabilities</b>							
Deposits from customers	2,796,343	3,730,571	930,712	-	-	-	7,457,626
Other liabilities	8,790	15,540	8,664	27,719	15,079	139,937	215,729
Redeemable notes	-	-	200,000	2,997,319	1,293,968	-	4,491,287
Term loans	77,342	102,361	207,543	2,691,903	6,822,509	-	9,901,658
<b>Total undiscounted financial liabilities</b>	<b>2,882,475</b>	<b>3,848,472</b>	<b>1,346,919</b>	<b>5,716,941</b>	<b>8,131,556</b>	<b>139,937</b>	<b>22,066,300</b>
<b>Net maturity mismatches</b>	<b>1,529,085</b>	<b>(3,569,847)</b>	<b>260,900</b>	<b>3,180,919</b>	<b>5,416,072</b>	<b>348,384</b>	<b>7,165,513</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 41. Financial instruments risk (contd.)

#### (c) Liquidity risk (contd.)

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		
<b>2010</b>								
<b>Assets</b>								
Cash and short term deposits	3,058,925	-	-	-	-	26,065	3,084,990	
Deposits and placements with financial institutions	-	188,256	-	50,000	-	-	238,256	
Financial investments - available-for-sale ("AFS")	28,246	25,000	180,000	794,350	823,727	-	1,851,323	
Financial investments - Held-to-maturity	-	-	90,000	88,576	84,576	-	263,152	
Loans, advances and financing	605,845	73,998	1,262,976	6,572,034	12,806,866	-	21,321,719	
Other assets	5,600	1,387	4,673	1,171,050	2,441	237,988	1,423,139	
<b>Total undiscounted financial assets</b>	<b>3,698,616</b>	<b>288,641</b>	<b>1,537,649</b>	<b>8,676,010</b>	<b>13,717,610</b>	<b>264,053</b>	<b>28,182,579</b>	

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

### 41. Financial instruments risk (contd.)

#### (c) Liquidity risk (contd.)

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	
<b>2010</b>							
<b>Liabilities</b>							
Deposits from customers	2,796,343	3,730,571	930,712	-	-	-	7,457,626
Other liabilities	8,790	15,540	6,264	27,719	15,079	40,830	114,222
Redeemable notes	-	-	200,000	2,997,319	1,293,968	-	4,491,287
Term loans	77,342	102,361	207,543	2,597,043	6,630,603	-	9,614,892
<b>Total undiscounted financial liabilities</b>	<b>2,882,475</b>	<b>3,848,472</b>	<b>1,344,519</b>	<b>5,622,081</b>	<b>7,939,650</b>	<b>40,830</b>	<b>21,678,027</b>
<b>Net maturity mismatches</b>	<b>816,141</b>	<b>(3,559,831)</b>	<b>193,130</b>	<b>3,053,929</b>	<b>5,777,960</b>	<b>223,223</b>	<b>6,504,552</b>

The Bank is subject to liquidity requirements to support calls under outstanding contingent liabilities and undrawn credit facility commitments as disclosed in Notes 35(a). These have been incorporated in the net off-balance sheet position for year ended 31 December 2010. The total outstanding contractual amounts of these items do not represent future cash requirements since the Bank expects many of these contingent liabilities and commitments (such as direct credit substitutes and undrawn credit facilities) to expire without being called or drawn upon, and many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

In the previous financial year, the Group and the Bank's disclosure on exposure to liquidity risk was based on discounted contractual terms whereas under the new FRS7 disclosure, the Group and the Bank's liquidity risk as at 31 December 2010 are based on contractual undiscounted repayment obligation.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 42. Fair values

Financial instruments comprise financial assets, financial liabilities and also off-balance sheet derivatives. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. The information presented herein represents best estimates of fair values of financial instruments at the balance sheet date.

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 judgements 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 amounts that the Group and the Bank could realise in a sale transaction at the balance sheet date. The fair value information presented herein should also in no way be construed as representative of the underlying value of the Group and the Bank as a going concern.

The on-balance sheet financial assets and financial liabilities of the Group and the Bank whose fair values are required to be disclosed in accordance with FRS132 comprise all its assets and liabilities with the exception of investments in subsidiaries, investments in associated companies, property, plant and equipment and provision for current and deferred taxation.

The estimated fair values of those on-balance sheet financial assets and financial liabilities as at the balance sheet date approximate their carrying amounts as shown in the balance sheets, except for the following financial assets and liabilities:

Group	2010		2009	
	Carrying Value RM'000	Carrying Fair Value RM'000	Carrying Value RM'000	Carrying Fair Value RM'000
<b>Financial Assets</b>				
Loans, advances and financing	<u>21,435,096</u>	<u>21,706,337</u>	<u>20,027,407</u>	<u>19,736,080</u>
<b>Financial liabilities</b>				
Redeemable notes	4,491,287	4,585,050	1,990,325	1,919,957
Term loans	<u>9,901,658</u>	<u>9,164,347</u>	<u>8,613,109</u>	<u>7,760,489</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 42. Fair values (contd.)

Bank	2010		2009	
	Carrying Value RM'000	Carrying Fair Value RM'000	Carrying Value RM'000	Carrying Fair Value RM'000
<b>Financial assets</b>				
Loans, advances and financing	21,321,719	21,598,951	19,894,198	19,661,375
<b>Financial liabilities</b>				
Redeemable notes	4,491,287	4,585,050	1,990,325	1,919,957
Term loans	9,614,892	8,877,581	8,246,901	7,394,281

The methods and assumptions used in estimating the fair values of other financial instruments are as follows:

### (a) Cash and Short-term Funds

The carrying amount approximates fair value due to the relatively short maturity of the financial instruments.

### (b) Deposits and Placements with Financial Institutions

The fair values of those financial instruments with remaining maturities of less than one year approximate their carrying values due to their relatively short maturities. For those financial instruments with maturities of more than one year, the fair values are estimated based on discounted cash flows using applicable prevailing market rates of similar remaining maturities at the balance sheet date.

### (c) Securities

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 net tangible assets.



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 *(continued)*

## 42. Fair values (contd.)

### (d) Loans, Advances and Financing

The fair values of variable and fixed rate loans with remaining maturity of less than one year are estimated to approximate their carrying values. For fixed rate loans and Islamic financing with maturities of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing rates at balance sheet date offered for similar loans to new borrowers with similar credit profiles, where applicable. In respect of Government infrastructure loans, the fair values are estimated after taking into account the Government compensation received on these loans. For non-performing loans, the fair values are deemed to approximate the carrying values, net of allowances for bad and doubtful debts and financing.

### (e) Deposits from Customers, Deposits and Placements of Banks and Other Financial Institutions

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.

### (f) Redeemable Notes

The fair values are estimated based on expected future cash flows of coupon and face value payments and discounted at their quoted bid prices at balance sheet date or prevailing rates at balance sheet date obtained for similar notes with similar maturities, where applicable.

### (g) Term Loans

The fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing rates at balance sheet date obtained for similar loans with similar maturities, where applicable.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 43. Islamic banking business

The state of affairs as at 31 December 2010 and results for the financial year ended on this date under the Islamic Banking business of the Group included in the Group financial statements are summarised as follows:

### Statements of financial position

#### As at 31 December 2010

	Note	Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Assets</b>					
Cash and short-term funds	(a)	466,985	13,174	455,969	5,717
Deposits and placements with financial institutions	(b)	188,256	2,554	188,256	2,554
Financial investments - available-for-sale ("AFS")	(c)	137,225	-	137,225	-
Advances and financing	(d)	2,458,745	2,061,171	2,458,744	2,061,171
Other assets	(e)	4,364	1,342	4,364	1,341
Deferred tax assets		1,298	-	1,298	-
<b>Total assets</b>		<b>3,256,873</b>	<b>2,078,241</b>	<b>3,245,856</b>	<b>2,070,783</b>
<b>Liabilities</b>					
Other liabilities	(f)	176,107	197,749	167,222	186,811
Deposit from customers		823,800	204,000	823,800	204,000
Long term advances		502,515	502,515	502,515	502,515
Redeemable notes		900,000	400,000	900,000	400,000
Deferred income		139,977	-	139,977	-
Islamic general fund		714,474	773,977	712,342	777,457
<b>Total liabilities and Islamic banking funds</b>		<b>3,256,873</b>	<b>2,078,241</b>	<b>3,245,856</b>	<b>2,070,783</b>
Commitments and contingencies	(n)	4,395,405	3,733,858	4,395,405	3,733,858

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 43. Islamic banking business (contd.)

	Note	Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Income statements for the financial year ended 31 December 2010</b>					
Income derived from investment of depositors' funds	(g)	28,259	1,902	28,259	1,902
Income derived from investment of shareholder's funds	(h)	162,460	161,442	161,349	163,221
Allowance for losses on financing and advances	(i)	(63,507)	(86,783)	(68,089)	(83,306)
Profit equalisation reserve		1,071	(1,071)	1,071	(1,071)
<b>Total distributable income</b>		<u>128,283</u>	<u>75,490</u>	<u>122,590</u>	<u>80,746</u>
Income attributable to the depositors	(j)	<u>(11,602)</u>	<u>(866)</u>	<u>(11,602)</u>	<u>(866)</u>
<b>Total net income</b>		<u>116,681</u>	<u>74,624</u>	<u>110,988</u>	<u>79,880</u>
Overhead expenses	(k)	(568)	(1,022)	(487)	(506)
Finance cost	(l)	<u>(35,894)</u>	<u>(22,800)</u>	<u>(35,894)</u>	<u>(22,800)</u>
Profit before taxation and Zakat		80,219	50,802	74,607	56,574
Taxation and Zakat	(m)	<u>(1,959)</u>	<u>(150)</u>	<u>(1,959)</u>	<u>(150)</u>
Profit after taxation and Zakat		78,260	50,652	72,648	56,424
Profit for the year		<u>78,260</u>	<u>50,652</u>	<u>72,648</u>	<u>56,424</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 43. Islamic banking business (contd.)

### Statements of comprehensive income For the financial year ended 31 December 2010

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Profit for the year	78,260	50,652	72,648	56,424
<b>Other comprehensive income</b>				
Net gain on revaluation of financial investments available-for-sale	(3,895)	-	(3,895)	-
<b>Other comprehensive income for the year, net of tax</b>	(3,895)	-	(3,895)	-
<b>Total comprehensive income for the year, net of tax</b>	<u>74,365</u>	<u>50,652</u>	<u>68,753</u>	<u>56,424</u>
<b>Total comprehensive income attributable to:</b>				
Shareholders of the Bank	74,365	50,652	68,753	56,424
Minority interests	-	-	-	-
	<u>74,365</u>	<u>50,652</u>	<u>68,753</u>	<u>56,424</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 43. Islamic banking business (contd.)

### Statements of changes in equity

	Capital funds RM'000	Unrealised holding reserve RM'000	Retained profits RM'000	Total RM'000
<b>Group</b>				
As at 1 January 2009	587,626	-	135,699	723,325
Net profit for the year	-	-	50,652	50,652
As at 31 December 2009, as previously stated	587,626	-	186,351	773,977
Effect of adopting FRS 139	-	-	(133,868)	(133,868)
At 1 January 2010, as restated	587,626	-	52,483	640,109
Net profit for the year	-	-	78,260	78,260
Other comprehensive income:				
Unrealised net loss on revaluation of financial investments available-for-sale	-	(3,895)	-	(3,895)
As at 31 December 2010	587,626	(3,895)	130,743	714,474
<b>Bank</b>				
As at 1 January 2009	597,400	-	123,633	721,033
Net profit for the year	-	-	56,424	56,424
As at 31 December 2009, as previously stated	597,400	-	180,057	777,457
Effect of adopting FRS 139	-	-	(133,868)	(133,868)
At 1 January 2010, as restated	597,400	-	46,189	643,589
Net profit for the year	-	-	72,648	72,648
Other comprehensive income:				
Unrealised net loss on revaluation of financial investments available-for-sale	-	(3,895)	-	(3,895)
As at 31 December 2010	597,400	(3,895)	118,837	712,342

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 43. Islamic banking business (contd.)

### Cash flow statements for the financial year ended 31 December 2010

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Cash flows from operating activities</b>				
Profit before tax and zakat	80,219	50,802	74,607	56,574
Adjustments for:				
Allowance for doubtful debts and financing	-	100,826	-	96,220
Allowance for doubtful debt and financing written back	-	(14,799)	-	(12,914)
Gain on sale of financial investments available-for-sale	(5,313)	-	(5,313)	-
Individual impairment allowance	65,728	-	62,018	-
Collective impairment allowance	6,071	-	6,071	-
Bad debts written off	-	2,129	-	-
Provision for zakat	(1,959)	-	(1,959)	-
Profit equalisation reserve	(1,071)	1,071	(1,071)	1,071
Operating profit before working capital changes	143,675	140,029	134,353	140,951
Changes in working capital:				
Other assets	(3,024)	6,270	(3,024)	6,269
Other liabilities	(23,231)	(804,928)	(17,468)	(800,605)
Deposits & placements with financial institutions	(185,702)	11,218	(185,702)	11,218
Deposit from customers	619,800	204,000	619,800	204,000
Advances and financing	(459,552)	316,635	(459,552)	311,176
Cash generated from operations	91,966	(126,776)	88,407	(126,991)
Zakat paid	-	-	-	-
Net cash generated/(used in) operating activities	91,966	(126,776)	88,407	(126,991)
<b>Cash flows from investing activities</b>				
Purchase of financial investments	(209,389)	-	(209,389)	-
Net cash used in investing activities	(209,389)	-	(209,389)	-

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 43. Islamic banking business (contd.)

### Cash flow statements for the financial year ended 31 December 2010 (contd.)

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Cash flows from financing activities</b>				
Proceeds from disposal/maturity financial investment	71,234	-	71,234	-
Proceeds of redeemable notes	500,000	-	500,000	-
Net cash generated from financing activity	571,234	-	571,234	-
<b>Cash and cash equivalents (Note A)</b>				
Net increase/(decrease) in cash and cash equivalents	453,811	(126,776)	450,252	(126,991)
Cash and cash equivalents at beginning of year	13,174	139,950	5,717	132,708
Cash and cash equivalents at end of year	466,985	13,174	455,969	5,717

#### (A) Cash and Cash Equivalents

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cash and short term funds	466,985	13,174	455,969	5,717

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 43. Islamic banking business (contd.)

### (a) Cash and short-term funds

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cash and bank balances with financial institutions	12,253	7,615	1,237	158
Money at call and deposit placements maturing within one months	454,732	5,559	454,732	5,559
	<u>466,985</u>	<u>13,174</u>	<u>455,969</u>	<u>5,717</u>

### (b) Deposits and placements with financial institutions

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Licensed banks	<u>188,256</u>	<u>2,554</u>	<u>188,256</u>	<u>2,554</u>

### (c) Financial investments - available-for sale ("AFS")

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>At fair value</b>				
Unquoted securities: (In Malaysia)				
Private debt securities	137,225	-	137,225	-
	<u>137,225</u>	<u>-</u>	<u>137,225</u>	<u>-</u>



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 43. Islamic banking business (contd.)

### (d) Advances and financing

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Bai Bithaman Ajil	285,626	231,580	253,475	200,695
Bai' Inah - BIN	172,799	157,236	172,799	157,236
Al-Ijarah	23,910	29,615	23,771	29,476
Bai'Istisna	4,333,656	3,090,999	4,333,656	3,090,999
Ijarah Muntahia				
Bitamalik - IJM	394,375	228,707	394,375	228,707
Bai' Murabahah - BAM	123,654	77,533	123,654	77,533
Murabahah Dayn	6,005	1,477	6,005	1,477
Bai' Dayn	1,894	-	1,894	-
Staff Loan	27,438	29,046	27,438	29,046
AITAB	567	578	-	-
Unearned income	(2,409,228)	(1,544,594)	(2,407,955)	(1,543,317)
Gross advances and financing	2,960,696	2,302,177	2,929,112	2,271,852
Allowance for impaired financing:				
- individual assessment allowance	(464,446)	-	(432,863)	-
- collective assessment allowance	(37,505)	-	(37,505)	-
- specific allowance	-	(209,822)	-	(179,497)
- general allowance	-	(31,184)	-	(31,184)
	(501,951)	(241,006)	(470,368)	(210,681)
Net advance and financing	2,458,745	2,061,171	2,458,744	2,061,171

(i) The maturity structure of the gross advances and financing are as follows:

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Receivable after 12 months	2,307,982	1,820,368	2,285,302	1,799,607
Receivable within 12 months	652,714	481,809	643,810	472,245
	2,960,696	2,302,177	2,929,112	2,271,852

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 43. Islamic banking business (contd.)

### (d) Advances and financing (contd.)

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

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Impaired financing</b>				
Balance as at 1 January				
- as previously stated	435,867	-	274,769	-
- effect of adopting FRS 139	157,771	-	157,771	-
At 1 January, as restated	593,638	352,108	432,540	149,390
Impaired during the year	189,611	128,680	189,611	125,379
Reclassified as non-impaired	-	(5,083)	-	-
Recovered during the year	(18,115)	(3,851)	(5,870)	-
Amount written off	(23,442)	(35,987)	-	-
Balance at end of year	741,692	435,867	616,281	274,769
 Ratio of gross impaired/ NPL to gross loans and financing	25.05%	18.93%	21.04%	12.09%

# Gross impaired financing as % of  
gross advances and  
financing as at 1 January  
2010, restated for the effect  
of adopting FRS 139.

25.79%

19.04%

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 43. Islamic banking business (contd.)

### (d) Advances and financing (contd.)

(iii) Movements in allowance for impaired financing advances and financing are as follows:

Individual Assessment Allowance	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Balance as at 1 January				
- as previously stated	209,822	-	179,497	-
- effect of adopting FRS 139	191,348	-	191,348	-
At 1 January, as restated	401,170	-	370,845	-
Allowance made during the year	65,728	-	62,018	-
Amount written back	(2,452)	-	-	-
Balance at end of year	464,446	-	432,863	-

Collective Assessment Allowance	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Balance as at 1 January				
- as previously stated		-		-
- effect of adopting FRS 139	31,434	-	31,434	-
At 1 January, as restated	31,434	-	31,434	-
Allowance made during the year	6,071	-	6,071	-
Balance at end of year	37,505	-	37,505	-

Specific allowance:	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Balance as at 1 January				
- as previously stated	209,822	110,670	179,497	83,277
- effect of adopting FRS 139	(209,822)	-	(179,497)	-
At 1 January, as restated	-	110,670	-	83,277
Allowance made during the year	-	100,826	-	96,220
Amount written back	-	(1,674)	-	-
Balance at end of year	-	209,822	-	179,497

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 43. Islamic banking business (contd.)

### (d) Advances and financing (contd.)

(iii) Movements in allowance for impaired financing advances and financing are as follows (contd.):

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>General allowance:</b>				
Balance as at 1 January				
- as previously stated	31,184	44,309	31,184	44,098
- effect of adopting FRS 139	(31,184)	-	(31,184)	-
At 1 January, as restated	-	44,309	-	44,098
Amount written back	-	(13,125)	-	(12,914)
Balance at end of year	-	31,184	-	31,184
As a % of gross loans, advances and financing less specific provisions	-	1.5%	-	1.5%

### (e) Other assets

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Other receivables	4,364	1,342	4,364	1,341

### (f) Other liabilities

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Other payables	169	391	-	-
Allowance for zakat	2,132	-	2,132	286
Accrued profit payable	14,012	4,982	14,012	4,982
Profit equalisation reserve	-	1,071	-	1,071
Inter divisions	159,794	191,305	151,078	180,472
	176,107	197,749	167,222	186,811

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 43. Islamic banking business (contd.)

### (g) Income derived from investment of depositors' funds

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Finance Income				
Financing and advances	27,446	1,835	27,446	1,835
Other income:				
- Fee income	813	67	813	67
	<u>28,259</u>	<u>1,902</u>	<u>28,259</u>	<u>1,902</u>

### (h) Income derived from investment of shareholders funds

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Finance Income</b>				
Financing and advances	128,060	145,291	126,953	147,070
Deferred income recognised	7,598	-	7,598	-
Deposit placement with financial institution	11,338	1,522	11,338	1,522
Financial investments:				
- available-for-sale	4,745	-	4,745	-
	<u>151,741</u>	<u>146,813</u>	<u>150,634</u>	<u>148,592</u>
Other income:				
Gain/(loss) on sale of:				
- financial investments available-for-sale	5,313	-	5,313	-
Fee income	5,406	14,629	5,402	14,629
	<u>162,460</u>	<u>161,442</u>	<u>161,349</u>	<u>163,221</u>
Of which:				
Interest income earned on impaired loans, advances and financing	<u>6,008</u>	<u>-</u>	<u>6,008</u>	<u>-</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 43. Islamic banking business (contd.)

### (i) Advances and financing loss and allowance

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Bad debts and financing written off	-	2,129	-	-
Bad debts recovered	(5,840)	(1,373)	-	-
Individual impairment allowance				
- made during the year	65,728	-	62,018	-
- written back	(2,452)	-	-	-
Specific allowance				
- made during the year	-	100,826	-	96,220
- written back	-	(1,674)	-	-
Collective assessment allowance				
- made during the year	6,071	-	6,071	-
General allowance				
- written back	-	(13,125)	-	(12,914)
	<u>63,507</u>	<u>86,783</u>	<u>68,089</u>	<u>83,306</u>

### (j) Income attributable to depositors

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Deposit from customers				
- Mudharabah Fund	<u>11,602</u>	<u>866</u>	<u>11,602</u>	<u>866</u>

### (k) Overhead expenses

	Note	Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Personnel costs	(i)	362	380	362	380
General administrative expenses	(ii)	<u>206</u>	<u>642</u>	<u>125</u>	<u>126</u>
		<u>568</u>	<u>1,022</u>	<u>487</u>	<u>506</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 43. Advances and financing loss and allowance

### (k) Overhead expenses (contd.)

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>(i) Personnel costs</b>				
Salaries, allowances and bonuses	268	295	268	295
Social security cost	2	2	2	2
Pension costs - Defined contribution plan	61	55	61	55
Other staff related expenses	31	28	31	28
	<u>362</u>	<u>380</u>	<u>362</u>	<u>380</u>
<b>(ii) General administrative expenses</b>				
General administrative expenses	206	642	125	126
	<u>206</u>	<u>642</u>	<u>125</u>	<u>126</u>

The above has been determined after charging amongst other items the following:

Shariah Committee's remuneration	<u>61</u>	<u>61</u>	<u>61</u>	<u>61</u>
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### (l) Finance cost

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Bonds and notes	<u>35,894</u>	<u>22,800</u>	<u>35,894</u>	<u>22,800</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2010 (continued)

## 43. Islamic banking business (contd.)

### (m) Taxation and zakat

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Zakat	<u>1,959</u>	<u>150</u>	<u>1,959</u>	<u>150</u>

### (n) Commitments and contingencies

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Disbursement of loans to industries	<u>4,395,405</u>	<u>3,733,858</u>	<u>4,395,405</u>	<u>3,733,858</u>
	<u>4,395,405</u>	<u>3,733,858</u>	<u>4,395,405</u>	<u>3,733,858</u>



# NOTE



NOTE



# R A T I O N A L E



## **BLUE SKY/WHITE CLOUDS BACKGROUND**

When joined with the Green Meadows foreground, the concept of "Al-samaawaati wal-Ardh" (Langit dan Bumi) is depicted. Bank Pembangunan operates in and on both environs created by Allah Subhanahu Wa-Ta'ala, creating opportunities for nation-building and the betterment of the Rakyat.

## **GREEN MEADOWS FOREGROUND**

In addition to the above, the Green Meadows foreground presents peace, harmony and a spirit of caring in the way Bank Pembangunan conducts its business. A 2-way mutual benefit for the Bank and its customers.

## **3 TREES – ASCENDING GROWTH IN A ROW**

Perhaps the most important message the cover projects is Bank Pembangunan's firm belief in stable and continuous sustainable growth. Bank Pembangunan not only provides financing, but also consultations and guidance, nurturing its customers toward healthy growth and prosperity.

## **SLOGAN:**

### **"CREATING POSSIBILITIES" (MENCIPTA KEMUNGKINAN)**

Bank Pembangunan helps to open doors, opportunities, for its customers both locally and abroad. This slogan is an affirmation of its commitment to work together with its customers through its network and government connections.

**BANK PEMBANGUNAN MALAYSIA BERHAD**

(16562-K)

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