



---

LEADING  
**SMEs**  
TOWARDS GREATER  
ACHIEVEMENTS

---

CORPORATE GOVERNANCE &  
FINANCIAL REPORT 2016

---





SME BANK

SME BANK

EXIM BANK

EXIM BANK

SME BANK



# STATEMENT OF CORPORATE GOVERNANCE

The Board of Directors of Small Medium Enterprise Development Bank Malaysia Berhad is committed to high standards of Corporate Governance and subscribes to Bank Negara Malaysia's Guidelines on Corporate Governance Standards on Directorship for Development Financial Institutions in achieving an optimal governance framework and maximising the shareholders value of the Bank.

## A. BOARD OF DIRECTORS

The Board is governed by nine (9) members consisting of one (1) Non-Executive Chairman, one (1) Non-Independent Executive Director who is the Bank's Group Managing Director, two (2) Non-Independent Non-Executive Directors representing Minister of Finance Incorporated (MOF) and Ministry of International Trade and Industry (MITI) and five (5) Independent Non-Executive Directors, however as at 31 December 2016, there were only eight (8) members due to their resignation of Y. Bhg. Dato' Abd Majid Kutiran (Non-Independent Non-Executive Director) who is the representative of Ministry of International Trade and Industry (MITI).

The diversity of the Directors' background from the fields of Management, Banking, Finance, Accounting, Legal, Entrepreneur Development and their accumulated experiences 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.

The Chairman and all the Directors are experts in their respective field and have contributed significantly to the Board's decision making process. The Group Managing Director executes the policies of the Board and manages the day-to-day affairs of the Bank.

The Board is responsible to ensure the effectiveness of the Bank's operations. This includes the responsibility of 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 of Directors meets at least once a month to monitor the Bank's overall performance and to discuss among others, matters relating to policies, strategies, performance, resources, overall conduct of the Bank's business and financial matters.

The appointment of the Chairman and all the Directors are in accordance to the Guidelines on Corporate Governance for DFIs and the Bank's Articles of Association.

## STATEMENT OF CORPORATE GOVERNANCE (cont'd)

The composition of the Board of Directors during the year 2016 is as follows:

Name of Director	Designation
1. Tan Sri Faizah Mohd Tahir	Non Executive Chairman
2. Datuk Mohd Radzif Mohd Yunus	Group Managing Director (Non-Independent Executive Director)
3. Encik Asri Hamidon	Non-Independent Non-Executive Director (representing MOF)
4. Dato' Abd Majid Kutiran	Non-Independent Non-Executive Director (representing MITI) (ceased w.e.f. 11 November 2016)
5. Dato' Adzmy Abdullah	Independent Non-Executive Director (ceased w.e.f. 1 February 2016)
6. Encik Ishak Ismail	Independent Non-Executive Director
7. Encik Khairuzzaman Muhammad	Independent Non-Executive Director
8. Dato' Jamelah Jamaluddin	Independent Non-Executive Director
9. Prof. Dr. Abdul Basir Mohamad	Independent Non-Executive Director
10. Dato' Mohd Shukri Hussin	Independent Non-Executive Director (appointed w.e.f. 1 May 2016)

For the year 2016, fifteen (15) meetings were held. The attendance record of the Board of Directors at the Board Meetings for 2016 is as follows:

Name of Director	No. of Meetings Attended
1. Tan Sri Faizah Mohd Tahir	15/15
2. Datuk Mohd Radzif Mohd Yunus	14/15
3. Encik Asri Hamidon	12/15
4. Dato' Abd Majid Kutiran	*13/13 (ceased w.e.f. 11 November 2016)
5. Dato' Adzmy Abdullah	*1/1 (ceased w.e.f. 1 February 2016)
6. Encik Ishak Ismail	15/15
7. Encik Khairuzzaman Muhammad	15/15
8. Dato' Jamelah Jamaluddin	15/15
9. Prof. Dr. Abdul Basir Mohamad	14/15
10. Dato' Mohd Shukri Hussin	9/9 (appointed w.e.f. 1 May 2016)

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

## STATEMENT OF CORPORATE GOVERNANCE (cont'd)

### 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 the Senior Management. Independent professional advice is also made available to Directors in furtherance to their duties in the event such services are required.

### C. TRAINING OF DIRECTORS

It is the Bank's practice that each new Director is given Board Kit and on-boarding session to brief on the Bank's history, operations and financial performance to enable them to have first hand understanding of the Bank's operations.

The members of the Board keep abreast with developments in the banking industry by attending conferences and seminars held in Malaysia and abroad.

The Bank also organise AMLA and talks of relevant topics and encourages Directors to attend talks, training programmes and seminars to update themselves on new developments in the business environment.

As at 31 December 2016, all Directors have attended the Financial Institutions Directors Education (FIDE) Program organized by The Iclif Leadership and Governance Centre.

### D. BOARD COMMITTEES

There are five Board Committees established to assist the Board in discharging of its duties and responsibilities, namely the Audit Committee (AC), Risk Management Committee (RMC), Nomination Committee (NC), Remuneration Committee (RC) and Asset Quality Review Committee (AQRC).

# NOMINATION COMMITTEE

## 1. OBJECTIVE

The primary objective of the Nomination Committee (NC) is to establish a documented, formal and transparent procedure for the appointment of Directors, Managing Director and Senior Management (Management Director and above) and to assess the effectiveness of individual Directors, the Board of Directors and the various committees of the Board, the Group Managing Director and Senior Management.

## 2. COMPOSITION, MEETING AND ATTENDANCE

During the financial year ended 31 December 2016, the NC held seven (7) meetings. The composition of the NC during the year 2016 and the attendance record of the Committee Members at the NC Meetings are as follows:

	Name of Director	Designation	No. of Meetings Attended
1.	Encik Ishak Ismail	Chairman / Independent Non-Executive Director (appointed as Chairman of NC w.e.f. 1 February 2016)	7/7
2.	Dato' Adzmy Abdullah	Chairman / Independent Non-Executive Director (ceased w.e.f. 1 February 2016)	* 1/1
3.	Encik Asri Hamidon	Member / Non-Independent Non-Executive Director	7/7
4.	Dato' Abd Majid Kutiran	Member / Non-Independent Non-Executive Director (ceased w.e.f. 11 November 2016)	* 6/6
5.	Datuk Mohd Radzif Mohd Yunus	Member / Non-Independent Executive Director	7/7
6.	Dato' Jamelah Jamaluddin	Member / Independent Non-Executive Director (appointed as Member of NC w.e.f. 1 February 2016)	6/6
7.	Prof. Dr. Abdul Basir Mohamad	Member / Independent Non-Executive Director (appointed as Member of NC w.e.f. 30 June 2016)	3/3

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

## NOMINATION COMMITTEE (cont'd)

### 3. FUNCTIONS AND RESPONSIBILITIES

The functions and responsibilities of the NC shall be:

- To carry out annual assessment in evaluating effectiveness of each individual directors, the Board as a whole, and the various committees of the Board, the Managing Director and Senior Management (Management Director and above);
- To carry out annual assessment on the overall composition of the Board in terms of the appropriate size, the balance between Executive Directors, Non-Executive Directors and Independent Directors, the mix of skills, experience and required core competencies within the Board of Directors;
- To recommend and assess the nominees for directorship, the Directors to fill up board committees, as well as nominees for the Managing Director position. This includes assessing Directors and the Managing Director proposed for reappointment, before an application is submitted to Bank Negara Malaysia;
- To assess 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 Managing Director;
- To recommend to the Board on removal of a Director/Managing Director if he is ineffective, errant or negligent in discharging his responsibilities;
- To oversee appointment, management succession planning and performance evaluation of Senior Management (Management Director and above), and recommending to the Board the removal of Senior Management (Management Director and above) if they are ineffective, errant and negligent in discharging their responsibilities;
- To ensure that members of the Board of Directors receive continuous training programmes.

# REMUNERATION COMMITTEE

## 1. OBJECTIVE

The primary objective of the Remuneration Committee (RC) is to provide a formal and transparent procedure for developing a remuneration policy for Directors, Managing Director and Senior Management (Management Director and above) and ensuring that compensation is competitive and consistent with the Bank's culture, objectives and strategy.

## 2. COMPOSITION, MEETING AND ATTENDANCE

During the financial year ended 31 December 2016, the RC held seven (7) meetings. The composition of the RC during the year 2016 and the attendance record of the Committee Members at the RC Meetings are as follows:

	Name of Director	Designation	No. of Meetings Attended
1.	Encik Khairuzzaman Muhammad	Chairman / Independent Non-Executive Director	7/7
2.	Encik Asri Hamidon	Member / Non-Independent Non-Executive Director	7/7
3.	Encik Ishak Ismail	Member / Independent Non-Executive Director (ceased as Member of RC w.e.f. 30 June 2016)	4/4
4.	Dato' Jamelah Jamaluddin	Member / Independent Non-Executive Director	7/7
5.	Dato' Abd Majid Kutiran	Member / Non-Independent Non-Executive Director (appointed w.e.f. Member on 30 June 2016) (ceased w.e.f. 11 November 2016)	*2/2

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

## 3. FUNCTIONS AND RESPONSIBILITIES

The functions and responsibilities of the RC are as follows:

- i. Recommending a framework of remuneration for Directors, Managing Director and Senior Management (Management Director and above). The remuneration policy should:
  - Be documented and approved by the full Board and any changes thereto should be subject to the endorsement of the full Board;
  - Reflect the experience and level of responsibility borne by individual Director, Managing Director and Senior Management (Management Director and above);
  - Be sufficient to attract and retain Directors, Managing Director and Senior Management (Management Director and above) of calibre needed to manage the Bank successfully; and
  - Be balanced against the need to ensure that the funds of the Bank are not used to subsidise excessive remuneration packages.
- ii. Recommending specific remuneration packages for Directors, Managing Director and Senior Management (Management Director and above). The Remuneration Packages should:
  - Be based on an objective consideration and approved by the Full Board;
  - Take due consideration of the assessments of the RC of the effectiveness and contribution of the Director, Managing Director or Senior Management (Management Director and above) concerned;
  - Not be decided by the exercise of sole discretion or any one individual or restricted group of individuals; and
  - Be competitive and is consistent with the Bank's culture, objective and strategy.
- iii. Endorsing any changes deemed necessary to the schemes, terms of services and new terms for Executives and Staff of SME Bank before submission to the Board of Directors for final approval.



# RISK MANAGEMENT COMMITTEE

## 1. OBJECTIVE

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

## 2. COMPOSITION, MEETING AND ATTENDANCE

During the financial year ended 31 December 2016, the RMC held seven (7) meetings. The composition of the RMC during the year 2016 and the attendance record of the Committee Members at the RMC Meetings are as follows:

	Name of Director	Designation	No. of Meetings Attended
1.	Dato' Jamelah Jamaluddin	Chairman / Independent Non-Executive Director	7/7
2.	Encik Asri Hamidon	Member / Non-Independent Non-Executive Director	4/7
3.	Encik Ishak Ismail	Member / Independent Non-Executive Director	7/7
4.	Encik Khairuzzaman Muhammad	Member / Independent Non-Executive Director	7/7
5.	Dato' Adzmy Abdullah	Member / Independent Non-Executive Director (ceased w.e.f. 1 February 2016)	* 1/1
6.	Dato' Mohd Shukri Hussin	Member / Independent Non-Executive Director (appointed as Member of RMC w.e.f. 30 June 2016)	4/4

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

## 3. FUNCTIONS AND RESPONSIBILITIES

The functions and responsibilities of the RMC shall be:

- Formulating strategies to manage the overall risks associated with SME Bank's activities;
- Recommending appropriate risk management policies, procedures and processes in key risk areas such as market risk, credit risk, investment risk and operational risk in line with the Bank's mandated role as a Developmental Bank;
- Reviewing the adequacy of Risk Management policies and systems and the extent to which these are operating effectively;
- Promoting an integrated approach to evaluate and monitor interrelated risks;
- Ensuring that the infrastructure, resources and systems are in place to identify, measure, monitor and control risks;
- Reviewing management's periodic information on risk exposures in relation to the Bank's risk tolerance and appetite and risk management activities;
- Formulating contingency plans i.e. business continuity plans for worst-case scenarios.

## RISK MANAGEMENT COMMITTEE (cont'd)

Additional Requirement as Specified in BNM Guidelines on Best Practices for the Management of Credit Risk for Development Financial Institutions (Effective from 1st January 2010)

- Review the adequacy of strategies to manage the overall credit risk associated with the Bank's activities;
- Oversee the formal development of credit policies within the Bank, encompassing all products and businesses, and ensuring the development of policy manual and procedures;
- Monitor, assess and advise on the credit risk portfolio composition of the Bank;
- Evaluate risks under stress scenarios and the capacity of the Bank's capital to sustain such risk;
- Assess the risk-return trade-off;
- Review reports of the credit review process, asset quality and ensure that corrective actions is taken; and
- Review and evaluate the various credit products engaged by the Bank to ensure that it is conducted within the standards and policies set by the Board.

# AUDIT COMMITTEE

## 1. OBJECTIVE

The objective of the Audit Committee (AC) shall be to review the financial condition of the Bank and its subsidiaries, its internal control, performance and findings of the internal auditors, and to recommend appropriate remedial action regularly.

## 2. COMPOSITION, MEETING AND ATTENDANCE

During the financial year ended 31 December 2016, the AC held seven (7) meetings. The composition of the AC during the year 2016 and the record of attendance of the Committee Members at the AC Meetings are as follows:

	Name of Director	Designation	No. of Meetings Attended
1.	Dato' Mohd Shukri Hussin	Chairman / Independent Non-Executive Director (appointed as Chairman of AC w.e.f. 30 June 2016)	4/4
2.	Encik Ishak Ismail	Chairman / Independent Non-Executive Director (ceased as Chairman of AC w.e.f. 30 June 2016)	7/7
3.	Dato' Adzmy Abdullah	Member / Independent Non-Executive Director (ceased w.e.f. 1 February 2016)	-
4.	Encik Asri Hamidon	Member / Non-Independent Non-Executive Director	5/7
5.	Encik Khairuzzaman Muhammad	Member / Independent Non-Executive Director	7/7
6.	Dato' Abd Majid Kutiran	Member / Non-Independent Non-Executive Director (ceased w.e.f. 11 November 2016)	*6/6
7.	Prof. Dr. Abdul Basir Mohamad	Member / Independent Non-Executive Director (appointed as Member of AC w.e.f. 30 June 2016)	4/4

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

## 3. FUNCTIONS AND RESPONSIBILITIES

The functions and responsibilities of the AC shall be:

- i. AC shall carry out and report on the following to the Board:-
  - a) Recommend to the Board on the appointment of the External Auditor, the fee and other matters pertaining to the resignation or termination or change of the External Auditor.
  - b) Review with the External Auditor on the following:-
    - Scope of the External Auditor's audit plan;
    - The system of internal accounting controls;
    - The External Auditor's audit reports;
    - The External Auditor's management letter and management's response; and
    - The assistance given by the Management and staff to the External Auditor.

## AUDIT COMMITTEE (cont'd)

- c) Carry out the following with regards to the internal audit function:
    - Review the adequacy of scope, functions and resources of the Group Audit Division and that it has the necessary authority to carry out its work.
    - Review and approve the internal audit plan, programme and processes.
    - Review audit reports and consider the adequacy of Management's internal auditors.
  - d) Receive and consider reports relating to the perpetration and prevention of fraud.
  - e) Review the Bank's compliance with the related government's regulations.
  - f) Review the half-yearly results and the year-end financial statements prior to approval by the Board.
  - g) With reference to the year-end financial statements, the External Auditor will conduct the presentation to AC with particular focus on the following:
    - Any changes in or implementation of major accounting policy changes.
    - Adequacy of provisions against contingencies, bad and doubtful debts.
    - Significant and unusual events.
    - Compliance with accounting standards and other legal requirements.
  - h) Ensure the prompt publication of annual accounts.
  - i) Discuss any problems and reservations arising from the interim and final audits, and any matter the External Auditor may wish to discuss (in the absence of Management where necessary).
  - j) 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.
  - k) Preparation of an AC report at the end of each financial year, which will be published in the Bank's annual report.
  - l) Report and endorse the status and progress of Management's response and corrective measures on issues raised in the BNM Examination Report, before it is tabled to the Board for approval.
- ii. AC shall also report on the following to the Board to enable the Board in preparing an AC Report for the Bank's annual report:
- The member composition of AC, including the name, designation and directorship of the members and whether the director is independent or otherwise.
  - The Terms of Reference of AC.
  - The number of AC meetings held in the financial year and details of attendance of each member.
  - A summary of the activities of AC in the discharge of its functions and duties for the financial year.
  - A summary of the activities of the Group Audit Division (GAD).
- iii. The AC shall update the Board on the issues and concerns discussed during its meetings including those raised by the External Auditor, and where appropriate, make the necessary recommendations to the Board.
- iv. The performance and contribution of AC shall be formally assessed by the Nomination Committee, as stipulated in BNM/RH/GL 005-14 and in line with the terms of reference of the NC. The NC shall report its recommendations relating to AC to the Board for decision.



# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## A. INTRODUCTION

The Board of Directors (Board) is responsible for the Group's risk management and internal control system and for reviewing its adequacy and integrity. The Board recognises that the practice of good governance is an important and continuous process and has established the Risk Management Committee (RMC), Audit Committee (AC) and Asset Quality Review Committee (AQRC) to ensure the maintenance of a sound system of internal controls and good risk management practices. For the purposes of this statement, associates are not dealt with as part of the Group, and are therefore not covered by this statement.

## B. RESPONSIBILITIES

The Board acknowledges its overall responsibility for the internal control environment and its effectiveness in safeguarding shareholder's interests and the Group's assets. The internal control measures are designed to manage rather than eliminate the risk of failure in the achievement of goals and objectives of the Group, and therefore only provide reasonable assurance and not absolute assurance, against material misstatement of management and financial information or against financial losses and fraud.

The system of internal control that is instituted throughout the Group is updated from time to time to align with the changes in the business environment as well as process improvement initiatives undertaken. The Board confirms that the Management of the Group responsibly implements the Board policies, procedures and guidelines on risks and controls via identifying and evaluating the risks faced, and the achievement of business objectives and strategies.

The Board is of the view that the risk management and internal control system in place for the year under review and up to the date of issuance of the financial statements is adequate and effective to safeguard the shareholder's investment, the interests of customers, regulators and employees, and the Group's assets.

## C. KEY INTERNAL CONTROL PROCESSES

The key internal control processes that are established in reviewing the adequacy and integrity of the system of internal controls are as follows:

### a) Risk Management Function

The organisational structure of the Group clearly demarcates the lines of accountability, authority limits and obligations in tandem with the business and operational requirements within the ambit of sustainable and robust control environment. Risk assessment and evaluation has been an integral part of the strategic planning cycle of the Group – ensuring timely and effective identification, measurement, mitigation and reporting of significant and emerging risks faced by the Group throughout the financial year under review.

The Board, via Risk Management Committee (RMC), drives the overall risk oversight agenda of the Group. The RMC, in discharging its roles and responsibilities, is supported by a number of Management Committees, namely Senior Management Committee (SMC) as well as Asset and Liability Committee (ALCO). These Management Committees are generally accountable for the effectiveness of the day-to-day risk measures and controls, in an effort to balance the Group's risk and return as well as maintain its competitive advantage.

The Group's Risk Management Function undertakes the implementation of an enterprise and integrated risk management approach in the business and support units in creating continuous risk awareness, understanding of procedures and controls and thus, enhancing the overall control environment. In establishing and reviewing the risk management and internal control system, the materiality of relevant risks, the likelihood of losses being incurred and the cost of control have been considered. Additionally, a robust Stress Testing Program, conducted on a quarterly and/or adhoc basis, is employed to assess the capability of the Group to continue functioning under varied adverse operational and market conditions. The results of the Stress Testing are used to evaluate the next course of actions in mitigating the emerging risks as well as to determine the appropriate policy responses.

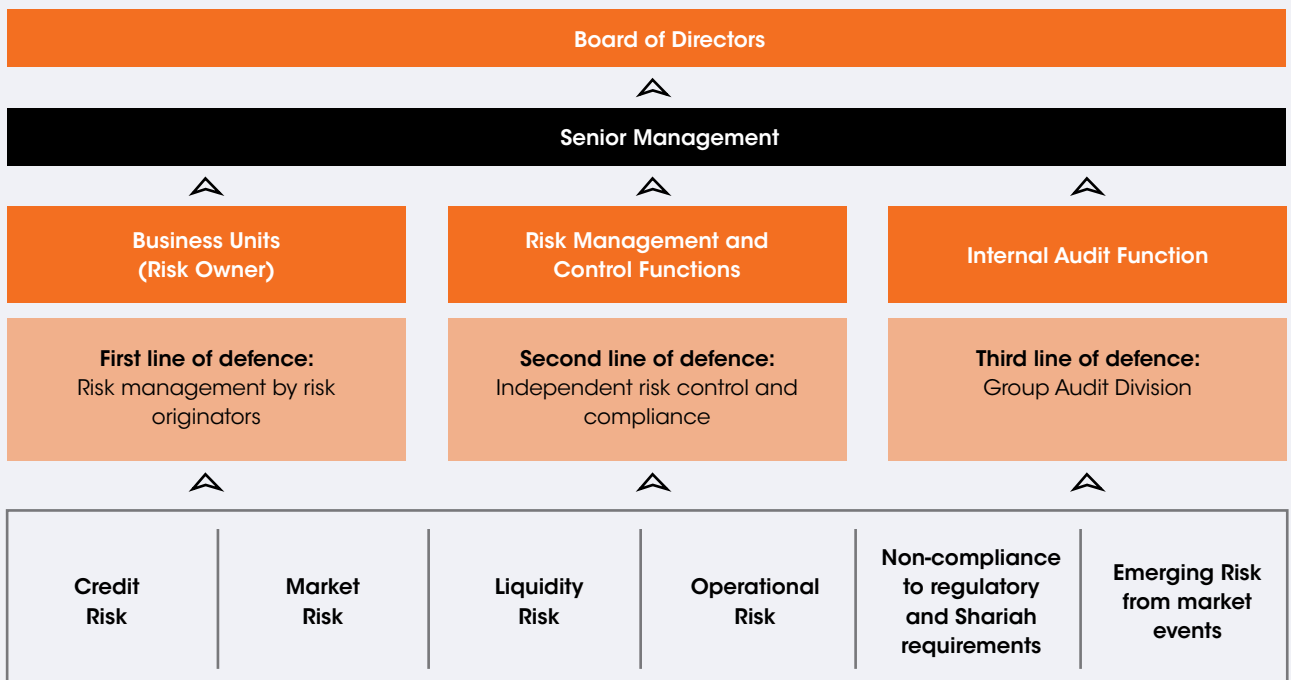
## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (cont'd)

In line with the Group's aspiration to become a Shariah-based Development Financial Institution, an internal guideline has been established to strengthen the management of potential Shariah Non-compliance risk arising from business activities and operations. Amongst others, key functions of Shariah Review, Shariah Risk and Shariah Audit are governed by clear roles and responsibilities, which were established in line with the Shariah Governance Framework and other regulatory requirements.

In order to manage fraud risk which may arise within the Group's operations, anti-fraud measures have been established to provide the Group with broad principles and strategies in order to promote higher standards of integrity. The internal guideline that has been established includes robust and comprehensive programs and controls in preventing and responding to fraud and fraud-related matters in a timely, effective and efficient manner as prescribed by the regulatory requirements.

Operationally, the Group manages the spectrum of risks associated to its banking operations via the Three Lines of Defence Approach i.e. risk taking functions (risk owners), risk management and control functions (including compliance functions) and internal audit functions. The First Level of Defence entails the responsibilities of risk owners (business and support units) in the day-to-day management of risks inherent in the various business and operational activities.

At the Second Level, the risk management and control functions (Group Compliance and Risk Management Division) perform the role of policy setting which includes the development of relevant tools and methodologies to identify, measure, mitigate and report significant and emerging risks brought about by the Group's business and operational activities. And thirdly, the internal audit functions (Group Audit Division) complements the functions of risk management and control by reviewing and evaluating significant exposures to risks and contributing towards the overall improvement of risk management and control system. The internal audit functions also provide, from an independent perspective, its assessment and assurance on the adequacy and effectiveness of the existing risk management policies and guidelines.



## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (cont'd)

### b) Compliance Function

Group Compliance Department (GCD) is established to provide oversight on the level of compliance in various risk taking functions in the Group which include compliance with operational, regulatory and Shariah requirements. The assessment on the level of compliance is further supported via the establishment of Compliance Program that includes advisory, communication, review exercise, self-assessment programme and training, aimed towards improving the Group's compliance culture.

Besides conducting compliance reviews on the areas identified within the Group, compliance self-assessment program is established to ensure that the risk taking functions are aware on the regulatory and Shariah requirements, thus improving the level of compliance within the Group. In addition to the self-assessment, GCD also provides advisory, training and engagement session to update and communicate compliance related matters within the Group.

### c) Internal Audit Function

The Group Audit Division (GAD) undertakes periodic reviews of the Group's business and operations to provide independent assurance to the Board that the risk management processes, system of internal controls and governance processes put in place by the Management are working effectively. The performance of the reviews is based on the annual Audit Plan approved by the Audit Committee (AC), which is derived from the annual risk assessment to identify critical areas to be audited. In formulating the audit plan, close reference is made to the relevant Bank Negara Malaysia (BNM) requirements to ensure regulatory compliance.

Audit observations on significant risks and non-compliances impacting the Group together with the recommended solutions are highlighted, discussed and followed-up with the stakeholders until resolution to ensure that the controls are effectively implemented to mitigate the risks. GAD carries out investigative audits where there are improper and dishonest acts reported/ suspected. Audits on the information systems of the Group are also conducted to ensure that the computing resources are adequately secured to protect the data integrity and confidentiality, and there are adequate measures to safeguard and to provide for the continued availability of the systems to support business operational needs.

The AC is a sub-committee of the Board and is chaired by an Independent Non-executive Director of the Board. The AC meets at a minimum, every quarter to deliberate on the internal audit reports and make recommendations to further strengthen the risk management system, system of internal controls and governance processes, where necessary. All AC's decisions and recommendations are duly cascaded down to the relevant stakeholders for actions and followed through until closure. AC Chairman's reports and Minutes of the AC meetings are subsequently tabled to the Board.

GAD continues to enhance its capabilities to ensure that it is able to provide the necessary assurance to the Board more effectively and efficiently. This is done through continuous improvements to its internal audit processes benchmarked against industry's standards, upskilling of the internal auditors through various internal and external trainings, certification of auditors and engagements with reputable third party service providers when undertaking specific audit assignments.

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (cont'd)

### d) Other Major Internal Controls

- Other Board Committees are also established to assist the Board to perform its oversight function namely Nomination Committee, Remuneration Committee and Asset Quality Review Committee. Specific responsibilities have been delegated to these Board Committees via formalised terms of reference.
- The Board receives regular reports from the Management on the key operating statistics, business dynamics, legal matters and regulatory issues. An annual business plan and a budget are submitted to the Board for approval. Actual performance is reviewed against the targeted results on periodic basis allowing timely response and corrective actions to be taken to mitigate risk. The Board also approves any changes or amendments to the Group's policies. The Group manages its human capital through rigorous recruitment process, training programs and performance appraisal system. Adequate policies and guidelines are in place for the recruitment, promotion and termination of staff.
- Establishment of the Group's Integrity Pledge Ethics is based on the following principles: observance of laws both in letter and in spirit; upholding the reputation of integrity throughout the Group; avoiding possible conflicts of interest; ensuring completeness and accuracy of relevant records; ensuring fair and equitable treatment of all customers; avoiding misuse of position and information and ensuring confidentiality of information and transactions.

### e) Assurance from Management

The Board has also received reasonable assurance from the Group Managing Director and Chief Operating Officer – Operations & Group Corporate Management that the Group's risk management and internal control system for the year ended 2016 is operating adequately and effectively, in all material respects, based on the risk management and internal control system of the Group.



# ASSET QUALITY REVIEW COMMITTEE

## 1. OBJECTIVE

The primary objective of Asset Quality Review Committee (AQRC) is to oversee the management and provide strategic direction with regard to the asset quality of the Bank.

## 2. COMPOSITION, MEETING AND ATTENDANCE

During the financial year ended 31 December 2016, the AQRC held seven (7) meetings. The composition of the AQRC during the year 2016 and the record of attendance of the Committee Members at the AQRC Meetings are as follows:

	Name of Director	Designation	No. of Meetings Attended
1.	Dato' Jamelah Jamaluddin	Chairman / Independent Non-Executive Director	7/7
2.	Encik Asri Hamidon	Member / Non-Independent Non-Executive Director (ceased as Member of AQRC w.e.f. 30 June 2016)	2/4
3.	Encik Ishak Ismail	Member / Independent Non-Executive Director	7/7
4.	Encik Khairuzzaman Muhammad	Member / Independent Non-Executive Director	7/7
5.	Dato' Abd Majid Kutiran	Member / Non-Independent Non-Executive Director (appointed as Member of AQRC w.e.f. 30 June 2016) (Ceased w.e.f. 11 November 2016)	*3/3
6.	Datuk Mohd Radzif Mohd Yunus	Member / Non-Independent Executive Director	5/7

## 3. FUNCTIONS AND RESPONSIBILITIES

The functions and responsibilities of the AQRC shall be:

- To determine and provide input on strategic direction on management of delinquent and impaired assets;
- To develop appropriate strategies in managing delinquent and impaired assets and to advise on appropriate recourse related thereto;
- To strategize on ways to improve/increase the financing assets;
- To take a forward view of the possibilities of future trends of impairment and delinquency and to deliberate on related issues; and
- To review the report of impaired accounts of AMC as well as the Interco financing status.

# SHARIAH COMMITTEE

SME Bank governed by Shariah Governance Framework (SGF) for Islamic Financial Institutions issued by BNM as a distinct feature in the organizational structure of the Bank, which includes establishment of the Shariah Committee (SC) in line with the requirement of Section 30(1) of the Islamic Financial Services Act (IFSA 2013).

## 1. COMPOSITION

As at 31 December 2016, the SC consist of (six) 6 members of diverse backgrounds in terms of qualification, experience and knowledge, including law and economics, so as to support the depth and breadth of the Shariah deliberations. The majority of members are scholars who have the qualification, expertise and experience in the areas of Shariah especially Islamic Jurisprudence (Usul al-Fiqh) and Islamic Commercial Law (Fiqh al-Muamalat).

## 2. COMPOSITION, MEETING AND ATTENDANCE

During the financial year ended 31 December 2016, the SC held ten (10) meetings. The composition of the SC during the year 2016 and the record of attendance of the Committee Members at the SC Meetings are as follows:

Name of Shariah Committee Members		Designation	No. of Meetings Attended
1.	Prof. Dr. Abdul Basir Mohamad	Chairman	10/10
2.	Dr. Asmak Ab Rahman	Member	10/10
3.	Prof. Dr. Norhashimah Mohd Yasin	Member	10/10
4.	Tuan Haji Jalil Haji Said	Member	10/10
5.	Dr. Yusof Ramli	Member	10/10
6.	Prof. Madya Dr. Ahmad Basri Ibrahim	Member	10/10

## 3. FUNCTIONS AND RESPONSIBILITIES

- The main role and function of the Committee is to advise and supervise the Islamic Banking Business. The Committee would also review and approve Shariah Compliance Review & Shariah Audit to be conducted.
- The Committee oversees the state of Shariah Governance of the Bank's Islamic Banking activities. The Committee should accord itself a high level of integrity that commands confidence of all in order to effectively discharge its role.

## 4. DUTIES AND RESPONSIBILITIES

The following are the main duties and responsibilities of the Shariah Committee:

- Provide advice to the Bank's Board of Directors and/or the Management on Shariah matters in order to ensure that at all times, the Islamic Banking Business of the Bank adhere with Shariah principles.
- Well informed of the latest development of Islamic Banking Business, regulatory changes affecting the Bank's business, the rulings made by the Shariah Advisory Council (SAC) and the changes in the latest Shariah research, ijtihaad, fatwas or finding.
- Advise the Bank to refer to the SAC of BNM on any Shariah matter that requires the SAC's endorsement.

## SHARIAH COMMITTEE (cont'd)

- Review and recommend the policies and procedures for the Bank's Islamic banking business and endorse all the operating manual and policy governing the Islamic Banking Business of the Bank including recommendation for revision, improvement and updates whenever necessary.
- To review and recommend the policies and guidelines to allow the Shariah Unit of the Bank to process and decide on submissions from divisions in the Bank.
- Review Shariah Risk Management Framework that is being supported by various tools such as Shariah Compliance Review and Shariah Audit functions in the Bank.
- The Committee members are expected to engage actively in deliberating Shariah issues presented. The Committee must have active participation through attending meetings, evaluating reports, reading minutes, and other mandated task.
- Ensure high standard in arriving at Shariah decision through proper and comprehensive Shariah ruling.
- Review and respond to proposals submitted for the Circular Resolution within seven (7) days after the proposals have been circulated.
- Portray professionalism in the best manner to reflect the integrity of the Committee.
- Ensure attendance of at least 75% of all meetings held in a year. Any Committee Member who does not meet the minimum requirement might be subjected to a review of his or her service.



# FINANCIAL STATEMENT

---

- 020** Directors' Report
  - 024** Statement by Directors
  - 024** Statutory Declaration
  - 025** Shariah Committee's Report
  - 026** Independent Auditors' Report
  - 029** Statements of Financial Position
  - 031** Statements of Comprehensive Income
  - 032** Statements of Changes in Equity
  - 034** Statements of Cash Flows
  - 036** Notes to the Financial Statements
-



# DIRECTORS' REPORT

## DIRECTORS' REPORT

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

## PRINCIPAL ACTIVITIES

The principal activities of the Bank are those of development banking, both Islamic and conventional and related financial services.

The information on the name, place of incorporation, principal activities and percentage of issued share capital held by the Bank in each subsidiaries and associate are disclosed in Note 11 and Note 12 to the financial statements respectively.

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

## FINANCIAL RESULTS

The result of the Group and of the Bank for the financial year are as follows:

	Group RM'000	Bank RM'000
Profit before tax expense and zakat:	71,461	66,930
Tax expense	(2,376)	1,115
Zakat	(5,793)	(5,793)
Net profit for the year	63,292	62,252
<b>Profit attributable to:</b>		
Owner of the Bank	63,292	62,252
Non-controlling interest	-	-
	63,292	62,252

There were no material transfers to or from reserves or provisions during the financial 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 except for the prior year adjustments as disclosed in Note 43 to the financial statements.

## DIRECTORS' REPORT

### DIVIDENDS

The amount of dividend paid by the Bank since 31 December 2015 was as follows:

In respect of the financial year ended 31 December 2015, a final single-tier dividend of 0.50 sen per share on 1,350,000,000 ordinary shares, amounting to a dividend payable of RM6,750,000 which was approved and declared at the Annual General Meeting held on 30 June 2016, and paid on 11 July 2016.

At the forthcoming Annual General Meeting, a final single-tier dividend in respect of the financial year ended 31 December 2016 of 1.2 sen per share on 1,350,000,000 ordinary shares, amounting to a dividend payable of RM16,200,000 will be proposed for the shareholder's 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 appropriate of retained earnings in the financial year ending 31 December 2017.

### DIRECTORS

The directors of the Bank in office during the financial year and during the period from the end of the financial year to the date of this report are:

Y.Bhg. Tan Sri Faizah binti Mohd Tahir (Chairman)  
 Y.Bhg. Dato' Abd Majid bin Kutiran (ceased on 11 November 2016 )  
 En. Asri bin Hamidin @ Hamidon  
 En. Ishak bin Ismail  
 En. Khairuzzaman Muhammad  
 Y.Bhg. Dato' Jamelah binti Jamaluddin  
 Y.Bhg. Datuk Mohd Radzif bin Mohd Yunus  
 Y.Bhg. Prof. Dr. Abdul Basir bin Mohamad  
 Y.Bhg. Dato' Mohd Shukri bin Hussin (appointed on 1 May 2016)  
 Y.Bhg. Dato' Adzmy bin Abdullah (ceased on 1 February 2016)

### DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the directors of the Bank has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emolument received or due and receivable by the director as disclosed in Note 30 to the financial statements 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 the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

During and at the end of the financial year, no arrangement subsisted to which the Bank is a party whereby directors of the Bank might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

## DIRECTORS' REPORT

### DIRECTORS' INTERESTS

According to the register of directors' shareholdings, none of the directors in office as at 31 December 2016 had any interest in the ordinary shares of the Bank and of its related corporations during the financial year.

### OTHER STATUTORY INFORMATION

- (a) Before the statements of financial position and statements of profit or loss and other comprehensive income 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 value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Bank inadequate to any substantial extent; and
  - (ii) the values attributed to the current assets in the financial statements of the Group and of the Bank misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Bank which would render any amount stated in the financial statements misleading.
- (e) At the date of this report, there does not exist:
- (i) any charge on the assets of the Group or of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability of the Group or of the Bank which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Bank to meet their obligations 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 in which this report is made.

## DIRECTORS' REPORT

### SIGNIFICANT EVENT

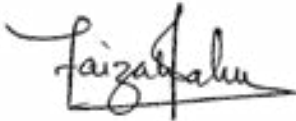
Ministry of Finance (MOF) vide its letter dated 7 September 2016, had approved in principle the conversion of the long term borrowing granted by the Government of Malaysia to the Bank amounting to RM500.0 million into the share capital of the Bank. This conversion will not only assist the Bank to improve its capital adequacy requirements but also to increase the Bank's financing capacity in meeting the needs of the unserved and underserved market.

The conversion was subsequently approved by the Parliament of Malaysia on 24 November 2016 and the Bank expects the conversion to be completed by the first half of year 2017.

### Auditors

The auditors, Messrs. Deloitte PLT have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 25 April 2017.



Tan Sri Faizah binti Mohd Tahir



Datuk Mohd Radzif bin Mohd Yunus

Kuala Lumpur, Malaysia

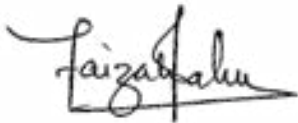


# STATEMENT BY DIRECTORS

Pursuant to Section 169(5) of the Companies Act, 1965

We, Tan Sri Faizah binti Mohd Tahir and Datuk Mohd Radzif bin Mohd Yunus, being two of the Directors of Small Medium Enterprise Development Bank Malaysia Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 14 to 198 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2016 and of their financial performance and cash flow for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 25 April 2017.



Tan Sri Faizah binti Mohd Tahir



Datuk Mohd Radzif bin Mohd Yunus

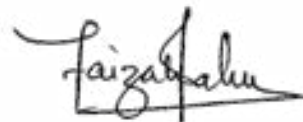
Kuala Lumpur, Malaysia

# STATUTORY DECLARATION

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

We, Tan Sri Faizah binti Mohd Tahir and Datuk Mohd Radzif bin Mohd Yunus, being the Director and Managing Director respectively, primarily responsible for the financial management of Small Medium Enterprise Development Malaysia Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 14 to 198 in our opinion 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 April 2017



Tan Sri Faizah binti Mohd Tahir



Datuk Mohd Radzif bin Mohd Yunus

Before me,



# SHARIAH COMMITTEE'S REPORT

Pursuant to Section 169(5) of the Companies Act, 1965

In the Name of Allah, The Compassionate, The Most Merciful

We have reviewed the principles and the contracts relating to the transactions and applications introduced by Small Medium Enterprise Development Bank Malaysia Berhad (the Bank) during the financial year ended 31 December 2016. We have also conducted our review to form an opinion as to whether the Bank has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia (BNM), as well as Shariah decisions made by us.

The management of the Bank is responsible for ensuring that the conducts of all its Islamic Banking operations are in accordance with Shariah principles. It is our responsibility to form an independent opinion, based on our review of the Islamic Banking operations of the Bank, and to report to you.

We had ten (10) meetings during the financial year, in which we reviewed inter alia products, transactions, services, processes and documents of the Bank. In performing our roles and responsibilities, we had obtained all the information and explanations which we considered necessary in order to provide us with sufficient evidences to give reasonable assurance that the Bank has complied with the Shariah rules and principles. We have assessed the Shariah review and Shariah audit report based on the approved annual plan by us. The outcomes of the reports were deliberated in our meetings to confirm that the Bank has complied with the applicable Shariah principles as well as the relevant resolutions and rulings issued by the Shariah Advisory Council of BNM.

In our opinion:

- i) The contracts, transactions and dealings of Islamic Banking products entered into by the Bank during the financial year ended 31 December 2016 that we have reviewed are in compliance with the Shariah principles; and
- ii) The calculation and distribution of zakat is in compliance with Shariah principles.

We, Prof Dr. Abdul Basir bin Mohamad and Dr. Asmak bt Ab Rahman, being two of the members of the Shariah Committee of the Bank, do hereby confirm on behalf of the members of the Shariah Committee that, in our level best, the Islamic Banking operations of the Bank for the financial year ended 31 December 2016 have been conducted in conformity with the Shariah principles.

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

On behalf of the Committee:



**Prof Dr. Abdul Basir bin Mohamad**  
Chairman of the Committee



**Dr. Asmak bt Ab Rahman**  
Member of the Committee

Kuala Lumpur, Malaysia  
25 April 2017.

# INDEPENDENT AUDITORS' REPORT

to the member of Small Medium Enterprise Development Bank Malaysia Berhad (Incorporated in Malaysia)

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### OPINION

We have audited the financial statements of SMALL MEDIUM ENTERPRISE DEVELOPMENT BANK MALAYSIA BERHAD, which comprise the statements of financial position of the Group and of the Bank as of 31 December 2016, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 14 to 198.

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

### BASIS FOR OPINION

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

### INDEPENDENCE AND OTHER ETHICAL RESPONSIBILITIES

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

### INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITORS' REPORT THEREON

The directors are responsible for the other information. The other information comprise the information included in the Directors' Report, Shariah Committee's Report and Annual Report but do not include the financial statements of the Group and of the Bank and our auditors' report thereon.

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

In connection with our audit of the financial statements of the Group and of the Bank, our responsibility is to read the Directors' Report, Shariah Committee's Report and Annual Report and, in doing so, consider whether the Directors' Report, Shariah Committee's Report and Annual Report are materially inconsistent with the financial statements of the Group and of the Bank or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

### RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

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

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

## INDEPENDENT AUDITORS' REPORT

### AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

- (a) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and of the Bank's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- (d) Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Bank to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Bank to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with the relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## INDEPENDENT AUDITORS' REPORT

### 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 of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and auditor's report of the subsidiary of which we have not acted as auditors, which are indicated in Note 11 to the financial statements, being financial statements that have been included in the consolidated financial statements.
- (c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) Our audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

#### Other Matters

- 1. This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.
- 2. The financial statements of the Group and of the Bank for the preceding financial year were audited by another firm of auditors and are presented here merely for comparative purpose. The report issued by the predecessor auditors, which was dated 24 June 2016, expressed an unmodified opinion.



DELOITTE PLT (LLP0010145-LCA)  
Chartered Accountants (AF 0080)



SITI HAJAR OSMAN  
Partner - 03061/04/2019 (J)  
Chartered Accountant

25 April 2017

# STATEMENTS OF FINANCIAL POSITION

As at 31 December 2016

		As at 31 December 2016 RM'000	Group As at 31 December 2015 RM'000 Restated	As at 1 January 2015 RM'000 Restated
	Note			
<b>ASSETS</b>				
Cash and short term funds	4	841,897	1,255,803	1,289,069
Deposits and placements with banks and other financial institutions	5	228,005	180,952	651,266
Available-for-sale financial investments	6	1,914,922	1,926,395	1,804,660
Held-to-maturity financial investments	7	616,832	639,798	641,423
Loans, advances and financing	8	6,227,528	5,638,375	5,193,564
Other assets	9	40,402	34,975	45,956
Derivative asset	10	-	1,442	-
Investments in associates	12	4,170	4,523	4,840
Property, plant and equipment	13	151,728	150,954	138,913
Investment properties	14	358,170	324,614	305,226
Intangible assets	15	8,021	11,917	17,841
Tax recoverable		23,933	21,040	13,560
Deferred tax assets	16	155,086	159,479	174,339
<b>TOTAL ASSETS</b>		<b>10,570,694</b>	<b>10,350,267</b>	<b>10,280,657</b>
<b>LIABILITIES</b>				
Deposits from customers	17	3,548,257	3,024,907	3,483,781
Deposits from other financial institutions	18	200,302	345,396	336,201
Obligations on securities sold under repurchase agreements	19	-	254,300	-
Derivative financial liability	10	1,117	-	-
Medium term note	20	1,519,795	1,519,789	1,520,160
Borrowing	21	2,683,818	2,775,523	2,731,781
Other liabilities	22	869,399	775,061	582,907
Government funds	23	305,044	284,841	288,142
<b>TOTAL LIABILITIES</b>		<b>9,127,732</b>	<b>8,979,817</b>	<b>8,942,972</b>
<b>EQUITY</b>				
Share capital	24	1,350,000	1,350,000	1,350,000
Retained earnings		119,526	62,984	29,297
Other reserves	25	(26,564)	(42,534)	(41,612)
<b>TOTAL EQUITY</b>		<b>1,442,962</b>	<b>1,370,450</b>	<b>1,337,685</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>10,570,694</b>	<b>10,350,267</b>	<b>10,280,657</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	35	<b>1,446,898</b>	<b>1,450,502</b>	<b>1,290,518</b>

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



## STATEMENTS OF FINANCIAL POSITION

As at 31 December 2016 (cont'd)

		As at 31 December 2016 RM'000	Bank As at 31 December 2015 RM'000 Restated	As at 1 January 2015 RM'000 Restated
	Note			
<b>ASSETS</b>				
Cash and short term funds	4	827,988	1,249,356	1,287,765
Deposits and placements with banks and other financial institutions	5	228,005	180,952	651,266
Available-for-sale financial investments	6	1,914,922	1,926,395	1,804,660
Held-to-maturity financial investments	7	616,832	639,798	641,423
Loans, advances and financing	8	5,779,024	5,155,012	4,683,563
Other assets	9	583,531	572,131	558,746
Derivative asset	10	-	1,442	-
Investments in subsidiaries	11	3,582	3,582	3,582
Investments in associate	12	-	-	-
Property, plant and equipment	13	151,653	150,879	138,874
Investment properties	14	358,170	324,614	305,226
Intangible assets	15	7,806	11,487	17,397
Tax recoverable		24,208	20,972	13,498
Deferred tax assets	16	155,086	159,479	174,339
<b>TOTAL ASSETS</b>		<b>10,650,807</b>	<b>10,396,099</b>	<b>10,280,339</b>
<b>LIABILITIES</b>				
Deposits from customers	17	3,624,860	3,049,913	3,483,781
Deposits from other financial institutions	18	200,302	345,396	336,201
Obligations on securities sold under repurchase agreements	19	-	254,300	-
Derivative financial liability	10	1,117	-	-
Medium term note	20	1,519,795	1,519,789	1,520,160
Borrowing	21	2,683,818	2,775,523	2,731,781
Other liabilities	22	883,763	805,701	586,955
Government funds	23	305,044	284,841	288,142
<b>TOTAL LIABILITIES</b>		<b>9,218,699</b>	<b>9,035,463</b>	<b>8,947,020</b>
<b>EQUITY</b>				
Share capital	24	1,350,000	1,350,000	1,350,000
Retained earnings		108,672	53,170	24,931
Other reserves	25	(26,564)	(42,534)	(41,612)
<b>TOTAL EQUITY</b>		<b>1,432,108</b>	<b>1,360,636</b>	<b>1,333,319</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>10,650,807</b>	<b>10,396,099</b>	<b>10,280,339</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	35	<b>1,446,898</b>	<b>1,450,502</b>	<b>1,290,518</b>

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

# STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2016

	Note	Group		Bank	
		2016 RM'000	2015 RM'000 Restated	2016 RM'000	2015 RM'000 Restated
Interest income	26	44,877	50,830	32,551	42,125
Interest expense	27	(67,915)	(65,122)	(67,915)	(65,122)
<b>Net interest expense</b>		(23,038)	(14,292)	(35,364)	(22,997)
Gross income from Islamic banking business	41	323,931	278,843	335,899	292,363
Other operating income	28	17,166	13,105	12,998	11,249
<b>Net income</b>		318,059	277,656	313,533	280,615
Other operating expenses	29	(201,001)	(200,320)	(203,376)	(206,423)
<b>Operating profit</b>		117,058	77,336	110,157	74,192
Writeback/(Allowance) for impairment loss:					
- loans, advances and financing	31	(45,244)	(22,585)	(43,227)	(26,174)
- available-for-sale financial investments	32	-	297	-	297
		71,814	55,048	66,930	48,315
Share of loss after tax of associates	12	(353)	(317)	-	-
<b>Profit before tax expense and zakat</b>		71,461	54,731	66,930	48,315
Tax (expense)/credit	33	(2,376)	(15,264)	1,115	(14,296)
Zakat	33	(5,793)	(2,000)	(5,793)	(2,000)
<b>Profit for the year</b>		63,292	37,467	62,252	32,019
<b>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent year</b>					
Unrealised gain/(loss) on revaluation of available-for-sale financial investments		21,507	(307)	21,507	(307)
Income tax relating to components of other comprehensive income	16	(5,537)	(615)	(5,537)	(615)
<b>Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent year</b>		15,970	(922)	15,970	(922)
<b>Total comprehensive income for the year, net of tax</b>		79,262	36,545	78,222	31,097
Profit for the year attributable to the owner of the Bank		63,292	37,467	62,252	32,019
Total comprehensive income attributable to the owner of the Bank		79,262	36,545	78,222	31,097
Profit per share attributable to the owner of the Bank(sen) - Basic	34	4.69	2.78	4.61	2.37

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

# STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2016

Group	← Attributable to the Owner of the Bank →				Total equity RM'000
	Share capital RM'000	Non-distributable available-for-sale reserve RM'000	Distributable general reserve RM'000	(Accumulated losses)/ Retained earnings RM'000	
<b>As 1 January 2016, as previously stated</b>	1,350,000	(52,648)	10,114	(52,465)	1,255,001
Prior year adjustments (Note 43)	-	-	-	115,449	115,449
<b>As 1 January 2016, as restated</b>	1,350,000	(52,648)	10,114	62,984	1,370,450
Unrealised gain on revaluation of available-for-sale financial investments	-	15,970	-	-	15,970
Profit for the year	-	-	-	63,292	63,292
Total comprehensive income for the year	-	15,970	-	63,292	79,262
Transaction with owner:					
Dividends (Note 40)	-	-	-	(6,750)	(6,750)
<b>At 31 December 2016</b>	1,350,000	(36,678)	10,114	119,526	1,442,962
<b>As 1 January 2015, as previously stated</b>	1,350,000	(51,726)	10,114	(87,962)	1,220,426
Prior year adjustments (Note 43)	-	-	-	117,259	117,259
<b>As 1 January 2015, as restated</b>	1,350,000	(51,726)	10,114	29,297	1,337,685
Unrealised loss on revaluation of available-for-sale financial investments	-	(922)	-	-	(922)
Profit for the year:					
As previously stated	-	-	-	39,277	39,277
Prior year adjustments (Note 43)	-	-	-	(1,810)	(1,810)
As restated	-	-	-	37,467	37,467
Total comprehensive income for the year	-	(922)	-	37,467	36,545
Transaction with owner:					
Dividends (Note 40)	-	-	-	(3,780)	(3,780)
<b>At 31 December 2015</b>	1,350,000	(52,648)	10,114	62,984	1,370,450

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

## STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2016 (cont'd)

Bank	Attributable to the Owner of the Bank				Total equity RM'000
	Share capital RM'000	Non-distributable available-for-sale reserve RM'000	Distributable general reserve RM'000	(Accumulated losses)/ Retained earnings RM'000	
<b>As 1 January 2016, as previously stated</b>	1,350,000	(52,648)	10,114	(62,279)	1,245,187
Prior year adjustments (Note 43)	-	-	-	115,449	115,449
<b>As 1 January 2016, as restated</b>	1,350,000	(52,648)	10,114	53,170	1,360,636
Unrealised gain on revaluation of available-for-sale financial investments	-	15,970	-	-	15,970
Profit for the year	-	-	-	62,252	62,252
Total comprehensive income for the year	-	15,970	-	62,252	78,222
Transaction with owner:					
Dividends (Note 40)	-	-	-	(6,750)	(6,750)
<b>At 31 December 2016</b>	1,350,000	(36,678)	10,114	108,672	1,432,108
<b>As 1 January 2015, as previously stated</b>	1,350,000	(51,726)	10,114	(92,328)	1,216,060
Prior year adjustments (Note 43)	-	-	-	117,259	117,259
<b>As 1 January 2015, as restated</b>	1,350,000	(51,726)	10,114	24,931	1,333,319
Unrealised loss on revaluation of available-for-sale financial investments	-	(922)	-	-	(922)
Profit for the year:					
As previously stated	-	-	-	33,829	33,829
Prior year adjustments (Note 43)	-	-	-	(1,810)	(1,810)
As restated	-	-	-	32,019	32,019
Total comprehensive income for the year	-	(922)	-	32,019	31,097
Transaction with owner:					
Dividends (Note 40)	-	-	-	(3,780)	(3,780)
<b>At 31 December 2015</b>	1,350,000	(52,648)	10,114	53,170	1,360,636

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

# STATEMENTS OF CASH FLOWS

For the financial year ended 31 December 2016

	Group		Bank	
	2016 RM'000	2015 RM'000 Restated	2016 RM'000	2015 RM'000 Restated
Cash flows from / (used in) operating activities				
Profit before tax expense and zakat	71,461	54,731	66,930	48,315
Adjustments for:				
Allowance for impairment loss on loans, advances and financing	77,086	46,345	75,068	49,935
Writeback for impairment loss on available for sale financial investments	-	(297)	-	(297)
Depreciation of property, plant and equipment	10,097	8,737	10,064	8,719
Amortisation of intangible assets	4,283	6,085	4,068	5,919
Loans, advances and financing waived	1,186	-	1,186	-
Allowance for impairment loss on amount due from subsidiaries	-	-	906	-
Property, plant and equipment written off	862	1	862	1
Gain on disposal of property, plant and equipment	(225)	-	(225)	-
Dividend income from associate and unquoted shares	(906)	-	(906)	-
Government funds released	(3,528)	(3,550)	(3,528)	(3,550)
Share of loss of associates	353	317	-	-
Fair value adjustment	(33,367)	(19,388)	(33,367)	(19,388)
Operating profit before working capital changes	127,302	92,981	121,058	89,654
Changes in working capital:				
Other assets	(5,581)	(15,199)	(12,460)	(39,209)
Loans, advances and financing	(663,695)	(545,927)	(696,535)	(576,152)
Deposits and placements with banks and other financial institutions	(47,053)	519,907	(47,053)	519,907
Deposits from customers	524,417	(435,949)	576,013	(410,943)
Deposits from other financial institutions	(145,094)	953	(145,094)	953
Obligations on securities sold under repurchase agreements	(254,300)	254,106	(254,300)	254,106
Derivative assets	995	(1,111)	995	(1,111)
Other liabilities	92,748	190,713	76,472	217,920
Cash (used in)/generated from operating activities	(370,261)	60,474	(380,904)	55,125
Tax paid	(6,413)	(5,759)	(3,265)	(5,759)
Zakat paid	(4,203)	(1,934)	(4,203)	(1,934)
Net cash (used in)/from operating activities	(380,877)	52,781	(388,372)	47,432

## STATEMENTS OF CASH FLOWS

For the financial year ended 31 December 2016 (cont'd)

	Group		Bank	
	2016 RM'000	2015 RM'000 Restated	2016 RM'000	2015 RM'000 Restated
<b>Cash flows from/(used in) investing activities</b>				
Purchase of bonds	(240,314)	(351,455)	(240,314)	(351,455)
Purchase of islamic commercial paper	(103,000)	(19,160)	(103,000)	(19,160)
Purchase of property, plant and equipment	(11,734)	(20,810)	(11,701)	(20,756)
Proceeds from disposal of property, plant and equipment	226	-	226	-
Purchase of investment properties	(189)	-	(189)	-
Purchase of intangible assets	(387)	(161)	(387)	(9)
Proceeds from redemption of bond	400,824	280,438	400,824	280,438
Net cash from/(used in) investing activities	45,426	(111,148)	45,459	(110,942)
<b>Cash flows from/(used in) financing activities</b>				
Dividends paid on ordinary shares	(6,750)	(3,780)	(6,750)	(3,780)
Drawdown of term loans	94,670	70,000	94,670	70,000
Repayment of term loans	(186,375)	(41,119)	(186,375)	(41,119)
Proceed from government grant	20,000	-	20,000	-
Net cash (used in)/from financing activities	(78,455)	25,101	(78,455)	25,101
<b>Net decrease in cash and cash equivalents</b>	(413,906)	(33,266)	(421,368)	(38,409)
<b>Cash and cash equivalents at beginning of year</b>	1,255,803	1,289,069	1,249,356	1,287,765
<b>Cash and cash equivalents at end of year</b>	841,897	1,255,803	827,988	1,249,356
<b>Cash and cash equivalents comprise:</b>				
- Cash and short term funds (Note 4)	841,897	1,255,803	827,988	1,249,356

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



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

## 1. Corporate information

Small Medium Enterprise Development Bank Malaysia Berhad (the Bank) is a public limited liability company, incorporated and domiciled in Malaysia.

The registered office and principal place of business of the Bank is at Level 22, Menara SME Bank, Jalan Sultan Ismail, 50250 Kuala Lumpur.

The immediate and ultimate holding company of the Bank during the financial year is Ministry of Finance Incorporated.

The Bank is principally engaged in development banking, both Islamic and conventional and related financial services.

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

The principal activities of the subsidiaries and associate are described in Note 11 and Note 12, respectively.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 25 April 2017.

## 2. Summary of significant accounting policies

### 2.1 Statement of compliance and basis of preparation

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

The financial statements of the Group and of the Bank are presented in Ringgit Malaysia (RM) and values are rounded to the nearest thousand (RM'000) except when otherwise stated.

The financial statements of the Group and of the Bank have been prepared under the historical cost convention unless otherwise indicated in the summary of significant accounting policies below. The Group and the Bank present the statements of financial position in order of liquidity.

### 2.2 Changes in accounting policies

#### Adoption of New and Revised MFRSs and Amendments

In the current year, the Group and the Bank have adopted a number of new and revised Standards and Amendments issued by the Malaysian Accounting Standards Board (MASB) that are relevant to their operations and effective for accounting period that begins on or after 1 January 2016.

MFRS 14	Regulatory Deferral Accounts
Amendment to MFRS 10	Sales or Contribution of Assets between an Investor and its Associate of Joint Venture and MFRS 128
Amendment to MFRS 10,	Investment Entities: Applying the Consolidation Exception MFRS 12 and MFRS 128
Amendment to MFRS 11	Accounting for Acquisition of Interest in Joint Operations
Amendment to MFRS 101	Disclosure initiative
MFRS 116 and MFRS 138	Clarification of Acceptable Methods of Depreciation and Amortisation
MFRS 127	Equity Method in Separate Financial Statements
Amendment to MFRSs	Annual Improvements to MFRSs 2012-2014 Cycle

The application of the amendments has had no impact on the disclosures or amounts recognised in the Group's and the Bank's financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

## 2. Summary of significant accounting policies (cont'd)

### 2.3 New and Revised Standards, Amendments and Issues Committee Interpretations (IC Interpretations) In Issue But Not Effective

At the date of authorisation for issue of these financial statements, the new and revised Standards, Amendments and IC Interpretations relevant to the operations of the Group and the Bank which were in issue but not yet effective and not early adopted by the Bank are as listed below:

MFRS 9	Financial Instruments (IFRS 9 issued by IASB in July 2014) <sup>2</sup>
MFRS 15	Revenue from Contracts with Customers (and the related Clarification) <sup>2</sup>
Amendment to MFRS 2	Classification and Measurement of Share-based Payment Transactions 2
MFRS 4	Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contract <sup>2</sup>
MFRS 16	Leases <sup>3</sup>
MFRS 107	Disclosures Initiative <sup>1</sup>
MFRS 112	Recognition of Deferred Tax Assets for Unrealised Loss <sup>1</sup>
MFRS 140	Transfer of Investment Properties <sup>2</sup>
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration <sup>2</sup>
MFRSs	Annual Improvements to MFRSs 2014 - 2016 Cycle <sup>1</sup> or <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2018

The directors anticipate that the abovementioned Standards, Amendments and IC Interpretations will be adopted in the annual financial statements of the Group and of the Bank when they become effective and that the adoption of these Standards, Amendments and IC Interpretations will have no material impact on the financial statements of the Group and of the Bank in the period of initial application, except for as discussed below:

#### MFRS 9 Financial Instruments

In November 2014, Malaysian Accounting Standards Board (MASB) issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

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

Key requirements of MFRS 9:

- All recognised financial assets that are within the scope of MFRS 139 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under MFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of equity instrument (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 2. Summary of significant accounting policies (cont'd)

#### 2.3 New and Revised Standards, Amendments and Issues Committee Interpretations (IC Interpretations) In Issue But Not Effective (cont'd)

##### MFRS 9 Financial Instruments (cont'd)

Key requirements of MFRS 9: (cont'd)

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, MFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under MFRS 139, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, MFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under MFRS 139. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at the end of each reporting period to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in MFRS 139. Under MFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an economic relationship. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors anticipate that the application of MFRS 9 in the future may have significant impact on amounts reported in respect of the Group's and of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of MFRS 9 until a detailed review has been completed.

##### MFRS 16 Leases

MFRS 16 specifies how an MFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with MFRS 16's approach to lessor accounting substantially unchanged from its predecessor, MFRS 117.

At lease commencement, a lessee will recognise a right-of-use asset and a lease liability. The right-of use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessees shall use their incremental borrowing rate.

The directors anticipate that the application of MFRS 16 in the future may have an impact on the amounts reported and disclosures made in the Group's and the Bank's financial statements. However, it is not practicable to provide a reasonable estimate of the effect of MFRS 16 until the Group and the Bank perform a detailed review.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 2. Summary of significant accounting policies (cont'd)

#### 2.3 New and Revised Standards, Amendments and Issues Committee Interpretations (IC Interpretations) In Issue But Not Effective (cont'd)

##### Amendments to MFRS 107 Disclosure Initiative

The amendments to MFRS 107 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from both cash flows and non-cash changes.

The amendments should be applied prospectively and comparative information is not required for earlier periods presented. Except for providing the requisite disclosures, the directors do not anticipate that the application of the amendments will have a material impact on the Group's and the Bank's financial statements.

##### Amendments to MFRS 112 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments to MFRS 112 provide clarification on the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value. In addition, the amendments also clarify that the carrying amount of an asset does not limit the estimation of probable future taxable profits and that when comparing deductible temporary differences with future taxable profits, the future taxable profits excludes tax deductions resulting from the reversal of those deductible temporary differences.

The amendments should be applied retrospectively with specific transitional relief. The directors do not anticipate that the application of the amendments will have a material impact on the Group's and the Bank's financial statements.

##### IC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The amendments apply to annual periods beginning on or after 1 January 2018 with earlier application permitted. A choice is available as to whether the amendments are to be applied either retrospectively or prospectively. The directors do not anticipate that the application of these amendments will have a material impact on the Group's and the Bank's financial statements.

##### Annual Improvements to MFRSs 2014 - 2016 Cycle

The Annual Improvements to MFRSs 2014 - 2016 Cycle include amendments to three MFRSs, as summarised below.

The amendments to MFRS 1 resulted in the deletion of short-term exemptions for first-time adopters that relate to Disclosures about financial instruments (MFRS 107), Employee Benefits (MFRS 119) and Investment Entities (MFRS 12 and MFRS 127) as these exemptions have served their intended purpose.

The amendments to MFRS 12 clarify that the only concession from the disclosure requirements of MFRS 12 is that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified, or included in a disposal group that is classified, as held for sale in accordance with MFRS 5.

The amendments to MFRS 128 clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture.

These amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. However, the amendment to MFRS 12 is effective for annual periods beginning on or after 1 January 2017. The directors do not anticipate that the application of these amendments will have a material impact on the Group's and the Bank's financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 2. Summary of significant accounting policies (cont'd)

#### 2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting period 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.

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 value relating to previously held interest 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 of the Group's share in the fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill on the statements of financial position.

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.

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

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

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

#### 2.5 Subsidiaries

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

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

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

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 2. Summary of significant accounting policies (cont'd)

#### 2.6 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 associate is measured in the statements of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. 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 and is 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.

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 end of each reporting period whether there is any objective evidence that the investment in the associates 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.

The most recent available audited financial statements of the associates 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.

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.

#### 2.7 Property, plant and equipment and depreciation

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 Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss 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. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group and the Bank recognise such parts as individual assets with specific useful lives and depreciation respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognised in profit or loss as incurred.

Freehold land with an indefinite useful life and work-in progress which are not yet available for use are not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Building	50 years
Furniture and equipment	3 - 10 years
Office partition	3 years
Motor vehicles	5 years
Electrical and machinery	10 - 15 years

The leasehold land are amortised on a straight-line basis over the remaining lease terms, ranging from 19 to 908 years (2015 : 20 to 909 years).

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 2. Summary of significant accounting policies (cont'd)

#### 2.7 Property, plant and equipment and depreciation (cont'd)

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

The residual values, useful life and depreciation method are reviewed at the end of each reporting period, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

#### 2.8 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss. The Group and the Bank do not have any intangible assets with indefinite useful life.

Gain or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

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

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development; and
- The ability to use the intangible asset generated.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit.



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 2. Summary of significant accounting policies (cont'd)

#### 2.9 Derivative financial instruments

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

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

#### 2.10 Impairment of non-financial assets

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

An asset's recoverable amount is 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where 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.

An impairment loss is recognised in profit or loss except for an asset that was previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment loss is also recognised in other comprehensive income up to the amount of the previous revaluation.

An assessment is made at each reporting period 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 reversal is treated as revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 2. Summary of significant accounting policies (cont'd)

#### 2.11 Financial assets

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 provision of the financial instrument.

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

The Group and the Bank determine the classification of the financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss, loan and receivables, held-to-maturity investments and available-for-sale financial assets.

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group and the Bank commit to purchase or sell the asset.

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

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or 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 FVTPL 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 FVTPL do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at FVTPL are recognised separately in profit or loss as part of other losses or other income.

The Group and the Bank have not designated any financial assets at FVTPL.

##### (b) Loan and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loan and receivables.

Subsequent to initial recognition, loan and receivables are measured at amortised cost using the effective interest method. Interest income on loans and receivables is recognised in "Interest income" in the statement of comprehensive income. Impairment loss on loans, advances and financing are recognised in the statements of comprehensive income as "Allowance for impairment on loans, advances and financing". Regular way recognition of loans, advances and financing is recorded on settlement date, when all the conditions under the loan contract have been fulfilled.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 2. Summary of significant accounting policies (cont'd)

#### 2.11 Financial assets (cont'd)

##### (c) Held-to-maturity investment

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group and the Bank have 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. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

##### (d) Available-for-sale financial assets

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

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 assets 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 reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's and the Bank's right to receive payment is established.

Investment in equity instruments whose fair value cannot be reliably measured are measured at cost.

##### (e) Derecognition

The Group and the Bank derecognises all or part of a financial asset either when the contractual rights to the cash flows from the asset expire or when the Group and the Bank transfers the contractual rights to the cash flows from the asset and substantially all the risks and rewards of ownership of the asset. Unless these conditions are fulfilled, the Group and the Bank retains the asset in the statement of financial position and recognises a liability for the obligation created as a result of the transfer of the asset.

The Group and the Bank derecognises all or part of a financial liability when the liability is extinguished in full or in part.

#### 2.12 Impairment of financial assets

The Group and the Bank assess at the end of each reporting period whether there is any objective evidence that a financial asset is impaired.

##### (a) Loans and receivables and other financial assets carried at amortised costs

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Bank consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as loan receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 2. Summary of significant accounting policies (cont'd)

#### 2.12 Impairment of financial assets (cont'd)

##### (a) Loans and receivables and other financial assets carried at amortised costs (cont'd)

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is directly reduced by the impairment loss for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When loans and receivables become uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

##### (b) Unquoted equity securities carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on unquoted equity securities carried at cost 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 discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

##### (c) Available-for-sale financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss.

Impairment losses on available-for-sale equity investments are not reversed in profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income. For available-for-sale debt investments, impairment losses are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss in profit or loss.

#### 2.13 Cash and cash equivalents

The Group and the Bank adopt the indirect method in the preparation of statements of cash flows.

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 2. Summary of significant accounting policies (cont'd)

#### 2.14 Provisions

Provisions are recognised when the Group and the Bank have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If 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.

#### 2.15 Government funds

Government funds are meant for the following purposes:

- (i) To finance the purchase of investment properties. The funds are initially recognised at their fair values in the statements of financial position as deferred income where there is reasonable assurance that the funds will be received and all attaching conditions will be complied with. Government funds that compensate the Group and the Bank for expenses incurred are recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Government funds that compensate the Group and the Bank for the cost of an asset are recognised as income on a systematic basis over the useful life of the asset.
- (ii) To finance loans, advances and financing for specific projects and utilise against credit losses and charges arising from the financing of these projects. The government funds are recognised at the fair value of the consideration received in the statements of financial position. Any credit losses or charges as a result of defaulted loans on the loans financed by the government funds are recognised and utilised against the funds.

#### 2.16 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 MFRS 139, 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. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

The Group and the Bank do not have any financial liabilities held for trading or financial liabilities designated upon initial recognition as at fair value through profit or loss as at the end of the reporting period.

##### (b) Other financial liabilities

The Group's and the Bank's other financial liabilities include deposits from customers and term loans.

Other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Term loans are recognised initially at fair value, net of transaction cost incurred, and subsequently measured at amortised cost using the effective interest method.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 2. Summary of significant accounting policies (cont'd)

#### 2.16 Financial liabilities (cont'd)

##### (c) Derecognition

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

#### 2.17 Borrowing costs

Borrowing costs are capitalised as part of the cost of qualifying asset if they are directly attributable to the acquisition, construction or production of the asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs that the Group and the Bank incur in connection with the borrowing of funds.

#### 2.18 Repurchase agreements

Obligations on securities sold under repurchase agreements are securities which the Group and the Bank have sold from its portfolio, with a commitment to repurchase at future dates. Such financing and the obligations to repurchase the securities is reflected as a liability on the statements of financial position.

#### 2.19 Employee benefits

##### (i) Short term benefits

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

##### (ii) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group and the Bank pay fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund (EPF).

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 2. Summary of significant accounting policies (cont'd)

#### 2.20 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group and the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group and the Bank use valuation techniques that are appropriate in the circumstances and for which sufficient data available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liability
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group and the Bank determine whether transfers have occurred between Levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group and the Bank have determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

#### 2.21 Revenue

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

##### (a) Interest/profit income from loans, advances and financing

Interest/profit income is recognised in the profit or loss for all interest/profit bearing assets on an accrual basis using the effective interest/profit method.

When an account becomes impaired, interest/profit shall be recognised only to the extent that they are recoverable.



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 2. Summary of significant accounting policies (cont'd)

#### 2.21 Revenue (cont'd)

##### (b) Interest/profit income from deposits and other placement of fund

Interest/profit income is recognised on accrual basis using the effective interest/profit method.

##### (c) Dividend income

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

##### (d) Fee income

Fee income from bank guarantee arrangement and letter of credit is recognised on an accrual basis.

##### (e) Rental income

Rental income is accounted for on a straight-line basis over the term of the lease. The aggregate cost of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

#### 2.22 Income taxes

##### (a) Current tax

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

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

##### (b) Deferred tax

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

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

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

Deferred tax assets are recognised for all deductible temporary differences, unused tax credits and unused tax losses, to the extent that it is probable that taxable future profit; will be available against which the deductible temporary differences, and the unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 2. Summary of significant accounting policies (cont'd)

#### 2.22 Income taxes (cont'd)

##### (b) Deferred tax (cont'd)

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

#### 2.23 Zakat

This represents business zakat. It is an obligatory amount payable by the Group and the Bank to comply with the principles of Shariah. Zakat is computed at 2.5% on assets and liabilities eligible for zakat, as determined using the adjusted growth method.

#### 2.24 Foreign currency

##### (a) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Bank's functional currency.

##### (b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Bank and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the date 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.

Foreign currency differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period. All foreign currency losses out of the foreign currency loans are underwritten by the Government of Malaysia. Accordingly, these loans are carried as amount recoverable in the statements of financial position.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 2. Summary of significant accounting policies (cont'd)

#### 2.25 Share capital

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 share is an equity instrument.

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.

#### 2.26 Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised in the statements of financial position of the Group.

#### 2.27 Investment properties

Investment properties are properties which are held to earn rental income or for capital appreciation or both. Properties that are occupied by companies in the Bank for conduct of business operations are accounted for as owner-occupied rather than as investment properties upon consolidation.

In accordance with MFRS 140 Investment Properties, investment properties can be measured using either the cost or fair value method. The Bank has adopted the fair value method in measuring investment properties. Investment properties are measured initially at its cost, including transaction cost. Subsequent to initial recognition, all properties are measured at fair value, with any changes recognised in profit or loss. When an item of property and equipment is transferred to investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in other comprehensive income as a revaluation reserve. If a fair value gain reverses a previously recognised impairment loss, the gain is recognised in profit or loss. Upon disposal of the investment property, any surplus previously recorded in revaluation reserve is transferred to retained earnings.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction. Fair values of investment properties are determined with reference to quotations of market value provided by independent professional valuers.

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 gain or loss on the retirement or disposal of an investment property is recognised in profit or loss.

### 3. Significant accounting judgement and estimates

The preparation of the Group's and of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

#### 3.1 Judgement made in applying accounting policies

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

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 3. Significant accounting judgement and estimates (cont'd)

#### (a) Going concern

The Group's and the Bank's management has made an assessment of the Group's and the Bank's ability to continue as a going concern and is satisfied that the Group and the Bank have the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's and the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

#### (b) Impairment assessment of available-for-sale investments

The Bank reviews the securities portfolio and assesses at each reporting period whether there is any objective evidence that the investment is impaired. If there are indicators or objective evidence, the assets are subject to impairment review.

The impairment review comprises the following judgement made by management:

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

#### (c) Allowance for losses on loans, advances and financing

The Group and the Bank review the doubtful loans, advances and financing at the end of each reporting period to assess whether allowances for impairment should be recorded in the financial statements. In particular, judgement is required in the identification of impaired loans. The considerations applied by the Bank in order to determine the classification of impaired loans are disclosed in Note 39 ((e)(a)(ix)) to the financial statements.

The Bank assesses at the end of each reporting period whether there is objective evidence that a loan is impaired under the requirements of MFRS 139. Loans, advances and financing that are individually significant are assessed individually. Those not individually significant are grouped together based on similar credit risks and assessed as a portfolio.

#### (d) Impairment of investments in subsidiaries and associates

The Bank assesses whether there is any indication that an investment in subsidiaries and associates may be impaired at end of each reporting period.

If indicators are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the investment and the investment's estimated recoverable amount.

Judgements made by management in the process of applying the Bank's accounting policies in respect of investments in subsidiaries and associates are as follows:

- (i) The Bank determines whether its investments are impaired following certain indications of impairment such as, amongst others, prolonged shortfall between market value and carrying amount, significant changes with adverse defects on the investment and deteriorating financial performance of the investment due to observed changes and fundamentals; and
- (ii) Depending on their nature and industries in which the investments relate to, judgements are made by management to select suitable methods of valuation such as, amongst others, discounted cash flow and realisable net asset value.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 3. Significant accounting judgement and estimates (cont'd)

#### 3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

##### (a) Income and deferred taxes

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

##### (b) Fair value estimation of available-for-sale financial investments

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 end of the reporting period, including reference to quoted market prices and independent dealer quotes for similar securities.

##### (c) Impairment of investments in subsidiaries and associates

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

##### (d) Allowance for losses on loans, advances and financing

Under MFRS 139, collective assessment is performed on loans, advances and financing which are not individually significant based on the incurred loss approach. Loans, advances and financing which are individually assessed and where there is no objective evidence of impairment are also included in the group of loans, advances and financing for collective assessment. These loans, advances and financing are pooled into groups with similar credit risk characteristics and the expected cash flows for each group is based on the historical loss experience for such assets. Collective assessment allowance is made on any shortfall in the expected cash flows against the carrying value of the group of loans, advances and financing.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 4. Cash and short term funds

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash at banks and on hand	41,757	52,790	27,848	46,343
Short term deposits and maturing within three months:				
- Licensed banks	181,795	882,671	181,795	882,671
- Other financial institutions	618,345	320,342	618,345	320,342
	841,897	1,255,803	827,988	1,249,356

Cash at banks is placed in non-interest bearing accounts. Short-term deposit placements are made between one day to three months depending on the Group's and the Bank's cash requirements, and earn interest at the respective short-term deposit rates. The weighted average effective interest rate and weighted average remaining maturity as at 31 December 2016 for the Group and the Bank was 3.78% per annum and 31 days (2015: 3.79% per annum and 31 days) respectively.

### 5. Deposits and placements with banks and other financial institutions

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Licensed banks	228,005	112,830	228,005	112,830
Other financial institutions	-	68,122	-	68,122
	228,005	180,952	228,005	180,952

Included in deposits and placements with licensed banks are Islamic Callable Range Accrual Structured deposits of RM160 million (2015:RM100 million) respectively.

The maturity structure of deposits and placements are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Three months to six months	66,623	97,307	66,623	97,307
Six months to one year	161,382	83,645	161,382	83,645
	228,005	180,952	228,005	180,952

The weighted average effective interest rate for deposits and placements with banks and other financial institutions is 3.30% (2015: 5.33%) per annum.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 6. Available-for-sale financial investments

	Note	Group and Bank	
		2016 RM'000	2015 RM'000
			Restated
<b>At fair value</b>			
<u>Money market instruments:</u>			
Malaysian Government Investment Issues		547,854	667,779
Malaysian Government Securities		169,908	197,004
Commercial papers		95,341	20,169
		813,103	884,952
Private debt securities		1,098,696	1,038,320
		1,911,799	1,923,272
<u>Quoted Securities</u>			
Shares		-	3,021
Less: Allowance for impairment	(i)	-	(3,021)
Total at fair value		-	-
<b>At cost</b>			
<u>Unquoted securities</u>			
Shares		3,123	3,123
Total at cost		3,123	3,123
<b>Total available-for-sale financial investments</b>		<b>1,914,922</b>	<b>1,926,395</b>
<u>Note (i)</u>			
Movement in allowance for impairment			
At 1 January		3,021	3,021
Reversal of impairment		(3,021)	-
At 31 December		-	3,021

Included in the available-for-sale financial investments as of 31 December 2015 were financial assets sold under repurchase agreements as follows:

	Group and Bank	
	2016 RM'000	2015 RM'000
Malaysian Government Investment Issues	-	175,437
Malaysian Government Securities	-	28,061
Total available-for-sale financial investments (Note 19)	-	203,498



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 6. Available-for-sale financial investments (cont'd)

The maturity structure of available-for-sale money market instruments and private debt securities are as follows:

	Group and Bank	
	2016	2015
	RM'000	RM'000
		Restated
Within one year	141,080	45,157
More than one year to three years	154,065	74,621
More than three years to five years	380,902	381,385
More than five years	1,235,752	1,422,109
	1,911,799	1,923,272

### 7. Held-to-maturity financial investments

	Group and Bank	
	2016	2015
	RM'000	RM'000
		Restated
<u>Money market instruments</u>		
Malaysian Government Investment Issues	73,660	81,141
Malaysian Government Securities	50,690	50,233
	124,350	131,374
Private debt securities	492,482	508,424
Total held-to-maturity financial investments	616,832	639,798

Included in the held-to-maturity financial investments as of 31 December 2015 were financial assets sold under repurchase agreements as follows:

	Group and Bank	
	2016	2015
	RM'000	RM'000
Malaysian Government Securities	-	50,802
Total held-to-maturity financial investments (Note 19)	-	50,802

The maturity structure of held-to-maturity money market instruments and private debt securities are as follows:

	Group and Bank	
	2016	2015
	RM'000	RM'000
		Restated
Within one year	50,690	20,042
More than one year to three years	226,669	75,330
More than three years to five years	94,026	212,691
More than five years	245,447	331,735
	616,832	639,798

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 7. Held-to-maturity financial investments (cont'd)

The indicative market values of held-to-maturity money market instruments and private debt securities are as follows:

	Group and Bank	
	2016	2015
	RM'000	RM'000
Malaysian Government Investment Issues	60,606	60,426
Malaysian Government Securities	51,257	50,997
Private debt securities	504,962	514,434
	616,825	625,857

### 8. Loans, advances and financing

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Term loans				
- Hire purchase	241,341	323,615	199,298	282,353
- Leasing	307,873	272,798	280,398	246,307
- Other term loans	5,297,290	4,894,172	4,827,603	4,390,813
Revolving credits	736,106	455,502	718,250	436,712
Staff loans	21,757	24,586	21,757	24,586
Gross loans, advances and financing	6,604,367	5,970,673	6,047,306	5,380,771
Less: Allowance for impairment on loans, advances and financing				
- Individual assessment allowance (Note 8(ix))	(231,422)	(199,851)	(159,696)	(135,851)
- Collective assessment allowance (Note 8(ix))	(145,417)	(132,447)	(108,586)	(89,908)
Net loans, advances and financing	6,227,528	5,638,375	5,779,024	5,155,012
Gross impaired loans, advances and financing (Note 8(viii))	1,191,814	1,144,169	638,344	554,267
Net impaired loans, advances and financing	960,392	944,318	478,648	418,416

Included in loans, advances and financing for the Group and the Bank are gross loans, advances and financing of RM88,122,000 (2015: RM82,952,000) financed by the Government funds. The treatment of the credit losses incurred for these loans, advances and financing are as disclosed in Note 2.15(ii).

(i) The maturity structure of gross loans, advances and financing are as follows:

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Within one year	912,930	783,823	588,808	494,935
More than one year to three years	677,214	630,965	634,582	582,303
More than three years to five years	1,255,412	843,415	1,215,416	813,279
More than five years	3,758,811	3,712,470	3,608,500	3,490,254
	6,604,367	5,970,673	6,047,306	5,380,771

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 8. Loans, advances and financing (cont'd)

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

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Domestic business enterprise	6,582,610	5,946,087	6,025,549	5,356,185
Individual	21,757	24,586	21,757	24,586
	6,604,367	5,970,673	6,047,306	5,380,771

(iii) Gross loans, advances and financing analysed by industry are as follows:

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Import, export, wholesale, retail trade, restaurants and hotels	1,772,465	1,718,618	1,496,438	1,398,559
Manufacturing	1,139,321	1,069,179	990,388	914,820
Community, social and personal services	1,066,869	926,370	1,033,730	886,494
Transportation and communication	929,630	862,416	847,950	797,802
Financial, insurance, real estate and business services	701,976	601,036	688,815	594,665
Constructions	916,709	682,071	913,977	679,016
Mining and quarrying	30,498	43,367	30,498	43,367
Electricity, gas and water supply	21,326	34,003	20,250	32,751
Agriculture, forestry and fishing	3,816	9,027	3,503	8,711
Others	21,757	24,586	21,757	24,586
	6,604,367	5,970,673	6,047,306	5,380,771

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 8. Loans, advances and financing (cont'd)

(iv) Gross loans, advances and financing analysed by location and sector are as follows:

Group 2016	Northern Region RM'000	Kuala Lumpur Region RM'000	Selangor Region RM'000	East Coast Region RM'000	Southern Region RM'000	Sabah Region RM'000	Sarawak Region RM'000	Total RM'000
Import, export, wholesale, retail trade, restaurants and hotels	331,384	435,941	234,398	267,726	130,203	328,468	44,345	1,772,465
Manufacturing	158,684	375,235	120,499	114,955	258,790	44,914	66,244	1,139,321
Community, social and personal services	83,480	382,573	143,572	189,610	173,976	30,544	63,114	1,066,869
Transportation and communication	163,767	211,384	143,136	136,580	101,199	88,660	84,904	929,630
Financial, insurance, real estate and business services	20,305	385,911	105,928	37,814	102,478	42,228	7,312	701,976
Constructions	106,294	257,737	160,030	73,507	176,762	54,308	88,071	916,709
Mining and quarrying	20 - 23	6,462	10,430	9,873	-	555	3,178	30,498
Electricity, gas and water supply	1,101	8,794	5,602	2,085	1,535	1,082	1,127	21,326
Agriculture, forestry and fishing	-	806	-	203	166	2,641	-	3,816
Others	-	21,757	-	-	-	-	-	21,757
	865,015	2,086,600	923,595	832,353	945,109	593,400	358,295	6,604,367

Group 2015	Northern Region RM'000	Kuala Lumpur Region RM'000	Selangor Region RM'000	East Coast Region RM'000	Southern Region RM'000	Sabah Region RM'000	Sarawak Region RM'000	Total RM'000
Import, export, wholesale, retail trade, restaurants and hotels	327,950	348,322	283,794	224,975	238,889	269,659	25,029	1,718,618
Manufacturing	141,646	365,844	112,420	104,570	244,332	38,231	62,136	1,069,179
Community, social and personal services	78,859	317,171	67,101	177,266	195,377	20,551	70,045	926,370
Transportation and communication	161,140	186,385	112,347	124,867	108,726	107,788	61,163	862,416
Financial, insurance, real estate and business services	69,321	323,289	97,185	36,158	18,037	22,501	34,545	601,036
Constructions	84,715	155,084	175,885	50,062	125,647	20,135	70,543	682,071
Mining and quarrying	-	15,912	10,824	12,241	2,753	1,266	371	43,367
Electricity, gas and water supply	672	3,177	15,576	272	13,615	58	633	34,003
Agriculture, forestry and fishing	-	-	-	6,115	91	2,821	-	9,027
Others	-	24,586	-	-	-	-	-	24,586
	864,303	1,739,770	875,132	736,526	947,467	483,010	324,465	5,970,673

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 8. Loans, advances and financing (cont'd)

(iv) Gross loans, advances and financing analysed by location and sector are as follows: (cont'd)

<b>Bank 2016</b>	<b>Northern Region RM'000</b>	<b>Kuala Lumpur Region RM'000</b>	<b>Selangor Region RM'000</b>	<b>East Coast Region RM'000</b>	<b>Southern Region RM'000</b>	<b>Sabah Region RM'000</b>	<b>Sarawak Region RM'000</b>	<b>Total RM'000</b>
Import, export, wholesale, retail trade, restaurants and hotels	239,528	303,701	231,216	240,710	125,181	320,017	36,085	1,496,438
Manufacturing	112,631	322,540	116,854	106,202	252,010	34,311	45,840	990,388
Community, social and personal services	79,586	370,968	138,572	189,293	165,723	29,902	59,686	1,033,730
Transportation and communication	138,783	195,541	140,802	118,087	98,631	71,680	84,426	847,950
Financial, insurance, real estate and business services	18,198	384,604	104,721	32,417	99,464	42,140	7,271	688,815
Constructions	106,211	256,346	159,823	73,429	175,788	54,308	88,072	913,977
Mining and quarrying	-	6,462	10,430	9,873	-	555	3,178	30,498
Electricity, gas and water supply	1,101	8,351	5,602	2,085	1,534	450	1,127	20,250
Agriculture, forestry and fishing	-	493	-	203	166	2,641	-	3,503
Others	-	21,757	-	-	-	-	-	21,757
	696,038	1,870,763	908,020	772,299	918,497	556,004	325,685	6,047,306

<b>Bank 2015</b>	<b>Northern Region RM'000</b>	<b>Kuala Lumpur Region RM'000</b>	<b>Selangor Region RM'000</b>	<b>East Coast Region RM'000</b>	<b>Southern Region RM'000</b>	<b>Sabah Region RM'000</b>	<b>Sarawak Region RM'000</b>	<b>Total RM'000</b>
Import, export, wholesale, retail trade, restaurants and hotels	214,849	329,858	192,197	212,850	171,738	255,676	21,391	1,398,559
Manufacturing	111,673	355,966	90,458	79,160	223,267	15,384	38,912	914,820
Community, social and personal services	68,817	307,406	59,816	175,888	192,543	19,977	62,047	886,494
Transportation and communication	136,013	185,682	109,246	120,812	103,910	81,580	60,559	797,802
Financial, insurance, real estate and business services	68,093	322,601	93,827	35,597	17,670	22,331	34,546	594,665
Constructions	84,173	155,035	174,928	49,964	125,272	20,135	69,509	679,016
Mining and quarrying	-	15,912	10,824	12,241	2,753	1,266	371	43,367
Electricity, gas and water supply	672	3,177	15,576	272	12,363	58	633	32,751
Agriculture, forestry and fishing	-	-	-	5,799	91	2,821	-	8,711
Others	-	24,586	-	-	-	-	-	24,586
	684,290	1,700,223	746,872	692,583	849,607	419,228	287,968	5,380,771

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 8. Loans, advances and financing (cont'd)

(v) Gross loans, advances and financing analysed by interest/profit rate sensitivity are as follows:

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Fixed rate				
- Staff loan/financing	21,757	24,586	21,757	24,586
- Hire purchase receivables	213,278	293,350	171,242	252,095
- Leasing receivables	284,564	240,615	257,089	214,124
- Revolving credits	337,092	379,357	319,239	360,623
- Other term loans/financing	2,354,612	2,489,375	1,950,225	2,079,234
Variable rate				
- Hire purchase receivables	28,063	30,265	28,056	30,258
- Leasing receivables	23,309	32,183	23,309	32,183
- Revolving credits	399,014	76,145	399,011	76,089
- Other term loans/financing	2,942,678	2,404,797	2,877,378	2,311,579
	6,604,367	5,970,673	6,047,306	5,380,771

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

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Import, export, wholesale, retail trade, restaurants and hotels	482,670	518,628	210,275	198,568
Manufacturing	273,597	294,190	124,663	139,831
Community, social and personal services	129,360	129,547	96,222	89,671
Transportation and communication	174,036	122,544	92,315	57,931
Financial, insurance, real estate and business services	35,506	35,427	22,345	29,056
Constructions	94,259	41,533	91,527	38,478
Mining and quarrying	626	-	626	-
Electricity, gas and water supply	1,125	1,953	49	701
Agriculture, forestry and fishing	635	347	322	31
	1,191,814	1,144,169	638,344	554,267

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 8. Loans, advances and financing (cont'd)

(vii) Impaired loans, advances and financing analysed by location and sector are as follows:

<b>Group 2016</b>	<b>Northern Region RM'000</b>	<b>Kuala Lumpur Region RM'000</b>	<b>Selangor Region RM'000</b>	<b>East Coast Region RM'000</b>	<b>Southern Region RM'000</b>	<b>Sabah Region RM'000</b>	<b>Sarawak Region RM'000</b>	<b>Total RM'000</b>
Import, export, wholesale, retail trade, restaurants and hotels	107,768	182,812	58,275	43,855	21,789	58,106	10,065	482,670
Manufacturing	68,270	90,057	15,667	21,409	45,870	11,675	20,649	273,597
Community, social and personal services	7,866	55,297	14,537	36,182	10,436	921	4,121	129,360
Transportation and communication	32,762	20,999	10,509	60,088	8,817	18,014	22,847	174,036
Financial, insurance, real estate and business services	2,901	18,514	3,081	7,082	3,799	88	41	35,506
Constructions	1,837	27,366	438	667	63,145	-	806	94,259
Mining and quarrying	-	-	280	346	-	-	626	
Electricity, gas and water supply	444	49	-	-	632	-	1,125	
Agriculture, forestry and fishing	-	312	-	101	90	132	-	635
	221,404	395,801	102,836	169,730	153,946	89,568	58,529	1,191,814

<b>Group 2015</b>	<b>Northern Region RM'000</b>	<b>Kuala Lumpur Region RM'000</b>	<b>Selangor Region RM'000</b>	<b>East Coast Region RM'000</b>	<b>Southern Region RM'000</b>	<b>Sabah Region RM'000</b>	<b>Sarawak Region RM'000</b>	<b>Total RM'000</b>
Import, export, wholesale, retail trade, restaurants and hotels	128,715	113,360	96,394	15,618	110,126	48,941	5,474	518,628
Manufacturing	50,806	72,776	28,874	30,529	63,819	23,944	23,442	294,190
Community, social and personal services	10,920	60,662	8,918	32,582	3,371	740	12,354	129,547
Transportation and communication	29,506	5,904	9,378	42,752	7,009	27,209	786	122,544
Financial, insurance, real estate and business services	2,034	6,549	3,951	1,334	487	207	20,865	35,427
Constructions	1,902	18,042	6,333	564	13,629	30	1,033	41,533
Electricity, gas and water supply	-	643	-	-	1,252	58	-	1,953
Agriculture, forestry and fishing	-	-	-	316	-	31	-	347
	223,883	277,936	153,848	123,695	199,693	101,160	63,954	1,144,169



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 8. Loans, advances and financing (cont'd)

(vii) Impaired loans, advances and financing analysed by location and sector are as follows: (cpnt'd)

<b>Bank 2016</b>	<b>Northern Region RM'000</b>	<b>Kuala Lumpur Region RM'000</b>	<b>Selangor Region RM'000</b>	<b>East Coast Region RM'000</b>	<b>Southern Region RM'000</b>	<b>Sabah Region RM'000</b>	<b>Sarawak Region RM'000</b>	<b>Total RM'000</b>
Import, export, wholesale, retail trade, restaurants and hotels	14,832	51,611	55,172	16,840	20,360	49,655	1,805	210,275
Manufacturing	22,217	37,362	12,022	12,656	39,090	1,072	244	124,663
Community, social and personal services	3,972	43,694	9,537	35,863	2,182	279	695	96,222
Transportation and communication	7,778	5,160	8,174	41,553	6,249	1,032	22,369	92,315
Financial, insurance, real estate and business services	794	17,206	1,876	1,684	785	-	-	22,345
Constructions	1,755	25,974	230	589	62,172	-	807	91,527
Mining and quarrying	-	-	280	346	-	-	626	
Electricity, gas and water supply	-	-	49	-	-	-	-	49
Agriculture, forestry and fishing	-	-	-	100	90	132	-	322
	51,348	181,007	87,340	109,631	130,928	52,170	25,920	638,344

<b>Bank 2015</b>	<b>Northern Region RM'000</b>	<b>Kuala Lumpur Region RM'000</b>	<b>Selangor Region RM'000</b>	<b>East Coast Region RM'000</b>	<b>Southern Region RM'000</b>	<b>Sabah Region RM'000</b>	<b>Sarawak Region RM'000</b>	<b>Total RM'000</b>
Import, export, wholesale, retail trade, restaurants and hotels	15,615	94,896	4,798	3,493	42,975	34,956	1,835	198,568
Manufacturing	20,833	62,898	6,912	5,118	42,754	1,096	220	139,831
Community, social and personal services	878	50,897	1,634	31,205	538	165	4,354	89,671
Transportation and communication	4,378	5,202	6,277	38,697	2,193	1,001	183	57,931
Financial, insurance, real estate and business services	806	5,861	593	773	120	37	20,866	29,056
Constructions	1,360	17,993	5,375	465	13,255	30	-	38,478
Electricity, gas and water supply	-	643	-	-	-	58	-	701
Agriculture, forestry and fishing	-	-	-	-	-	31	-	31
	43,870	238,390	25,589	79,751	101,835	37,374	27,458	554,267

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 8. Loans, advances and financing (cont'd)

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

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
At 1 January	1,144,169	988,168	554,267	379,287
Impaired during the year	223,617	225,840	223,617	214,592
Reclassified as non-impaired	(18,354)	(27,144)	(18,354)	(27,144)
Amount recovered	(125,073)	(42,695)	(88,641)	(12,468)
Amount written-off	(32,545)	-	(32,545)	-
At 31 December	1,191,814	1,144,169	638,344	554,267

Net impaired loans as % of net loans, advances and financing (excluding staff loans and individual assessment allowance) are as follows:

	Group		Bank	
	2016	2015	2016	2015
Net impaired loans as %	15.12%	16.43%	8.16%	8.02%

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

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
<b>Individual assessment allowance</b>				
At 1 January	199,851	168,122	135,851	95,581
Amount written-off	(32,545)	-	(32,545)	-
Transfer from collective allowance	7,027	3,071	7,027	3,071
Allowance made during the year (Note 31)	138,549	92,797	129,461	92,767
Writeback made during the year (Note 31)	(81,460)	(64,139)	(80,098)	(55,568)
At 31 December	231,422	199,851	159,696	135,851
<b>Collective assessment allowance</b>				
At 1 January	132,447	117,831	89,908	80,243
Transfer to individual allowance	(7,027)	(3,071)	(7,027)	(3,071)
Allowance made during the year (Note 31)	130,732	130,088	130,732	124,146
Writeback made during the year (Note 31)	(110,735)	(112,401)	(105,027)	(111,410)
At 31 December	145,417	132,447	108,586	89,908

Total collective assessment allowance as % of net loans, advances and financing (excluding staff loans and individual impairment losses) are as follows:

Collective assessment allowance as %	2.29%	2.30%	1.85%	1.72%
--------------------------------------	-------	-------	-------	-------

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 9. Other assets

	Note	Group	
		2016 RM'000	2015 RM'000 Restated
Fair value of financial guarantee from the Government of Malaysia	(i)	3,873	9,468
Other receivables and prepayments		36,529	25,507
		40,402	34,975

	Note	Bank	
		2016 RM'000	2015 RM'000 Restated
Amount due from subsidiaries	(ii)	562,899	543,413
Less: Allowance for impairment loss	(iii)	(2,849)	(1,943)
		560,050	541,470
Fair value of financial guarantee from the Government of Malaysia	(i)	3,873	9,468
Other receivables and prepayments		19,608	21,193
		583,531	572,131

(i) The amount relates to fair value of financial guarantee from the Government of Malaysia on the foreign exchange loss suffered by the Bank on retranslation of Japanese Yen term loans that the Bank received from Japan International Cooperation Agency (JICA).

(ii) The amount due from subsidiaries are unsecured, interest free and repayable on demand except for unsecured Bai' Inah facility granted to SMEB Asset Management Sdn. Bhd. (SAM) to finance the purchase of a portfolio of impaired loans and financing from the Bank amounting to RM510.0 million (2015: RM510.0 million). This facility bears profit at 3.50% (2015: 3.50%) per annum and repayable over a period of 8 years commencing 31 December 2016, after a grace period of 2 years. The facility will mature on 31 December 2023.

(iii) Movement in allowance for impairment loss is as follows:

	Bank	
	2016 RM'000	2015 RM'000
At 1 January	(1,943)	(1,943)
Addition of impairment loss	(906)	-
At 31 December	(2,849)	(1,943)

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 10. Derivative Asset/Liabilities

Derivative financial instruments are financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates and securities prices) of the underlying instruments. These instruments are used by the Group and the Bank for economic hedges. The default classification for derivative financial instruments is trading unless designated in a hedge relationship and are in compliance with the stringent requirements of hedge accounting mentioned in the Group's and the Bank's accounting policies.

The table below shows the Group's and the Bank's derivative financial instruments and also the contractual or underlying principal amounts of the derivative and its corresponding gross positive (derivative financial asset) fair values at the end of the reporting period:

	Group and Bank		
	2016		
	Notional RM'000	Assets RM'000	Liabilities RM'000
<b>Derivative held for trading at fair value through profit and loss</b>			
Profit rate related contract:			
- Islamic profit rate swaps	250,000	-	1,117

	Group and Bank		
	2015		
	Notional RM'000	Assets RM'000	Liabilities RM'000
<b>Derivative held for trading at fair value through profit and loss</b>			
Profit rate related contract:			
- Islamic profit rate swaps	400,000	1,442	-

### 11. Investments in subsidiaries

	Bank	
	2016	2015
	RM'000	RM'000
<b>Unquoted shares</b>		
At cost	3,582	3,582

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 11. Investments in subsidiaries (cont'd)

The subsidiaries, all of which are incorporated and having principal place of business in Malaysia are as follows:

Name of companies	Principal activities	Proportion of Ownership Interest and Voting Power Held by the Group (%)	
		2016	2015
<b>Held by the Bank:</b>			
SMEB Asset Management Sdn. Bhd.	Asset management company, debts recovery agents and advisory and consultancy provider on distressed loans and financing and debt recovery	100	100
Centre For Entrepreneur Development And Research Sdn. Bhd.	Providing training, consultancy services, research and development and publication	100	100
BI Nominees (Tempatan) Sdn. Bhd.	Nominee services	100	100
BI Nelayan Malaysia Berhad	Dormant	100	100
BI Walden Ventures Kelima Sdn. Bhd.	Dormant	100	100
Guardmont Industries Sdn. Bhd.	Dormant	100	100
Malaysian Technology Investments (L) Bhd.*	Dormant	100	100
Metro Maple Sdn. Bhd.	Dormant	100	100
Metro Prominent Sdn. Bhd.	Dormant	100	100

\* Audited by a firm other than Deloitte PLT.

### 12. Investments in associate

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>At cost:</b>				
Unquoted shares in Malaysia	6,826	6,826	6,826	6,826
	6,826	6,826	6,826	6,826
Share of post-acquisition reserves	4,170	4,523	-	-
	10,996	11,349	6,826	6,826
Less: Accumulated impairment losses of unquoted shares	(6,826)	(6,826)	(6,826)	(6,826)
	4,170	4,523	-	-

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 12. Investments in associate (cont'd)

The associate incorporated and principal place of business in Malaysia is:

Name of companies	Principal activities	Proportion of Ownership Interest and Voting Power Held by the Group (%)		Accounting model applied
		2016	2015	
<b>Held by the Bank:</b>				
Capatronics (M) Sdn. Bhd.	Manufacturing of ceramic capacitor	30	30	Equity method

(i) Summarised statements of financial position

	Capatronics (M) Sdn. Bhd.	
	2016 RM'000	2015 RM'000
Non-current assets	22,941	22,996
Current assets	289	779
Total assets	23,230	23,775
Current liabilities	9,330	8,698
Total liabilities	9,330	8,698
Net assets as at 31 December	13,900	15,077

(ii) Summarised statements of comprehensive income

	Capatronics (M) Sdn. Bhd.	
	2016 RM'000	2015 RM'000
Revenue	1,380	1,110
Loss before tax	(1,177)	(1,056)
Loss for the year	(1,177)	(1,056)
Total comprehensive loss for the year	(1,177)	(1,056)

(iii) Reconciliation of the summarised financial information presented above to the carrying amount of the Group's interest in associate

	Capatronics (M) Sdn. Bhd.	
	2016 RM'000	2015 RM'000
Net assets as at 1 January	15,077	16,133
Loss for the year	(1,177)	(1,056)
Net assets as at 31 December	13,900	15,077
Interest in associate	30%	30%
Carrying value of Group's interest in associate	4,170	4,523

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 13. Property, plant and equipment

Group	Long term		Building	Furniture and equipment	Office partition	Motor vehicles	Electrical and machinery	Work-in progress	Total
	Freehold land	leasehold land							
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Cost</b>									
At 1 January 2016	4,017	34,752	84,976	30,690	41,303	2,748	7,135	4,937	210,558
Additions	66	-	53	3,991	6,712	-	-	912	11,734
Disposal	-	-	-	-	-	(1,244)	-	-	(1,244)
Written off	-	-	-	-	-	-	-	(862)	(862)
At 31 December 2016	4,083	34,752	85,029	34,681	48,015	1,504	7,135	4,987	220,186
<b>Accumulated depreciation</b>									
At 1 January 2016	-	5,111	13,507	22,640	8,969	2,707	6,670	-	59,604
Charge for the year (Note 29)	-	23	2,442	2,833	4,473	40	286	-	10,097
Disposal	-	-	-	-	-	(1,243)	-	-	(1,243)
Written off	-	-	-	-	-	-	-	-	-
At 31 December 2016	-	5,134	15,949	25,473	13,442	1,504	6,956	-	68,458
<b>Net carrying amount At 31 December 2016</b>	<b>4,083</b>	<b>29,618</b>	<b>69,080</b>	<b>9,208</b>	<b>34,573</b>	<b>-</b>	<b>179</b>	<b>4,987</b>	<b>151,728</b>

Group	Long term		Building	Furniture and equipment	Office partition	Motor vehicles	Electrical and machinery	Work-in progress	Total
	Freehold land	leasehold land							
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Cost</b>									
At 1 January 2015	4,017	34,752	84,976	30,284	17,490	2,748	7,126	9,392	190,785
Additions	-	-	-	1,199	16,329	-	9	3,273	20,810
Written off	-	-	-	(1,006)	-	-	-	-	(1,006)
Reclassification/transfer	-	-	-	213	7,484	-	-	(7,728)	(31)
At 31 December 2015	4,017	34,752	84,976	30,690	41,303	2,748	7,135	4,937	210,558
<b>Accumulated depreciation</b>									
At 1 January 2015	-	4,471	11,681	20,984	5,756	2,614	6,366	-	51,872
Charge for the year (Note 29)	-	640	1,826	2,661	3,213	93	304	-	8,737
Written off	-	-	-	(1,005)	-	-	-	-	(1,005)
At 31 December 2015	-	5,111	13,507	22,640	8,969	2,707	6,670	-	59,604
<b>Net carrying amount At 31 December 2015</b>	<b>4,017</b>	<b>29,641</b>	<b>71,469</b>	<b>8,050</b>	<b>32,334</b>	<b>41</b>	<b>465</b>	<b>4,937</b>	<b>150,954</b>

Included in property, plant and equipment of the Group are fully depreciated property, plant and equipment at a total cost of RM47,735,000 (2015: RM40,986,000), which are still in use by the Group.



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 13. Property, plant and equipment (cont'd)

Bank	Long term		Building	Furniture and Office		Motor vehicles	Electrical and Work-in		Total
	Freehold land	leasehold land		equipment	partition		machinery	progress	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Cost</b>									
At 1 January 2016	4,017	34,752	84,976	30,586	41,303	2,748	7,135	4,937	210,454
Additions	66	-	53	3,958	6,712	-	-	912	11,701
Disposal	-	-	-	-	-	(1,244)	-	-	(1,244)
Written off	-	-	-	-	-	-	-	(862)	(862)
At 31 December 2016	4,083	34,752	85,029	34,544	48,015	1,504	7,135	4,987	220,049
<b>Accumulated depreciation</b>									
At 1 January 2016	-	5,111	13,507	22,611	8,969	2,707	6,670	-	59,575
Charge for the year (Note 29)	-	23	2,442	2,800	4,473	40	286	-	10,064
Disposal	-	-	-	-	-	(1,243)	-	-	(1,243)
Written off	-	-	-	-	-	-	-	-	-
At 31 December 2016	-	5,134	15,949	25,411	13,442	1,504	6,956	-	68,396
<b>Net carrying amount At 31 December 2016</b>	<b>4,083</b>	<b>29,618</b>	<b>69,080</b>	<b>9,133</b>	<b>34,573</b>	<b>-</b>	<b>179</b>	<b>4,987</b>	<b>151,653</b>

Bank	Long term		Building	Furniture and Office		Motor vehicles	Electrical and Work-in		Total
	Freehold land	leasehold land		equipment	partition		machinery	progress	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Cost</b>									
At 1 January 2015	4,017	34,752	84,976	30,234	17,490	2,748	7,126	9,392	190,735
Additions	-	-	-	1,145	16,329	-	9	3,273	20,756
Written off	-	-	-	(1,006)	-	-	-	-	(1,006)
Reclassification/transfer	-	-	-	213	7,484	-	-	(7,728)	(31)
At 31 December 2015	4,017	34,752	84,976	30,586	41,303	2,748	7,135	4,937	210,454
<b>Accumulated depreciation</b>									
At 1 January 2015	-	4,471	11,681	20,973	5,756	2,614	6,366	-	51,861
Charge for the year (Note 29)	-	640	1,826	2,643	3,213	93	304	-	8,719
Written off	-	-	-	(1,005)	-	-	-	-	(1,005)
At 31 December 2015	-	5,111	13,507	22,611	8,969	2,707	6,670	-	59,575
<b>Net carrying amount At 31 December 2015</b>	<b>4,017</b>	<b>29,641</b>	<b>71,469</b>	<b>7,975</b>	<b>32,334</b>	<b>41</b>	<b>465</b>	<b>4,937</b>	<b>150,879</b>

Included in property, plant and equipment of the Bank are fully depreciated property, plant and equipment at a total cost of RM 47,313,000 (2015: RM40,957,000), which are still in use by the Bank.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 14. Investment properties

	Group and Bank	
	2016	2015
	RM'000	RM'000
		Restated
At fair value		
At 1 January, as previously stated	156,333	160,492
Prior year adjustment (Note 43)	168,281	144,734
At 1 January, as restated	324,614	305,226
Additional	189	-
Fair value adjustment (Note 41(n))	33,367	19,388
At 31 December	358,170	324,614

The following investment properties are held under lease term:

	Bank	
	2016	2015
	RM'000	RM'000
At fair value		
Building	198,072	183,424
Land	143,952	126,195
	342,024	309,619

The investment properties comprise of land and building. The fair value of the Group's and the Bank's investment properties as of 31 December 2016 have been arrived at on the basis of valuation carried out by independent valuers not related to the Group and to the Bank and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined using income approach.

No valuation is carried out by independent valuers as at 31 December 2015 and 1 January 2015. The Group and the Bank determines the fair value of its investment properties by reference to the relevant property market report. The directors believe that assessment made by management is appropriate in determining the fair value of the Group's and of the Bank's properties.

Title deeds to certain of the Group's investment properties costing RM33,943,000 (2015: RM35,996,000) have yet to be issued in or transferred to the name of a Bank concerned.

Rental income earned from the investment properties during the year amounted to RM9,998,000 (2015: RM9,997,000). Direct operating expenses arising from the investment properties during the year amounting to RM2,488,000 (2015: RM2,571,000).

	Group and Bank	
	2016	2015
	RM'000	RM'000
	Level 2	Level 2
Fair value hierarchy	358,170	324,614

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 15. Intangible assets

	Group Software		Bank Software	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>At cost</b>				
At 1 January	35,240	35,079	34,588	34,579
Additions	387	161	387	9
At 31 December	35,627	35,240	34,975	34,588
<b>Accumulated amortisation</b>				
At 1 January	23,323	17,238	23,101	17,182
Charge for the year (Note 29)	4,283	6,085	4,068	5,919
At 31 December	27,606	23,323	27,169	23,101
<b>Carrying amount At 31 December</b>	<b>8,021</b>	<b>11,917</b>	<b>7,806</b>	<b>11,487</b>

### 16. Deferred tax assets

	Group and Bank	
	2016 RM'000	2015 RM'000
<b>At 1 January</b>	159,479	174,339
Recognised in profit or loss	1,144	(14,245)
Recognised in equity	(5,537)	(615)
<b>At 31 December</b>	<b>155,086</b>	<b>159,479</b>
<b>Presented before appropriate offsetting as follows:</b>		
Deferred tax assets	169,503	168,355
Deferred tax liabilities	(14,417)	(8,876)
	<b>155,086</b>	<b>159,479</b>

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

Deferred tax assets of the Group and of the Bank:

Group and Bank	Unabsorbed business losses and capital allowance	Provision	MTM revaluation on bonds	Total
	RM'000	RM'000	RM'000	RM'000
<b>At 1 January 2016 as previously</b>	147,818	3,911	16,626	168,355
Recognised in profit or loss	6,131	554	-	6,685
Recognised in equity	-	-	(5,537)	(5,537)
<b>At 31 December 2016</b>	<b>153,949</b>	<b>4,465</b>	<b>11,089</b>	<b>169,503</b>
<b>At 1 January 2015</b>	167,609	5,030	17,241	189,880
Recognised in profit or loss	(19,791)	(1,119)	-	(20,910)
Recognised in equity	-	-	(615)	(615)
<b>At 31 December 2015</b>	<b>147,818</b>	<b>3,911</b>	<b>16,626</b>	<b>168,355</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 16. Deferred tax assets (cont'd)

Deferred tax liabilities of the Group and of the Bank:

	Investment property RM'000	Property plant and equipment RM'000	Total RM'000
<b>At 1 January 2016</b>	-	(8,876)	(8,876)
Recognised in profit or loss	(7,251)	1,710	(5,541)
<b>At 31 December 2016</b>	<b>(7,251)</b>	<b>(7,166)</b>	<b>(14,417)</b>
<b>At 1 January 2015</b>	-	(15,541)	(15,541)
Recognised in profit or loss	-	6,665	6,665
<b>At 31 December 2015</b>	<b>-</b>	<b>(8,876)</b>	<b>(8,876)</b>

### 17. Deposits from customers

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Term deposit:				
- Commodity murabahah/Tawarruq	3,548,257	3,024,907	3,624,860	3,049,913

(i) The deposits are source from the following types of customers:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Government and statutory bodies (Note 37(c))	2,545,699	2,104,919	2,545,699	2,104,919
Business enterprise	1,002,558	848,373	1,079,161	873,379
Others	-	71,615	-	71,615
	<b>3,548,257</b>	<b>3,024,907</b>	<b>3,624,860</b>	<b>3,049,913</b>

(ii) The deposits maturity structure are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Less than three months	2,915,591	2,600,875	2,914,721	2,600,875
Three months to six months	569,266	210,193	646,739	210,193
Six months to one year	63,400	213,839	63,400	238,845
	<b>3,548,257</b>	<b>3,024,907</b>	<b>3,624,860</b>	<b>3,049,913</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 18. Deposits from other financial institutions

	Group and Bank	
	2016	2015
	RM'000	RM'000
Licensed banks	200,302	345,396

The deposit maturity structure is as follows:

	Group and Bank	
	2016	2015
	RM'000	RM'000
Less than three months	200,302	345,396

### 19. Obligations on securities sold under repurchase agreements

Obligations on securities sold under repurchase agreements are securities which the Group and the Bank have sold from their portfolio, with a commitment to repurchase at future dates. Such financing and the obligations to repurchase the securities are reflected as a liability on the statements of financial position.

The carrying value of financial assets sold under repurchase agreement as of 31 December 2015 were as follows:

	Group and Bank	
	2016	2015
	RM'000	RM'000
Financial investments available for sale (Note 6)	-	203,498
Financial investments held-to-maturity (Note 7)	-	50,802
	-	254,300

### 20. Medium term note

	Group and Bank	
	2016	2015
	RM'000	RM'000
Islamic medium term note (IMTN)	1,519,795	1,519,789

The IMTN is guaranteed by the Government of Malaysia and details of issuance are as follows:

	Issuance Date
RM250,000,000 3.60% maturing at 13 August 2019	13 August 2012
RM250,000,000 3.69% maturing at 12 August 2022	13 August 2012
RM600,000,000 3.70% maturing at 20 March 2017	20 March 2014
RM400,000,000 4.06% maturing at 20 March 2019	20 March 2014

The maturity structure of medium term note is as follows:

	Group and Bank	
	2016	2015
	RM'000	RM'000
Within 1 year	19,795	19,789
More than one year to three years	600,000	600,000
More than three years to five years	650,000	650,000
More than 5 years	250,000	250,000
	1,519,795	1,519,789

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 21. Borrowing

	Group and Bank	
	2016	2015
	RM'000	RM'000
Unsecured borrowing	2,683,818	2,775,523

The maturity structure of the borrowing is as follows:

	Group and Bank	
	2016	2015
	RM'000	RM'000
Within one year	292,051	289,317
More than five years	2,391,767	2,486,206
	2,683,818	2,775,523

The unsecured borrowing denominated in RM are sourced from the following:

	Note	Group and Bank	
		2016	2015
		RM'000	RM'000
Government of Malaysia (Note 37(c))	(i)	1,613,244	1,703,954
Other institutions	(ii)	1,070,574	1,071,569
		2,683,818	2,775,523

#### (i) Borrowing from Government of Malaysia

The borrowing from the Government of Malaysia are repayable as follows:

	Group and Bank	
	2016	2015
	RM'000	RM'000
Maturity structure:		
Within one year	210,157	206,341
More than five years	1,403,087	1,497,613
	1,613,244	1,703,954

The interest rates on the borrowing from the Government of Malaysia range from 0% to 4% (2015: 0% to 4%) per annum during the year.

#### (ii) Borrowing from other institutions

	Group and Bank	
	2016	2015
	RM'000	RM'000
Bank Negara Malaysia	254,569	208,336
Employee Provident Fund	806,302	834,186
Japan International Cooperation Agency	9,703	29,047
	1,070,574	1,071,569

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 21. Borrowing (cont'd)

The borrowing from other institutions are repayable as follows:

	Group and Bank	
	2016 RM'000	2015 RM'000
Maturity structure:		
Within one year	81,894	82,976
More than five years	988,680	988,593
	1,070,574	1,071,569

The interest rates on the borrowing from other institutions range from 1.50% to 5.23% (2015: 1.50% to 5.23%) per annum.

The unsecured borrowing from Japan International Cooperation Agency (JICA) are denominated in Japanese Yen which have been retranslated into RM based on the exchange rate at the end of the reporting period. Details of the loans are as follows:

- (i) Initial borrowing of ¥9,320,000,000 (approximately RM331,600,000) principal repayable over a period of 18 years commencing 20 May 2002, after a grace period of 7 years. The borrowing will mature on 20 May 2017.
- (ii) Loans received for Small and Medium Industry Promotion Program (SMIPP) which are repayable in semi-annual instalments of Ringgit Malaysia equivalent of ¥125,945,000 each commencing from May 1999 respectively.

The principal borrowing balance and foreign exchange fluctuation loss on these loans are guaranteed by the Government of Malaysia.

The interest rates on borrowing from JICA ranges from 3.0% to 3.5% (2015: 3.0% to 3.5%) per annum.

### 22. Other liabilities

	2016	2015
	RM'000	RM'000 Restated
<b>Group</b>		
Other payables and accruals (Note a)	246,903	276,900
Islamic margin account (Note b)	494,078	385,825
Guarantee payable	83,324	77,331
Other provisions	31,235	25,712
Rental and security deposits	5,619	5,521
Charity fund	761	761
Provision for taxation	3,494	616
Provision for zakat	3,985	2,395
	869,399	775,061
<b>Bank</b>		
Other payables and accruals (Note a)	247,334	271,202
Amount due to subsidiaries	19,428	36,954
Islamic margin account (Note b)	494,078	385,825
Guarantee payable (Note c)	83,324	77,331
Other provisions	29,234	25,712
Rental and security deposits	5,619	5,521
Charity fund	761	761
Provision for zakat	3,985	2,395
	883,763	805,701

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 22. Other liabilities (cont'd)

#### Note a

Included in other payables and accruals are undisbursed funds amounting to RM35.89 million (2015: RM80.25 million) provided by Small and Medium Enterprise Corporation Malaysia (SME Corp). Under the arrangement with SME Corp, the Bank acts as an agent to administer the said funds to be channeled as financial assistance to the companies within the small and medium sized industry.

#### Note b

Islamic margin account refers to the cash collateral pledged by the Islamic banking customers of the Bank. The amount will be repaid to the customers at the end of the financing tenure or will be offset with any overdue amount.

#### Note c

Guarantee payable refers to the guarantee extended by Teraju which applies to Small Medium Enterprise (SME) companies under the Teraju Program.

### 23. Government funds

	Note	Group and Bank	
		2016 RM'000	2015 RM'000
To finance:			
Purchase of investment properties	(a)	126,015	129,543
Loans, advances and financing	(b)	179,029	155,298
		305,044	284,841

(a) To finance the purchase of investment properties:

	Kompleks Kilang Bimbingan			Total
	Nursery Factory Scheme (RMK7)	Nursery Factory Scheme (RMK8)	Nursery Factory Scheme (RMK9)	
Group and Bank	RM'000	RM'000	RM'000	RM'000
At 1 January 2016	66,543	27,891	35,109	129,543
Government fund release (Note 28)	(236)	(2,912)	(380)	(3,528)
At 31 December 2016	66,307	24,979	34,729	126,015
At 1 January 2015	66,779	30,803	35,511	133,093
Government fund release (Note 28)	(236)	(2,912)	(402)	(3,550)
At 31 December 2015	66,543	27,891	35,109	129,543



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 23. Government funds (cont'd)

(b) To finance loans, advances and financing:

<b>Group and Bank</b>	<b>Tabung Soft Loan Scheme RM'000</b>	<b>Tabung Inkubator Usahawan Pahang RM'000</b>	<b>Pertanian Kelantan RM'000</b>	<b>Tabung Usahawan Siswazah RM'000</b>	<b>Dana Usahawan Negeri Terengganu RM'000</b>	<b>Program dan Skim Usahawan Batik RM'000</b>	<b>Balance c/f RM'000</b>
At 1 January 2016	36,754	288	2,669	22,393	5,612	4,147	71,863
Recoveries from loans written-off	42	-	-	348	365	-	755
Muqasah	-	-	-	-	(535)	-	(535)
<b>At 31 December 2016</b>	<b>36,796</b>	<b>288</b>	<b>2,669</b>	<b>22,741</b>	<b>5,442</b>	<b>4,147</b>	<b>72,083</b>

	<b>Balance b/f RM'000</b>	<b>Basis Capital Scheme (SMA) RM'000</b>	<b>Skim Pembangunan Ekonomi Desa-Islamic RM'000</b>	<b>Skim Perusahaan Kapital Tradisional RM'000</b>	<b>Program dan Skim Usahawan Kraf RM'000</b>	<b>Skim Anjakan Usahawan RM'000</b>	<b>Total RM'000</b>
At 1 January 2016	71,863	27,932	47,758	3,000	4,745	-	155,298
Received	-	-	-	-	-	20,000	20,000
Write-off	-	-	-	-	-	-	-
Recoveries from loans written-off	755	3,461	754	-	10	-	4,980
Utilised to offset expenses	-	-	-	-	-	(396)	(396)
Muqasah	(535)	-	(318)	-	-	-	(853)
<b>At 31 December 2016</b>	<b>72,083</b>	<b>31,393</b>	<b>48,194</b>	<b>3,000</b>	<b>4,755</b>	<b>19,604</b>	<b>179,029</b>

<b>Group and Bank</b>	<b>Tabung Soft Loan Scheme RM'000</b>	<b>Tabung Inkubator Usahawan Pahang RM'000</b>	<b>Pertanian Kelantan RM'000</b>	<b>Tabung Usahawan Siswazah RM'000</b>	<b>Dana Usahawan Negeri Terengganu RM'000</b>	<b>Program dan Skim Usahawan Batik RM'000</b>	<b>Balance c/f RM'000</b>
At 1 January 2015	36,716	288	2,669	21,299	5,286	4,121	70,379
Recoveries from loans written-off	38	-	-	1,094	971	26	2,129
Muqasah	-	-	-	-	(645)	-	(645)
<b>At 31 December 2015</b>	<b>36,754</b>	<b>288</b>	<b>2,669</b>	<b>22,393</b>	<b>5,612</b>	<b>4,147</b>	<b>71,863</b>

	<b>Balance b/f RM'000</b>	<b>Basis Capital Scheme (SMA) RM'000</b>	<b>Skim Pembangunan Ekonomi Desa-Islamic RM'000</b>	<b>Skim Perusahaan Kapital Tradisional RM'000</b>	<b>Program dan Skim Usahawan Kraf RM'000</b>	<b>Total RM'000</b>
At 1 January 2015	70,379	29,049	47,881	3,000	4,740	155,049
Write-off	-	(2,182)	(382)	-	-	(2,564)
Recoveries from loans written-off	2,129	1,065	631	-	5	3,830
Muqasah	(645)	-	(426)	-	-	(1,071)
Placement expenses payable	-	-	54	-	-	54
<b>At 31 December 2015</b>	<b>71,863</b>	<b>27,932</b>	<b>47,758</b>	<b>3,000</b>	<b>4,745</b>	<b>155,298</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 23. Government funds (cont'd)

Summary of the government funds are as follows:

Types of funds	Purpose of funds	Source	Grant received RM'000
(a) Soft Loan Scheme	To provide soft loans to Bumiputera entrepreneurs	Ministry of International Trade and Industry (MITI)	34,400
(b) Tabung Usahawan Pahang	To provide loans for furniture industry in Temerloh, Pahang	Pahang State Government	1,000
(c) Tabung Inkubator Pertanian Kelantan	To support the livestock industry in Jeli, Kelantan	Ministry of International Trade and Industry (MITI)	2,992
(d) Tabung Usahawan Siswazah	To encourage graduates into entrepreneurship	Ministry of International Trade and Industry (MITI)	62,000
(e) Dana Usahawan Negeri Terengganu	To promote Bumiputera entrepreneurs in Terengganu	Ministry of International Trade and Industry (MITI)	30,000
(f) Program dan Skim Usahawan Batik	To promote Bumiputera entrepreneurs in the batik industry	Ministry of International Trade and Industry (MITI)	5,000
(g) Basic Capital Scheme	To promote Bumiputera entrepreneurs with basic capital	Ministry of International Trade and Industry (MITI)	75,835
(h) Skim Pembangunan Ekonomi Desa - Islamic	To promote Bumiputera entrepreneurs in the rural area	Ministry of Rural & Regional Development (MRRD)	124,227
(i) Skim Perusahaan Kapal Tradisional	To promote ships making in Terengganu	Ministry of International Trade and Industry (MITI)	3,000
(j) Program dan Skim Usahawan Kraf	To promote Bumiputera entrepreneurs in the craft industry	Ministry of International Trade and Industry (MITI)	5,000
(k) Kompleks Kilang Bimbingan	To provide premises for Bumiputera entrepreneurs	Ministry of International Trade and Industry (MITI)	220,775
(l) Skim Anjakan Usahawan	To promote Bumiputra entrepreneur for business expansion	Ministry of International Trade and Industry (MITI)	20,000

\* All the government grants above are non-repayable and the credit risk pertaining to loans, advances and financing are borne by the Government of Malaysia.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 23. Government funds (cont'd)

Summary of the performance of the government funds

31 December 2016	Outstanding loan/ financing RM'000	No. of borrower assisted
<b>Types of funds</b>		
(a) Soft Loan Scheme	-	-
(b) Tabung Usahawan Pahang	-	-
(c) Tabung Inkubator Pertanian Kelantan	-	-
(d) Tabung Usahawan Siswazah	14,238	234
(e) Dana Usahawan Negeri Terengganu & Skim Perusahaan Kapal Tradisional	7,151	76
(f) Program dan Skim Usahawan Batik	36	1
(g) Basic Capital Scheme	23,068	47
(h) Skim Pembangunan Ekonomi Desa - Islamic	22,256	494
(i) Program dan Skim Usahawan Kraf	87	1
(j) Kompleks Kilang Bimbingan	156,333	-
(k) Skim Anjakan Usahawan	-	-

31 December 2015	Outstanding loan/ financing RM'000	No. of borrower assisted
<b>Types of funds</b>		
(a) Soft Loan Scheme	-	-
(b) Tabung Usahawan Pahang	-	-
(c) Tabung Inkubator Pertanian Kelantan	-	-
(d) Tabung Usahawan Siswazah	23,279	229
(e) Dana Usahawan Negeri Terengganu & Skim Perusahaan Kapal Tradisional	7,979	61
(f) Program dan Skim Usahawan Batik	36	1
(g) Basic Capital Scheme	25,099	57
(h) Skim Pembangunan Ekonomi Desa - Islamic	26,472	510
(i) Program dan Skim Usahawan Kraf	87	2
(j) Kompleks Kilang Bimbingan	156,333	-

### 24. Share capital

Group and Bank	Number of ordinary shares of RM1 each		Amount	
	2016 Unit '000	2015 Unit '000	2016 RM'000	2015 RM'000
<b>Authorised:</b>				
At 31 December	5,000,000	5,000,000	5,000,000	5,000,000
<b>Issued and fully paid:</b>				
At 31 December	1,350,000	1,350,000	1,350,000	1,350,000

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 25. Other reserves

Group and Bank	Non-	Distributable	Total
	distributable	general	
	available-for-	reserve	
	sale reserve		
	RM'000	RM'000	RM'000
<b>At 1 January 2016</b>	(52,648)	10,114	(42,534)
Movement in revaluation reserve of available-for-sale financial investments	15,970	-	15,970
<b>At 31 December 2016</b>	<b>(36,678)</b>	<b>10,114</b>	<b>(26,564)</b>
<b>At 1 January 2015</b>	(51,726)	10,114	(41,612)
Movement in revaluation reserve of available-for-sale financial investments	(922)	-	(922)
<b>At 31 December 2015</b>	<b>(52,648)</b>	<b>10,114</b>	<b>(42,534)</b>

#### (a) Distributable general reserve

Distributable general reserve arises from the merger between Bank Pembangunan Malaysia Berhad and Bank Industry Berhad in 2005.

#### (b) Non-distributable available-for-sale reserve

Non-distributable available-for-sale reserve represents the cumulative fair value changes, net of tax, of available-for-sale securities until they are disposed of or impaired.

### 26. Interest income

	Group	
	2016	2015
	RM'000	RM'000
Interest income from loans, advances and financing	32,983	41,279
Deposits and placements with banks and other financial institutions	1,775	1,202
Derivative forex	89	-
Available-for-sale financial investments	8,162	7,244
Held-to-maturity financial investments	1,868	1,105
	<b>44,877</b>	<b>50,830</b>
	Bank	
	2016	2015
	RM'000	RM'000
Interest income from loans, advances and financing	20,657	32,574
Deposits and placements with banks and other financial institutions	1,775	1,202
Derivative forex	89	-
Available-for-sale financial investments	8,162	7,244
Held-to-maturity financial investments	1,868	1,105
	<b>32,551</b>	<b>42,125</b>

Included in interest income from loans, advances and financing is interest on impaired loans amounting to RM 1,481,215 (2015: RM2,730,307).

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 27. Interest expense

	Group and Bank	
	2016	2015
	RM'000	RM'000
Deposits from other financial institutions	4,864	4,105
Securities sold under repurchase agreements	1,262	194
Term loans	61,789	60,823
	67,915	65,122

### 28. Other operating income

	Group	
	2016	2015
	RM'000	RM'000
<b>Fee income</b>	4,828	2,184
<b>Investment in associate:</b> - gross dividend income	32	-
<b>Investment in unquoted shares:</b> - gross dividend income	874	-
<b>Other income:</b>		
Gain on disposal of property, plant and equipment	225	-
Government funds released (Note 23(a))	3,528	3,550
Government compensation	5,192	6,590
Others	2,487	781
	11,432	10,921
<b>Total other operating income</b>	<b>17,166</b>	<b>13,105</b>

	Bank	
	2016	2015
	RM'000	RM'000
<b>Fee income</b>	674	446
<b>Investment in associates:</b> - gross dividend income	32	-
<b>Investment in unquoted shares:</b> - gross dividend income	874	-
<b>Other income:</b>		
Gain on disposal of property, plant and equipment	225	-
Government funds released (Note 23(a))	3,528	3,550
Government compensation	5,192	6,590
Others	2,473	663
	11,418	10,803
<b>Total other operating income</b>	<b>12,998</b>	<b>11,249</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 29. Other operating expenses

	Note	Group	
		2016 RM'000	2015 RM'000 Restated
Personnel expenses	(i)	121,772	117,314
Establishment related expenses	(ii)	33,227	30,542
Promotion and marketing expenses	(iii)	4,820	3,993
Administration and general expenses	(iv)	41,182	48,471
		201,001	200,320
<b>(i) Personnel expenses</b>			
Salaries, allowances and bonuses		96,930	92,086
Non-Executive Directors fees and Remuneration (Note 30)		2,836	2,130
Social security cost		702	729
Contribution to Employee Provident Fund		12,208	11,782
Other staff related expenses		9,096	10,587
		121,772	117,314
<b>(ii) Establishment related expenses</b>			
Depreciation of property, plant and equipment (Note 13)		10,097	8,737
Amortisation of intangible assets (Note 15)		4,283	6,085
Property, plant and equipment written off		862	1
Rental of premises		4,050	3,894
Repairs and maintenance of property, plant and equipment		13,935	11,825
		33,227	30,542
<b>(iii) Promotion and marketing expenses</b>			
Advertisement and publicity		4,820	3,993
<b>(iv) Administration and general expenses</b>			
Administrative expenses		7,352	7,649
Auditors' remuneration			
- Statutory audit		429	400
- Regulatory related services		11	11
- Other assurance services		9	16
General expenses		33,381	40,395
		41,182	48,471

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 29. Other operating expenses (cont'd)

	Note	Bank	
		2016 RM'000	2015 RM'000 Restated
Personnel expenses	(i)	115,065	111,552
Establishment related expenses	(ii)	32,914	30,305
Promotion and marketing expenses	(iii)	4,708	3,850
Administration and general expenses	(iv)	50,689	60,716
		203,376	206,423
<hr/>			
(i) Personnel expenses			
Salaries, allowances and bonuses		91,338	87,417
Non-Executive Directors fees and Remuneration (Note 30)		2,714	2,042
Social security cost		667	590
Contribution to Employee Provident Fund		11,553	11,304
Other staff related expenses		8,793	10,199
		115,065	111,552
<hr/>			
(ii) Establishment related expense			
Depreciation of property, plant and equipment (Note 13)		10,064	8,719
Amortisation of intangible assets (Note 15)		4,068	5,919
Property, plant and equipment written off		862	1
Rental of premises		4,050	3,894
Repairs and maintenance of property, plant and equipment		13,870	11,772
		32,914	30,305
<hr/>			
(iii) Promotion and marketing expenses			
Advertisement and publicity		4,708	3,850
<hr/>			
(iv) Administration and general expenses			
Administrative expenses		7,294	7,408
Auditors' remuneration			
- Statutory audit		380	355
- Regulatory related services		11	11
- Other assurance services		9	16
General expenses		42,089	52,926
Allowance for impairment loss (Note 9)		906	-
		50,689	60,716

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 30. Directors fees and remuneration

	Salary	Fees	Bonus	Pension cost	Other emoluments	Benefits- in-kind	Bank Total	Fees	Other emoluments	in-kind	Group Total
2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Executive Director:</b>											
Datuk Mohd Radzif Mohd Yunus	828	-	311	186	48	-	1,373	-	18	-	1,391
	828	-	311	186	48	-	1,373	-	18	-	1,391
<b>Non-Executive Directors:</b>											
Tan Sri Faizah Mohd Tahir	-	180	-	-	60	-	240	60	9	-	309
Dato' Adzmy bin Abdullah	-	15	-	-	-	-	15	-	-	-	15
Ishak Ismail	-	60	-	-	131	-	191	9	3	-	203
Khairuzzaman Muhammad	-	60	-	-	117	-	177	-	-	-	177
Asri Hamidin @ Hamidon	-	60	-	-	89	-	149	18	5	-	172
Dato' Jamelah Jamaludin	-	60	-	-	127	-	187	-	-	-	187
Dato' Abd Majid Kutiran	-	55	-	-	79	-	134	-	-	-	134
Prof. Dr. Abdul Basir Mohamad	-	60	-	-	97	-	157	-	-	-	157
Dato' Mohd Shukri Hussin	-	40	-	-	51	-	91	-	-	-	91
	-	590	-	-	751	-	1,341	87	17	-	1,445
	828	590	311	186	799	-	2,714	87	35	-	2,836



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 30. Directors fees and remuneration (cont'd)

	Salary	Fees	Bonus	Pension cost	Other emoluments	Benefits-in-kind	Bank Total	Fees	Other emoluments	Benefits-in-kind	Group Total
2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Executive Director:</b>											
Datuk Mohd Radzif Mohd Yunus	774	-	240	168	48	-	1,230	-	18	-	1,248
	774	-	240	168	48	-	1,230	-	18	0	1,248
<b>Non-Executive Directors:</b>											
Tan Sri Ab. Aziz bin Kassim	-	-	-	-	-	-	-	-	-	-	-
Tan Sri Faizah Mohd Tahir	-	39	-	-	12	-	51	5	2	-	58
Dato' Adzmy bin Abdullah	-	98	-	-	-	-	98	-	-	-	98
Dato Mohd Nasir bin Abdullah	-	75	-	-	-	-	75	-	-	-	75
Khairuzzaman Muhammad	-	36	-	-	64	-	100	-	-	-	100
Ishak Ismail	-	36	-	-	77	-	113	45	6	-	164
Asri Hamidin @ Hamidon	-	36	-	-	76	-	112	9	3	-	124
Dato' Jamelah Jamaludin	-	36	-	-	61	-	97	-	-	-	97
Dato' Abd Majid Kutiran	-	36	-	-	40	-	76	-	-	-	76
Prof. Dr. Abdul Basir Mohamad	-	21	-	-	69	-	90	-	-	-	90
	-	413	-	-	399	-	812	59	11	-	882
	774	413	240	168	447	-	2,042	59	29	-	2,130

The number of directors of the Group and the Bank whose total remuneration fell within the following bands are analysed below:

	Group and Bank	
	2016 RM'000	2015 RM'000
<b>Number of executive director:</b>		
RM1,000,000 to RM1,500,000	1	1
<b>Number of non-executive directors:</b>		
RM100,001 to RM120,000	2	2
RM1 to RM100,000	8	8
	10	10

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 31. Allowance for impairment loss on loans, advances and financing

	Group	
	2016 RM'000	2015 RM'000
Allowance for impaired loans, advances and financing made during the year		
- Individual assessment allowance (Note 8(ix))	138,549	92,797
- Collective assessment allowance (Note 8(ix))	130,732	130,088
	269,281	222,885
Writeback/recoveries of allowance for impaired loans, advances and financing made during the year		
- Individual assessment allowance (Note 8(ix))	(81,460)	(64,139)
- Collective assessment allowance (Note 8(ix))	(110,735)	(112,401)
	(192,195)	(176,540)
Loans, advances and financing waived	1,186	-
Recoveries from bad loans, advances and financing written-off	(33,028)	(23,760)
<b>Total allowance for impairment loss on loans, advances and financing</b>	<b>45,244</b>	<b>22,585</b>
	Bank	
	2016 RM'000	2015 RM'000
Allowance for impaired loans, advances and financing made during the year		
- Individual assessment allowance (Note 8(ix))	129,461	92,767
- Collective assessment allowance (Note 8(ix))	130,732	124,146
	260,193	216,913
Write back/recoveries of allowance for impaired loans, advances and financing made during the year		
- Individual assessment allowance (Note 8(ix))	(80,098)	(55,568)
- Collective assessment allowance (Note 8(ix))	(105,027)	(111,410)
	(185,125)	(166,978)
Loans, advances and financing waived	1,186	-
Recoveries from bad loans, advances and financing written-off	(33,027)	(23,761)
<b>Total allowance for impairment loss on loans, advances and financing</b>	<b>43,227</b>	<b>26,174</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 32. Writeback for impairment on available-for-sale financial investments

	Group and Bank	
	2016	2015
	RM'000	RM'000
Writeback for impairment loss on:		
- quoted securities	-	(297)
	-	(297)

### 33. Tax expense/(credit) and zakat

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
<b>Income tax:</b>				
Tax expense for the year	1,680	994	29	26
Under provision in prior years	1,840	25	-	25
	3,520	1,019	29	51
<b>Deferred tax (Note 16):</b>				
Origination or reversal of temporary differences	5,824	14,492	5,824	14,492
Under provision of deferred tax assets in prior years	(6,968)	(247)	(6,968)	(247)
	(1,144)	14,245	(1,144)	14,245
<b>Total tax expense/(credit) for the year</b>	<b>2,376</b>	<b>15,264</b>	<b>(1,115)</b>	<b>14,296</b>
<b>Zakat:</b>				
Zakat for the year	4,000	2,000	4,000	2,000
Under provision of zakat in prior year	1,793	-	1,793	-
<b>Total zakat for the year</b>	<b>5,793</b>	<b>2,000</b>	<b>5,793</b>	<b>2,000</b>

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2015: 25%) of the estimated assessable profit for the year.

The reconciliation between tax expense/(credit) and accounting profit of the Group and of the Bank multiplied by the applicable corporate tax rate is as follows:

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Profit before tax and zakat	71,461	54,731	66,930	48,315
Income tax expense at 24% (2015: 25%)	17,151	13,428	16,063	12,531
Non-deductible expenses	4,000	2,048	3,682	2,056
Non-taxable income	(13,732)	(69)	(13,892)	(69)
Effects of share of associates' post-tax loss included in Group's profit before taxation	85	79	-	-
Under provision of deferred tax assets in prior years	(6,968)	(247)	(6,968)	(247)
Under provision of income tax in prior years	1,840	25	-	25
<b>Total tax expense/(credit) for the year</b>	<b>2,376</b>	<b>15,264</b>	<b>(1,115)</b>	<b>14,296</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 34. Earnings per share

Basic earnings per share amount is calculated by dividing profit for the year net of tax, attributable to owner of the Bank by the weighted average number of ordinary shares outstanding during the financial year.

The following tables reflect the profit and share data used in the computation of basic earnings per share for the year ended 31 December:

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Profit for the year attributable to owner of the Bank	63,292	37,467	62,252	32,019
Earnings per share attributable to owner of the Bank (sen) - Basic	4.69	2.78	4.61	2.37
			Group and Bank	
			2016	2015
			RM'000	RM'000
Number of ordinary shares for basic profit per share computation			1,350,000	1,350,000

### 35. Commitment and contingencies

(i) Loans, advances and financing related commitments and contingencies of the Group and of the Bank are as follows:

	Group and Bank	
	2016	2015
	RM'000	RM'000
Direct credit substitutes	150,933	169,354
Transaction-related-contingent items	229,877	254,526
Irrevocable commitments to extend credit:		
- maturity exceeding one year	61,698	78,878
- maturity not exceeding one year	736,864	536,268
Profit rate related contract	250,000	400,000
	1,429,372	1,439,026

(ii) Capital expenditure commitments of the Group and of the Bank are as follows:

	Group and Bank	
	2016	2015
	RM'000	RM'000
Approved and contracted for:		
Property, plant and equipment	12,490	10,333
Information Technology system	4,998	703
Kompleks Kilang Bimbingan construction	38	440
	17,526	11,476
Total commitments and contingencies	1,446,898	1,450,502

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 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.

##### 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 lieu of this, 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.

The capital adequacy ratios of the Group and of the Bank are computed in accordance with the requirements of the Bank Negara Malaysia's Capital Framework for Development Financial Institutions that is based on Basel I capital adequacy framework requirements.

The following table set forth capital resources and capital adequacy for the Group and the Bank's as at end of the reporting period:

	Group		Bank	
	2016 RM'000	2015 RM'000 Restated	2016 RM'000	2015 RM'000 Restated
<u>Tier I Capital</u>				
Paid-up share capital	1,350,000	1,350,000	1,350,000	1,350,000
Retained earnings	119,526	62,984	108,672	53,170
General reserves	10,114	10,114	10,114	10,114
Less: Deferred tax assets	(155,086)	(159,479)	(155,086)	(159,479)
Less: Property revaluation reserve	(197,489)	(164,122)	(197,489)	(164,122)
<b>Total Tier I capital</b>	<b>1,127,065</b>	<b>1,099,497</b>	<b>1,116,211</b>	<b>1,089,683</b>
<u>Tier II Capital</u>				
Collective allowance for loans, advances and financing*	79,157	69,605	79,157	69,605
Property revaluation reserve^	98,744	82,061	98,744	82,061
Government funds	305,044	284,841	305,044	284,841
<b>Total Tier II capital</b>	<b>482,945</b>	<b>436,507</b>	<b>482,945</b>	<b>436,507</b>
<b>Total capital</b>	<b>1,610,010</b>	<b>1,536,004</b>	<b>1,599,156</b>	<b>1,526,190</b>
Less: Investment in subsidiaries	-	-	(3,582)	(3,582)
<b>Total capital base</b>	<b>1,610,010</b>	<b>1,536,004</b>	<b>1,595,574</b>	<b>1,522,608</b>

\* The eligible amount for Tier II Capital is only limited to the excess of total collective allowances over the identifiable incurred losses in the collective allowance pool.

^ The eligible amount for Tier II Capital is only limited to 50% of property revaluation reserves.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 36. Capital adequacy (cont'd)

#### Capital management (cont'd)

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

	Group		Bank	
	2016 RM'000	2015 RM'000 Restated	2016 RM'000	2015 RM'000 Restated
20%	206,787	296,663	206,787	296,663
50%	25,690	31,251	25,690	31,251
100%	8,367,896	7,324,839	8,367,896	7,324,839
	8,600,373	7,652,753	8,600,373	7,652,753
Before deducting proposed dividends:				
Core capital ratio	13.10%	14.37%	12.98%	14.24%
Risk-weighted capital ratio	18.72%	20.07%	18.55%	19.90%
After deducting proposed dividends:				
Core capital ratio	12.96%	14.28%	12.79%	14.15%
Risk-weighted capital ratio	18.53%	19.98%	18.36%	19.81%

#### Capital monitoring

The Group's and the Bank's capital are closely monitored and actively managed. Beside the regulatory capital requirement of 8%, the Group and the Bank set an internal capital limit that would act as a trigger to the regulatory capital and as an indicator that affords the Group and the Bank "well capitalised" status. Internal capital limit and regulatory capital requirement shall be closely monitored, regularly reviewed and reported to management and the Board of Directors.

### 37. Related party transactions

#### (a) Parent entity

The Bank is a Government Linked Corporation, with all shares held by the Ministry of Finance and is incorporated on behalf of the Government of Malaysia. All Government of Malaysia controlled entities meet the definition of the related parties of the Group and of the Bank.

#### (b) Compensation of key management personnel

The compensation of key management personnel other than the directors of the Group and of the Bank as disclosed in Note 30 is as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Salaries and other emoluments	9,270	8,503	9,270	8,503
Defined contribution plan	1,393	1,271	1,393	1,271
	10,663	9,774	10,663	9,774

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 37. Related party transactions (cont'd)

(c) Related party transactions

The significant outstanding balances of the Group and of the Bank with its related parties are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Long term loans from Ministry of Finance (Note 21)	1,561,179	1,628,917	1,561,179	1,628,917
Interest payable to Ministry of Finance (Note 21)	52,065	59,732	52,065	59,732
Deposit acceptance from government agencies (Note 17(i))	2,530,826	2,089,409	2,530,826	2,089,409
Interest payable to government agencies (Note 17(i))	14,873	15,510	14,873	15,510
Government fund from MITI	256,562	232,936	256,562	232,936
Government fund from MRRD (Note 23b)	48,194	47,758	48,194	47,758
Forex exchange receivable from government agencies (Note 8(viii))	3,873	9,468	3,873	9,468
	4,467,572	4,083,730	4,467,572	4,083,730

### 38. Fair value of financial instruments

Financial instruments comprise of financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The information presented herein represents best estimates of fair value of financial instruments at the reporting period.

For loans, advances and financing to customers, where such market prices are not available, various methodologies have been used to estimate the approximate fair value 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, historical 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 of 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 end of the reporting period. The fair value information presented herein should also in no way be construed as representative of the underlying value of the Group and of the Bank as a going concern.

The on-balance sheet financial assets and financial liabilities of the Group and of the Bank whose fair values are required to be disclosed in accordance with MFRS 132 comprise all its assets and liabilities with the exception of investments in subsidiaries, investments in associate, property, plant and equipment, government funds and deferred taxation.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 38. Fair value of financial instruments (cont'd)

The estimated fair value of those on-balance sheet financial assets and financial liabilities as at the end of the reporting period approximate their carrying amounts as shown in the statements of financial position, except for the following financial assets and liabilities:

	Group		Bank	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
<b>31 December 2016</b>				
<b>Financial assets:</b>				
Financial investments:				
Available-for-sale (Note 6)				
- Unquoted shares, at amortised cost*	3,123	3,123	3,123	3,123
Held-to-maturity, at amortised cost	616,832	616,825	616,832	616,825
Loans, advances and financing	6,227,528	5,709,001	5,779,024	5,139,191
<b>Financial liabilities:</b>				
Borrowing	2,683,818	2,187,444	2,683,818	2,187,444
<b>31 December 2015</b>				
<b>Financial assets:</b>				
Financial investments:				
Available-for-sale (Note 6)				
- Unquoted shares, at amortised cost*	3,123	3,123	3,123	3,123
Held-to-maturity, at amortised cost	639,798	625,857	639,798	625,857
Loans, advances and financing	5,638,375	4,942,469	5,155,012	4,497,409
<b>Financial liabilities:</b>				
Borrowing	2,775,523	2,644,413	2,775,523	2,644,413

\* Available-for-sale unquoted shares are stated at their carrying amounts as their fair value cannot be reliably measured in view that they do not have a quoted price in an active market, the range of reasonable fair value estimates is significant and the probabilities of various estimates cannot be reliably measured.

The methods and assumptions used in estimating the fair values of other financial instruments are as follows:

**(a) Cash and bank balances, deposits and placements with banks and other financial institutions, and deposits from customers**

The carrying amount approximates fair value due to the relatively short maturity of these financial instruments.

**(b) Quoted equity instruments and quoted government bonds**

The fair value is determined directly by reference to their published market bid price at the end of the reporting period.



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 38. Fair value of financial instruments (cont'd)

#### (c) 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 variable and fixed rate loans, advances and 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 end of the reporting period offered for similar loans to new borrowers with similar credit profiles, where applicable. For impaired loans, the fair values are deemed to approximate the carrying values, net of impairment allowance.

#### (d) Term loans

The fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing rates at the end of the reporting period obtained for similar loans with similar maturities, where applicable.

#### (e) Determination of fair value and fair value hierarchy

The Group and the Bank use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 : Quoted (unadjusted) prices in active markets of identical asset or liabilities;

Level 2 : Other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 : Techniques which use inputs which have significant effect on the fair value that are not based on observable market data.

#### Financial investment - Available-for-sale

Available-for-sale financial assets valued using valuation techniques or pricing models primarily consist of unquoted equities and debt securities.

#### (i) Private debt securities, Malaysian Government Securities and Malaysian Government Investment Issues

The fair values of private debt securities, Malaysian Government Securities and Malaysian Government Investment Issues are determined by reference to the market value of these instruments published by pricing agency in Malaysia.

#### (ii) Quoted shares

The fair value of quoted shares is determined directly by reference to their published market bid price at the end of the reporting period.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 38. Fair value of financial instruments (cont'd)

The following table provides the fair value measurement hierarchy of the Group's and of the Bank's assets and liabilities.

	Group			Total RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
<b>31 December 2016</b>				
<b><u>Assets measured at fair value:</u></b>				
Financial assets:				
Financial investments:				
Available-for-sale (Note 6)				
- Private debt securities	-	1,098,696	-	1,098,696
- Malaysian Government Investment Issues	-	547,854	-	547,854
- Malaysian Government Securities	-	169,908	-	169,908
- Commercial papers	-	95,341	-	95,341
<b><u>Assets and liabilities for which fair values are disclosed</u></b>				
<b>Financial assets:</b>				
Loans, advances and financing	-	-	5,709,001	5,709,001
<b>Financial liabilities:</b>				
Term loans	-	-	2,187,444	2,187,444
<b>31 December 2015</b>				
<b><u>Assets measured at fair value:</u></b>				
<b>Financial assets:</b>				
Financial investments:				
Available-for-sale (Note 6)				
- Private debt securities	-	1,038,320	-	1,038,320
- Malaysian Government Investment Issues	-	667,779	-	667,779
- Malaysian Government Securities	-	197,004	-	197,004
- Commercial papers	-	20,169	-	20,169
<b><u>Assets and liabilities for which fair values are disclosed</u></b>				
<b>Financial assets:</b>				
Loans, advances and financing	-	-	4,942,469	4,942,469
<b>Financial liabilities:</b>				
Borrowing	-	-	2,644,413	2,644,413

There were no transfers between Level 1 and Level 2 during the current and previous financial years.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 38. Fair value of financial instruments (cont'd)

The following table provides the fair value measurement hierarchy of the Group's and of the Bank's financial assets and financial liabilities (cont'd)

	Bank			Total RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
<b>31 December 2016</b>				
<b><u>Assets measured at fair value:</u></b>				
<b>Financial assets:</b>				
Financial investments:				
Available-for-sale				
- Private debt securities	-	1,098,696	-	1,098,696
- Malaysian Government Investment Issues	-	547,854	-	547,854
- Malaysian Government Securities	-	169,908	-	169,908
- Commercial papers	-	95,341	-	95,341
<b><u>Assets and liabilities for which fair values are disclosed</u></b>				
<b>Financial assets:</b>				
Loans, advances and financing	-	-	5,139,191	5,139,191
<b>Financial liabilities:</b>				
Borrowing	-	-	2,187,444	2,187,444
<b>31 December 2015</b>				
<b><u>Assets measured at fair value:</u></b>				
<b>Financial assets:</b>				
Financial investments:				
Available-for-sale				
- Private debt securities	-	1,038,320	-	1,038,320
- Malaysian Government Investment Issues	-	667,779	-	667,779
- Malaysian Government Securities	-	197,004	-	197,004
- Commercial papers	-	20,169	-	20,169
<b><u>Assets and liabilities for which fair values are disclosed</u></b>				
<b>Financial assets:</b>				
Loans, advances and financing	-	-	4,497,409	4,497,409
<b>Financial liabilities:</b>				
Borrowing	-	-	2,644,413	2,644,413

There were no transfers between Level 1 and Level 2 during the current and previous financial years.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies

The Group's financial risk management policies have been established with the objective to enhance shareholder's value. The Group focuses on the enterprise wide risk exposure, which include credit risk, market risk, operational risk and seeks to minimise potential adverse effects on the financial performance of the Group.

#### Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management principles and strategies. Separate independent bodies and functions have been established and are responsible in assisting the Board of Directors in managing and monitoring risks, which are elaborated as follows:

##### (a) Board Risk Management Committee

The Board Risk Management Committee has the overall responsibilities for the development of the risk strategies and implementing principles, frameworks, policies and limits. The Risk Management Committee is responsible for managing risk decisions and monitoring risk levels.

##### (b) Risk Management and Compliance

The Risk Management and Compliance is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained.

Risk Management and Compliance is also responsible for monitoring and review of compliance with risk principles, policies and limits across the Bank as well as applicable laws and regulations. The function ensures the completeness of risk identification, measurement, monitoring and reporting.

##### (c) Treasury and Asset and Liability Management

Treasury and Asset and Liability Management are responsible for managing the Bank's assets and liabilities and the overall financial structure. Treasury and Asset and Liability Management are also responsible for the funding and liquidity of the Bank.

##### (d) Internal Audit

The Internal Audit function provides an on-going focus on the internal control systems and periodic reviews of the risk management processes. It also reviews compliance with approved policies, as well as applicable laws and regulations.

Internal Audit also evaluates the independence and overall effectiveness of the risk management systems. Internal Audit's assessment on the adequacy of internal controls will involve understanding, documenting, evaluating and testing the Group's and of the Bank's internal control system and follow-up on corrective actions and review of management's action to address material weaknesses.

##### (e) Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented to various committee at management level before submitting to the Board Risk Management Committee (BRMC) and Board of Directors. The monthly report provides aggregate credit exposure, limit exceptions, liquidity ratios and risk profile changes including detailed reporting of industry and customer risks. Senior Management Committee (SMC) assesses the appropriateness of the provision for credit losses on a monthly basis. The BRMC receives a comprehensive risk report which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (e) Risk measurement and reporting systems (cont'd)

The main areas of financial risks faced by the Bank 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/financing origination, approval, documentation, disbursement and settlement.

The Bank's Credit and Risk Management manages and reviews asset quality, reviews concentration limits, according to various categories such as customer, economic segment and product types and monitors 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 has been established to measure the credit worthiness of each customer. The primary objectives are to provide a consistent approach in risk grading of the Bank's borrowers.

The Bank adopts best practices as set out in Bank Negara Malaysia (BNM) Guidelines on Best Practices for the Management of Credit Risk for Development Financial Institutions. Credit Risk Management Framework has also been established in line with the best practices.

Internal single customer limits are regularly monitored to minimise the risk of over-concentration. The overall risk management is subjected to an on-going process for review and enhancement.

Credit reviews on loan applications before being approved by the approving authorities are performed. Various Credit Committees have been established to review all financing to be submitted for the approval of the respective approving authorities and the directors. The respective credit committees have approving authority up to a specified limit.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (e) Risk measurement and reporting systems (cont'd)

##### (a) Credit risk (cont'd)

##### (i) Credit exposure

The credit risk exposure of the Group and the Bank at the end of the reporting period are as follows:

	Group	
	2016 RM'000	2015 RM'000
<b>On balance sheet:</b>		
Cash and short term funds	841,897	1,255,803
Deposits and placements with banks and other financial institutions	228,005	180,952
Available-for-sale financial investments	1,914,922	1,926,395
Held-to-maturity financial investments	616,832	639,798
Loans, advances and financing	6,227,528	5,638,375
Derivative (liabilities)/assets	(1,117)	1,442
	9,828,067	9,642,765
<b>On balance sheet:</b>		
Other assets not subject to credit risk	742,627	707,502
	10,570,694	10,350,267
<b>Off balance sheet:</b>		
Commitments and contingency (Note 35)	1,446,898	1,450,502
	12,017,592	11,800,769
	Bank	
	2016	2015
	RM'000	RM'000
<b>On balance sheet:</b>		
Cash and short term funds	827,988	1,249,356
Deposits and placements with banks and other financial institutions	228,005	180,952
Available-for-sale financial investments	1,914,922	1,926,395
Held-to-maturity financial investments	616,832	639,798
Loans, advances and financing	5,779,024	5,155,012
Derivative (liabilities)/assets	(1,117)	1,442
	9,365,654	9,152,955
Other assets not subject to credit risk	1,285,153	1,243,144
	10,650,807	10,396,099
<b>Off balance sheet:</b>		
Commitments and contingency (Note 35)	1,446,898	1,450,502
	12,097,705	11,846,601

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (e) Risk measurement and reporting systems (cont'd)

##### (a) Credit risk (cont'd)

##### (ii) Gross loans, advances and financing are rated based on internal rating by the Bank:

Group 31 December 2016	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Total RM'000
<b>Risk rating category</b>			
Highest safety*	1,286,603	80,745	1,367,348
Moderate safety**	3,663,145	274,117	3,937,262
High risk***	59,982	10,992	70,974
Non-rated	14,730	22,239	36,969
	5,024,460	388,093	5,412,553

Group 31 December 2015	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Total RM'000
<b>Risk rating category</b>			
Highest safety*	992,189	14,995	1,007,184
Moderate safety**	3,390,467	176,467	3,566,934
High risk***	90,922	6,956	97,878
Non-rated	117,725	36,783	154,508
	4,591,303	235,201	4,826,504

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (e) Risk measurement and reporting systems (cont'd)

##### (a) Credit risk (cont'd)

##### (ii) Gross loans, advances and financing are rated based on internal rating by the Bank:

Bank 31 December 2016	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Total RM'000
<b>Risk rating category</b>			
Highest safety*	1,286,603	80,745	1,367,348
Moderate safety**	3,663,145	274,117	3,937,262
High risk***	56,391	10,992	67,383
Non-rated	14,730	22,239	36,969
	5,020,869	388,093	5,408,962

Bank 31 December 2015	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Total RM'000
<b>Risk rating category</b>			
Highest safety*	992,189	14,995	1,007,184
Moderate safety**	3,390,468	176,467	3,566,935
High risk***	90,922	6,956	97,878
Non-rated	117,724	36,783	154,507
	4,591,303	235,201	4,826,504

\* Strong capacity to meet financial commitments

\*\* Moderate capacity to meet financial commitments

\*\*\* Poor credit quality and high risk of default

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitate focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

Non-rated risk relates to I-Cash-payment and I-Splash which are managed through salary deduction by Angkasa and secured by contract from government respectively.



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (e) Risk measurement and reporting systems (cont'd)

##### (a) Credit risk (cont'd)

(iii) The following table sets out the credit risk concentration by industry sector (gross balances):

Group	Short-term funds, and placements with financial institutions	Available- for-sale financial investments	Held-to- maturity financial investments	Loans, advances and financing	Other assets	Derivative (liabilities)	Total	Commitments
31 December 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Government	-	717,762	124,350	-	-	-	842,112	-
Import, export, wholesale and retail trade and restaurant and hotels	-	-	-	1,772,465	-	-	1,772,465	-
Manufacturing	-	-	-	1,139,321	-	-	1,139,321	-
Community, social and personal services	-	-	-	1,066,869	-	-	1,066,869	-
Transportation and communication	-	-	-	929,630	-	-	929,630	-
Financial, insurance, real estate and business services	1,069,902	1,197,160	492,482	701,976	-	(1,117)	3,460,403	-
Constructions	-	-	-	916,709	-	-	916,709	-
Mining and quarrying	-	-	-	30,498	-	-	30,498	-
Electricity, gas and water supply	-	-	-	21,326	-	-	21,326	-
Agriculture, forestry and fishing	-	-	-	3,816	-	-	3,816	-
Others	-	-	-	21,757	-	-	21,757	1,446,898
Gross total	1,069,902	1,914,922	616,832	6,604,367	-	(1,117)	10,204,906	1,446,898
Less: Allowances for impairment	-	-	-	(376,839)	-	-	(376,839)	-
	1,069,902	1,914,922	616,832	6,227,528	-	(1,117)	9,828,067	1,446,898
Other assets not subject to credit risk	-	-	-	-	742,627	-	742,627	-
	1,069,902	1,914,922	616,832	6,227,528	742,627	(1,117)	10,570,694	1,446,898

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (e) Risk measurement and reporting systems (cont'd)

##### (a) Credit risk (cont'd)

(iii) The following table sets out the credit risk concentration by industry sector (gross balances): (cont'd)

Group	Short-term funds, and placements with financial institutions	Available-for-sale financial investments	Held-to-maturity financial investments	Loans, advances and financing	Other assets	Derivative asset	Total	Commitments
31 December 2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Government	-	864,783	131,374	-	-	-	996,157	-
Import, export, wholesale and retail trade and restaurant and hotels	-	-	-	1,718,618	-	-	1,718,618	-
Manufacturing	-	-	-	1,069,179	-	-	1,069,179	-
Community, social and personal services	-	-	-	926,370	-	-	926,370	-
Transportation and communication	-	-	-	862,416	-	-	862,416	-
Financial, insurance, real estate and business services	1,436,755	1,061,612	508,424	601,036	-	1,442	3,609,269	-
Constructions	-	-	-	682,071	-	-	682,071	-
Mining and quarrying	-	-	-	43,367	-	-	43,367	-
Electricity, gas and water supply	-	-	-	34,003	-	-	34,003	-
Agriculture, forestry and fishing	-	-	-	9,027	-	-	9,027	-
Others	-	-	-	24,586	-	-	24,586	14,505,052
Gross total	1,436,755	1,926,395	639,798	5,970,673	-	1,442	9,975,063	14,505,052
Less: Allowances for impairment	-	-	-	(332,298)	-	-	(332,298)	-
	1,436,755	1,926,395	639,798	5,638,375	-	1,442	9,642,765	14,505,052
Other assets not subject to credit risk						707,502		707,502
	1,436,755	1,926,395	639,798	5,638,375	707,502	1,442	10,350,267	14,505,052

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (e) Risk measurement and reporting systems (cont'd)

##### (a) Credit risk (cont'd)

(iii) The following table sets out the credit risk concentration by industry sector (gross balances): (cont'd)

Bank	Short-term funds, and placements with financial institutions	Available-for-sale financial investments	Held-to-maturity financial investments	Loans, advances and financing	Other assets	Derivative liabilities	Total	Commitments
31 December 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Government	-	717,762	124,350	-	-	-	842,112	-
Import, export, wholesale and retail trade and restaurant and hotels	-	-	-	1,496,438	-	-	1,496,438	-
Manufacturing	-	-	-	990,388	-	-	990,388	-
Community, social and personal services	-	-	-	1,033,730	-	-	1,033,730	-
Transportation and communication	-	-	-	847,950	-	-	847,950	-
Financial, insurance, real estate and business services	1,055,993	1,197,160	492,482	688,815	-	(1,117)	3,433,333	-
Constructions	-	-	-	913,977	-	-	913,977	-
Mining and quarrying	-	-	-	30,498	-	-	30,498	-
Electricity, gas and water supply	-	-	-	20,250	-	-	20,250	-
Agriculture, forestry and fishing	-	-	-	3,503	-	-	3,503	-
Others	-	-	-	21,757	-	-	21,757	1,446,898
Gross total	1,055,993	1,914,922	616,832	6,047,306	-	(1,117)	9,633,936	1,446,898
Less: Allowances for impairment	-	-	-	(268,282)	-	-	(268,282)	-
	1,055,993	1,914,922	616,832	5,779,024	-	(1,117)	9,365,654	1,446,898
Other assets not subject to credit risk	-	-	-	-	1,285,153	-	1,285,153	-
	1,055,993	1,914,922	616,832	5,779,024	1,285,153	(1,117)	10,650,807	1,446,898

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (e) Risk measurement and reporting systems (cont'd)

##### (a) Credit risk (cont'd)

(iii) The following table sets out the credit risk concentration by industry sector (gross balances): (cont'd)

Bank	Short-term funds, and placements with financial institutions	Available-for-sale financial investments	Held-to-maturity financial investments	Loans, advances and financing	Other assets	Derivative asset	Total	Commitments
31 December 2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Government	-	864,783	131,374	-	-	-	996,157	-
Import, export, wholesale and retail trade and restaurant and hotels	-	-	-	1,398,559	-	-	1,398,559	-
Manufacturing	-	-	-	914,820	-	-	914,820	-
Community, social and personal services	-	-	-	886,494	-	-	886,494	-
Transportation and communication	-	-	-	797,802	-	-	797,802	-
Financial, insurance, real estate and business services	1,430,308	1,061,612	508,424	594,665	-	1,442	3,596,451	-
Constructions	-	-	-	679,016	-	-	679,016	-
Mining and quarrying	-	-	-	43,367	-	-	43,367	-
Electricity, gas and water supply	-	-	-	32,751	-	-	32,751	-
Agriculture, forestry and fishing	-	-	-	8,711	-	-	8,711	-
Others	-	-	-	24,586	-	-	24,586	1,450,502
Gross total	1,430,308	1,926,395	639,798	5,380,771	-	1,442	9,378,714	1,450,502
Less: Allowances for impairment	-	-	-	(225,759)	-	-	(225,759)	-
	1,430,308	1,926,395	639,798	5,155,012	-	1,442	9,152,955	1,450,502
Other assets not subject to credit risk	-	-	-	-	1,243,144	-	1,243,144	-
	1,430,308	1,926,395	639,798	5,155,012	1,243,144	1,442	10,396,099	1,450,502

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (e) Risk measurement and reporting systems (cont'd)

##### (a) Credit risk (cont'd)

(iv) Analysis of gross loans, advances and financing that are past due but not impaired and past due and impaired of the Group and of the Bank is as follows:

Group	Past due but not impaired				Past due and impaired RM'000	Total RM'000
	Current RM'000	1 month RM'000	>2 - 3 months RM'000	>3 - 6 months RM'000		
<b>31 December 2016</b>						
Term loans						
- Hire purchase	163,411	2,256	3,711	8,184	63,780	241,342
- Leasing	247,616	3,831	7,030	4,861	44,535	307,873
- Other term loans	3,932,290	74,752	144,587	108,381	1,037,279	5,297,289
Revolving credits	676,473	1,257	6,131	6,025	46,220	736,106
Staff loan	-	-	-	21,757	-	21,757
	5,019,790	82,096	161,459	149,208	1,191,814	6,604,367
<b>31 December 2015</b>						
Term loans						
- Hire purchase	262,430	1,707	1,992	2,501	54,985	323,615
- Leasing	205,661	3,196	20,195	1,491	42,255	272,798
- Other term loans	3,735,887	20,142	78,433	69,272	990,438	4,894,172
Revolving credits	387,325	-	7,348	4,338	56,491	455,502
Staff loan	-	-	-	24,586	-	24,586
	4,591,303	25,045	107,968	102,188	1,144,169	5,970,673

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (e) Risk measurement and reporting systems (cont'd)

##### (a) Credit risk (cont'd)

(iv) Analysis of gross loans, advances and financing that are past due but not impaired and past due and impaired of the Group and of the Bank is as follows: (cont'd)

Bank	Past due but not impaired				Past due and impaired RM'000	Total RM'000
	Current RM'000	1 month RM'000	>2 - 3 months RM'000	>3 - 6 months RM'000		
<b>31 December 2016</b>						
Term loans						
- Hire purchase	163,411	2,256	3,711	8,184	21,736	199,298
- Leasing	247,616	3,831	7,030	4,861	17,060	280,398
- Other term loans	3,933,369	74,752	144,587	103,711	571,184	4,827,603
Revolving credits	676,473	1,257	6,131	6,025	28,364	718,250
Staff loan	-	-	-	21,757	-	21,757
	5,020,869	82,096	161,459	144,538	638,344	6,047,306
<b>31 December 2015</b>						
Term loans						
- Hire purchase	262,430	1,707	1,992	2,501	13,723	282,353
- Leasing	205,661	3,196	20,195	1,491	15,764	246,307
- Other term loans	3,735,887	20,142	78,433	69,272	487,079	4,390,813
Revolving credits	387,325	-	7,348	4,338	37,701	436,712
Staff loan	-	-	-	24,586	-	24,586
	4,591,303	25,045	107,968	102,188	554,267	5,380,771

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (e) Risk measurement and reporting systems (cont'd)

##### (a) Credit risk (cont'd)

##### (v) Collateral and credit enhancement

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral and credit enhancement obtained are charges over real estate properties, vehicles, plant and machineries, inventories, trade receivables, and guarantees.

Management monitors the market value of collateral and ascertains the market value of collateral obtained during its review for the adequacy of impairment losses.

##### (vi) Collateral and credit enhancement for loans, advances and financing

Collateral represents the asset pledged by a borrower 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.

The Group and the Bank will 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:

<b>31 December 2016</b>	<b>Gross</b>	<b>Estimated</b>
	<b>loans</b>	<b>fair value</b>
<b>Group</b>	<b>RM'000</b>	<b>of collateral</b>
		<b>(%)</b>
Import, export, wholesale, retail trade, restaurants and hotels	1,772,465	72.8
Manufacturing	1,139,321	57.2
Community, social and personal services	1,066,869	61.2
Transportation and communication	929,630	75.1
Financial, insurance, real estate and business services	701,976	60.5
Constructions	916,709	49.8
Mining and quarrying	30,498	63.8
Electricity, gas and water supply	21,326	71.7
Agriculture, forestry and fishing	3,816	40.9
Others	21,757	-
	<b>6,604,367</b>	

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (e) Risk measurement and reporting systems (cont'd)

##### (a) Credit risk (cont'd)

##### (vi) Collateral and credit enhancement for loans, advances and financing (cont'd)

<b>31 December 2015</b>	<b>Gross loans RM'000</b>	<b>Estimated fair value of collateral (%)</b>
<b>Group</b>		
Import, export, wholesale, retail trade, restaurants and hotels	1,718,618	82.7
Manufacturing	1,069,179	57.6
Community, social and personal services	926,370	69.6
Transportation and communication	862,416	75.8
Financial, insurance, real estate and business services	601,036	60.5
Constructions	682,071	44.3
Mining and quarrying	43,367	42.0
Electricity, gas and water supply	34,003	70.2
Agriculture, forestry and fishing	9,027	74.0
Others	24,586	-
	<b>5,970,673</b>	

<b>31 December 2016</b>	<b>Gross loans RM'000</b>	<b>Estimated fair value of collateral (%)</b>
<b>Bank</b>		
Import, export, wholesale, retail trade, restaurants and hotels	1,496,438	76.5
Manufacturing	990,388	59.7
Community, social and personal services	1,033,730	61.5
Transportation and communication	847,950	75.0
Financial, insurance, real estate and business services	688,815	60.6
Constructions	913,977	49.7
Mining and quarrying	30,498	63.8
Electricity, gas and water supply	20,250	71.7
Agriculture, forestry and fishing	3,503	40.9
Others	21,757	-
	<b>6,047,306</b>	



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (e) Risk measurement and reporting systems (cont'd)

##### (a) Credit risk (cont'd)

##### (vi) Collateral and credit enhancement for loans, advances and financing (cont'd)

31 December 2015	Gross loans RM'000	Estimated fair value of collateral (%)
<b>Bank</b>		
Import, export, wholesale, retail trade, restaurants and hotels	1,398,559	78.1
Manufacturing	914,820	55.8
Community, social and personal services	886,494	70.9
Transportation and communication	797,802	76.9
Financial, insurance, real estate and business services	594,665	60.7
Constructions	679,016	44.4
Mining and quarrying	43,367	42.0
Electricity, gas and water supply	32,751	74.3
Agriculture, forestry and fishing	8,711	76.2
Others	24,586	-
	5,380,771	

##### (vii) Restructured loans/financing

Restructured loans/financing refer 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 gross of restructured loans/financing held by the Group and the Bank at the end of reporting period stood at RM562 million (2015: RM750 million).

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (e) Risk measurement and reporting systems (cont'd)

##### (a) Credit risk (cont'd)

##### (viii) Credit quality for treasury credit risk exposures

The table below shows treasury credit risk exposures by the current counterparties' rating:

#### Group and Bank

##### Financial investments:

	Rating agency	Credit rating	Nominal value 2016 RM'000	Nominal value 2015 RM'000
Corporate bonds	RAM	AAA	240,000	130,000
Corporate bonds	MARC	AAA	105,000	105,000
Corporate bonds	RAM	AA1	130,000	50,000
Corporate bonds	RAM	AA2	115,000	125,000
Corporate bonds	RAM	AA3	155,000	245,000
Corporate bonds	MARC	AA+	10,000	5,000
Corporate bonds	MARC	AA-	10,000	10,000
Malaysian Government Bonds	N/A	Exempted	1,015,000	1,150,000
Government Guarantee Bonds	N/A	Exempted	435,000	620,000
Non-rated			230,000	130,000
<b>Total</b>			<b>2,445,000</b>	<b>2,570,000</b>

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

Rating for counterparty	Total principal outstanding 2016 RM'000	Total principal outstanding 2015 RM'000
AAA	130,000	324,840
AA	495,950	366,000
A	350,000	387,000
Non-rated	45,000	296,000
<b>Total</b>	<b>1,020,950</b>	<b>1,373,840</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (e) Risk measurement and reporting systems (cont'd)

##### (a) Credit risk (cont'd)

##### (ix) Impairment assessment

For accounting purposes, the Group and the Bank use an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed.

The main considerations for the loan impairment assessment include:

- (a) whether any payment of principal or interest/profit is overdue by more than 180 days; or
- (b) whether there are any known difficulties in the cash flows of counterparties; or
- (c) when there has been request for a rescheduling or restructuring of loan/ financing by the counterparty; or
- (d) when there has been an infringement of the original terms of the contract.

The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

##### **Individually assessed allowances**

The Bank determines the allowances appropriate for each individually significant loan, advances and financing to a counterparty on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at the end of each reporting period, unless unforeseen circumstances require more careful attention.

##### **Collectively assessed allowances**

Allowances are assessed collectively for losses on loans, advances and financing and for held-to-maturity debt investments that are not individually significant and for individually significant loans and advances that have been assessed individual and found not to be impaired. Allowances are evaluated separately.

In particular, for loans, advances and financing classified as impaired but which are not individually assessed for impairment, the Bank undertakes an assessment on the adequacy of provisions for such loans, advances and financing. The Bank provides additional collective impairment provisions for these loans, advances and financing.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (e) Risk measurement and reporting systems (cont'd)

##### (a) Credit risk (cont'd)

##### (x) Commitment and guarantees

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statements of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank. The table below shows the Bank's maximum credit risk exposure for commitments and guarantees.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank could have to pay if the guarantee is called on. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment.

	Group and Bank	
	2016	2015
	RM'000	RM'000
Financial guarantees, Corporate Guarantee Schemes, Letters of Credit and others	150,933	169,354
Performance guarantees	229,877	254,526
Undisbursed commitments	798,562	615,146
Profit rate related contract	250,000	400,000
	1,429,372	1,439,026

##### (b) Market risk

Asset and Liability Management Framework has been established in line with the best practices.

##### (i) Foreign exchange risk

The Group and the Bank are not subject to foreign exchange gain or loss on fluctuation of Japanese Yen (JPY) exchange rate due to the foreign exchange gain or loss on settlement of the JPY term loans is compensated by the Government of Malaysia.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (e) Risk measurement and reporting systems (cont'd)

##### (b) Market risk (cont'd)

##### (i) Foreign exchange risk (cont'd)

The financial liability of the Group and the Bank that is not denominated in its functional currency and guaranteed by the Government of Malaysia relates to the term loans from the Japan International Cooperation Agency as disclosed in Note 21.

##### (ii) Interest/Profit rate risk

Interest/Profit rate risk is the impact to earnings and economic value of Bank due to fluctuations in interest rates.

Interest/Profit rate exposure arises from the differences in the maturities and repricing dates of assets, liabilities and off-balance sheet items. These mismatches are actively monitored and managed as part of the overall interest/profit rate risk management process which is conducted in accordance with the Group's policies as approved by the Board.

The Group and the Bank may be exposed to a loss in earnings due to the interest/profit rates structure of the statements of financial position arising from interest/profit rates and yield curves changes. The sensitivity to interest/profit rates arises from the mismatches in the repricing rates, cash flows and other characteristic of the assets and their corresponding liability funding. The Group and the Bank manage their interest/profit rate risk exposure through the use of fixed/floating rate debts and financial instruments.

The table below shows the Group's and the Bank's interest income sensitivity based on possible parallel shift in interest/profit rate.

	Group and Bank	
	2016	2015
	RM'000	RM'000
<b>Impact on loans</b>		
+ 50 basis points	8,106	6,919
- 50 basis points	(8,106)	(6,919)
<b>Impact on bonds</b>		
+ 50 basis points	12,225	6,425
- 50 basis points	(12,225)	(6,425)

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (b) Market risk (cont'd)

##### (i) Interest/profit rate risk (cont'd)

Group 31 December 2016	← Non-trading book →						Non- interest sensitive RM'000	Total RM'000	Effective interest/ profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000				
<b>Assets</b>									
Cash and short term funds	41,757	800,140	-	-	-	-	-	841,897	3.79
Deposits and placements with bank and other financial institutions	-	-	228,005	-	-	-	-	228,005	3.30
Available-for-sale financial investments	-	-	141,080	534,967	1,235,752	3,123	-	1,914,922	4.44
Held-to-maturity financial investments	-	-	50,690	320,695	245,447	-	-	616,832	4.40
Loans, advances and financing	5,019,790	243,555	149,208	-	-	814,975	-	6,227,528	5.79
Other assets	-	-	-	-	-	-	40,402	40,402	
Derivative asset	-	-	-	-	-	-	-	-	
Investments in associate	-	-	-	-	-	4,170	-	4,170	
Property, plant and equipment	-	-	-	-	-	151,728	-	151,728	
Investment properties	-	-	-	-	-	358,170	-	358,170	
Intangible assets	-	-	-	-	-	8,021	-	8,021	
Tax recoverable	-	-	-	-	-	23,933	-	23,933	
Deferred tax	-	-	-	-	-	155,086	-	155,086	
	5,061,547	1,043,695	568,983	855,662	1,481,199	1,559,608	-	10,570,694	

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (b) Market risk (cont'd)

##### (i) Interest/profit rate risk (cont'd)

Group 31 December 2016 (cont'd)	←———— Non-trading book —————→						Non- interest sensitive RM' 000	Total RM' 000	Effective interest/ profit rate %
	Up to 1 month RM' 000	>1 - 3 months RM' 000	>3 - 12 months RM' 000	>1 - 5 years RM' 000	Over 5 years RM' 000				
<b>Liabilities and shareholder's equity</b>									
Deposits from customers	1,823,035	1,091,686	633,536	-	-	-	3,548,257	3.91	
Deposits from other financial institutions	200,302	-	-	-	-	-	200,302	3.44	
Derivative financial liabilities	1,117	-	-	-	-	-	1,117	3.39	
Medium term notes	-	-	19,795	1,250,000	250,000	-	1,519,795	3.76	
Borrowings	4,504	198,683	88,864	-	2,391,767	-	2,683,818	2.65	
Other liabilities	-	-	-	-	-	869,399	869,399		
Government funds	-	-	-	-	-	305,044	305,044		
<b>Total liabilities</b>	<b>2,028,958</b>	<b>1,290,369</b>	<b>742,195</b>	<b>1,250,000</b>	<b>2,641,767</b>	<b>1,174,443</b>	<b>9,127,732</b>		
Share capital	-	-	-	-	-	1,350,000	1,350,000		
Retained earning	-	-	-	-	-	119,526	119,526		
Other reserves	-	-	-	-	-	(26,564)	(26,564)		
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,442,962</b>	<b>1,442,962</b>		
<b>Total liabilities and shareholder's equity</b>	<b>2,028,958</b>	<b>1,290,369</b>	<b>742,195</b>	<b>1,250,000</b>	<b>2,641,767</b>	<b>2,617,405</b>	<b>10,570,694</b>		
On-balance sheet interest sensitivity gap	3,032,589	(246,674)	(173,212)	(394,338)	(1,160,568)	(1,057,797)			
Off-balance sheet interest sensitivity gap	-	-	-	-	-	1,446,898			
<b>Total interest sensitivity gap</b>	<b>3,032,589</b>	<b>(246,674)</b>	<b>(173,212)</b>	<b>(394,338)</b>	<b>(1,160,568)</b>	<b>389,101</b>			

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (b) Market risk (cont'd)

##### (i) Interest/profit rate risk (cont'd)

Group 31 December 2015	←———— Non-trading book —————→						Non- interest sensitive RM'000	Total RM'000	Effective interest/ profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000				
<b>Assets</b>									
Cash and short term funds	52,790	1,203,013	-	-	-	-	1,255,803	3.80	
Deposits and placements with bank and other financial institutions	-	-	180,952	-	-	-	180,952	3.30	
Available-for-sale financial investments	-	-	45,157	456,006	1,422,109	3,123	1,926,395	4.03	
Held-to-maturity financial investments	-	-	20,042	288,021	331,735	-	639,798	4.48	
Loans, advances and financing	4,591,303	133,013	102,188	-	-	811,871	5,638,375	5.66	
Other assets	-	-	-	-	-	34,975	34,975		
Derivative asset	1,442	-	-	-	-	-	1,442		
Investments in associate	-	-	-	-	-	4,523	4,523		
Property, plant and equipment	-	-	-	-	-	150,954	150,954		
Investment properties	-	-	-	-	-	324,614	324,614		
Intangible assets	-	-	-	-	-	11,917	11,917		
Tax recoverable	-	-	-	-	-	21,040	21,040		
Deferred tax assets	-	-	-	-	-	159,479	159,479		
	4,645,535	1,336,026	348,339	744,027	1,753,844	1,522,496	10,350,267		



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (b) Market risk (cont'd)

##### (i) Interest/profit rate risk (cont'd)

Group	← Non-trading book →						Non-interest sensitive	Total	Effective interest/profit rate
	31 December 2015 (cont'd)	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>Liabilities and shareholder's equity</b>									
Deposits from customers	1,983,101	617,774	424,032	-	-	-	-	3,024,907	3.64
Deposits from other financial institutions	345,396	-	-	-	-	-	-	345,396	3.63
Obligation on securities sold under repurchase agreements	254,300	-	-	-	-	-	-	254,300	
Medium term notes	-	-	19,789	1,250,000	250,000	-	-	1,519,789	3.76
Borrowings	1,657	211,048	76,612	-	2,486,206	-	-	2,775,523	2.70
Other liabilities	-	-	-	-	-	-	775,061	775,061	
Government funds	-	-	-	-	-	-	284,841	284,841	
<b>Total liabilities</b>	<b>2,584,454</b>	<b>828,822</b>	<b>520,433</b>	<b>1,250,000</b>	<b>2,736,206</b>	<b>1,059,902</b>	<b>1,059,902</b>	<b>8,979,817</b>	
Share capital	-	-	-	-	-	-	1,350,000	1,350,000	
Retained earning	-	-	-	-	-	-	62,984	62,984	
Other reserves	-	-	-	-	-	-	(42,534)	(42,534)	
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,370,450</b>	<b>1,370,450</b>	
<b>Total liabilities and shareholder's equity</b>	<b>2,584,454</b>	<b>828,822</b>	<b>520,433</b>	<b>1,250,000</b>	<b>2,736,206</b>	<b>2,430,352</b>	<b>2,430,352</b>	<b>10,350,267</b>	
On-balance sheet interest sensitivity gap	2,061,081	507,204	(172,094)	(505,973)	(982,362)	907,856			
Off-balance sheet interest sensitivity gap	-	-	-	-	-	1,450,502			
<b>Total interest sensitivity gap</b>	<b>2,061,081</b>	<b>507,204</b>	<b>(172,094)</b>	<b>(505,973)</b>	<b>(982,362)</b>	<b>542,646</b>			

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (b) Market risk (cont'd)

##### (i) Interest/profit rate risk (cont'd)

Bank 31 December 2016	←———— Non-trading book —————→						Non- interest sensitive	Total	Effective interest/ profit rate %
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	RM'000			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
<b>Assets</b>									
Cash and short term funds	27,848	800,140	-	-	-	-	827,988	3.79	
Deposits and placements with bank and other financial institutions	-	-	228,005	-	-	-	228,005	3.30	
Available-for-sale financial investments	-	-	141,080	534,967	1,235,752	3,123	1,914,922	4.44	
Held-to-maturity financial investments	-	-	50,690	320,695	245,447	-	616,832	4.40	
Loans, advances and financing	5,020,869	243,555	144,538	-	-	370,062	5,779,024	5.79	
Other assets	-	-	-	-	-	583,531	583,531		
Investments in subsidiaries	-	-	-	-	-	3,582	3,582		
Investments in associate	-	-	-	-	-	-	-		
Property, plant and equipment	-	-	-	-	-	151,653	151,653		
Investment properties	-	-	-	-	-	358,170	358,170		
Intangible assets	-	-	-	-	-	7,806	7,806		
Tax recoverable	-	-	-	-	-	24,208	24,208		
Deferred tax assets	-	-	-	-	-	155,086	155,086		
	5,048,717	1,043,695	564,313	855,662	1,481,199	1,657,221	10,650,807		

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (b) Market risk (cont'd)

##### (i) Interest/profit rate risk (cont'd)

Bank 31 December 2016 (cont'd)	←———— Non-trading book —————→						Non- interest sensitive	Total	Effective interest/ profit rate %
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	RM'000			
<b>Liabilities and shareholder's equity</b>									
Deposits from customers	1,823,035	1,091,686	710,139	-	-	-	3,624,860	3.91	
Deposits from other financial institutions	200,302	-	-	-	-	-	200,302	3.44	
Derivative financial liabilities	1,117	-	-	-	-	-	1,117	3.39	
Medium term notes	-	-	19,795	1,250,000	250,000	-	1,519,795	3.76	
Borrowings	4,504	198,683	88,864	-	2,391,767	-	2,683,818	2.65	
Other liabilities	-	-	-	-	-	883,763	883,763		
Government funds	-	-	-	-	-	305,044	305,044		
<b>Total liabilities</b>	<b>2,028,958</b>	<b>1,290,369</b>	<b>818,798</b>	<b>1,250,000</b>	<b>2,641,767</b>	<b>1,188,807</b>	<b>9,218,699</b>		
Share capital	-	-	-	-	-	1,350,000	1,350,000		
Retained earning	-	-	-	-	-	108,672	108,672		
Other reserves	-	-	-	-	-	(26,564)	(26,564)		
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,432,108</b>	<b>1,432,108</b>		
<b>Total liabilities and shareholder's equity</b>	<b>2,028,958</b>	<b>1,290,369</b>	<b>818,798</b>	<b>1,250,000</b>	<b>2,641,767</b>	<b>2,620,915</b>	<b>10,650,807</b>		
On-balance sheet interest sensitivity gap	3,019,759	(246,674)	(254,485)	(394,338)	(1,160,568)	(963,694)			
Off-balance sheet interest sensitivity gap	-	-	-	-	-	1,446,898			
<b>Total interest sensitivity gap</b>	<b>3,019,759</b>	<b>(246,674)</b>	<b>(254,485)</b>	<b>(394,338)</b>	<b>(1,160,568)</b>	<b>483,204</b>			

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (b) Market risk (cont'd)

##### (i) Interest/profit rate risk (cont'd)

Bank 31 December 2015	← Non-trading book →						Non- interest sensitive RM'000	Total RM'000	Effective interest/ profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000				
<b>Assets</b>									
Cash and short term funds	46,343	1,203,013	-	-	-	-	-	1,249,356	3.80
Deposits and placements with bank and other financial institutions	-	-	180,952	-	-	-	-	180,952	3.30
Available-for-sale financial investments	-	-	45,157	456,006	1,422,109	3,123	-	1,926,395	4.03
Held-to-maturity financial investments	-	-	20,042	288,021	331,735	-	-	639,798	4.48
Loans, advances and financing	4,591,303	133,013	102,188	-	-	328,508	-	5,155,012	5.66
Tax recoverable	-	-	-	-	-	20,972	-	20,972	
Other assets	-	-	-	-	-	572,131	-	572,131	
Derivative assets	1,442	-	-	-	-	-	-	1,442	
Investments in subsidiaries	-	-	-	-	-	3,582	-	3,582	
Investments in associate	-	-	-	-	-	-	-	-	
Property, plant and equipment	-	-	-	-	-	150,879	-	150,879	
Investment properties	-	-	-	-	-	324,614	-	324,614	
Intangible assets	-	-	-	-	-	11,487	-	11,487	
Deferred tax asset	-	-	-	-	-	159,479	-	159,479	
	4,639,088	1,336,026	348,339	744,027	1,753,844	1,574,775	-	10,396,099	

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

## 39. Financial risk management objectives and policies (cont'd)

### (b) Market risk (cont'd)

#### (i) Interest/profit rate risk (cont'd)

Bank 31 December 2015 (cont'd)	← Non-trading book →						interest sensitive RM'000	Total RM'000	Effective interest/ profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Non- Over 5 years RM'000				
<b>Liabilities and shareholder's equity</b>									
Deposits from customers	1,983,101	617,774	449,038	-	-	-	-	3,049,913	3.64
Deposits from other financial institutions	345,396	-	-	-	-	-	-	345,396	3.63
Obligation on securities sold under repurchase agreements	254,300	-	-	-	-	-	-	254,300	
Medium term notes	-	-	19,789	1,250,000	250,000	-	-	1,519,789	3.76
Borrowing	1,657	211,048	76,612	-	2,486,206	-	-	2,775,523	2.70
Other liabilities	-	-	-	-	-	805,701	805,701		
Government funds	-	-	-	-	-	284,841	284,841		
<b>Total liabilities</b>	<b>2,584,454</b>	<b>828,822</b>	<b>545,439</b>	<b>1,250,000</b>	<b>2,736,206</b>	<b>1,090,542</b>	<b>9,035,463</b>		
Share capital	-	-	-	-	-	1,350,000	1,350,000		
Retained earning	-	-	-	-	-	53,170	53,170		
Other reserves	-	-	-	-	-	(42,534)	(42,534)		
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,360,636</b>	<b>1,360,636</b>		
<b>Total liabilities and shareholder's equity</b>	<b>2,584,454</b>	<b>828,822</b>	<b>545,439</b>	<b>1,250,000</b>	<b>2,736,206</b>	<b>2,451,178</b>	<b>10,396,099</b>		
On-balance sheet interest sensitivity gap	2,054,634	507,204	(197,100)	(505,973)	(982,362)	(876,403)			
Off-balance sheet interest sensitivity gap	-	-	-	-	-	1,450,502			
<b>Total interest sensitivity gap</b>	<b>2,054,634</b>	<b>507,204</b>	<b>(197,100)</b>	<b>(505,973)</b>	<b>(982,362)</b>	<b>574,099</b>			

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (c) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet its current and future payment obligations associated with financial obligations when they fall due. The liquidity and cash flow risks are managed by maintaining a diversity of funding sources and spreading debt repayments over a range of maturities.

The Bank 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 Bank may raise funds locally through government-to-government arrangements or direct negotiations.

The following table shows the maturity analysis of the Group's assets and liabilities based on principal repayment obligations:

Group	←———— Non-trading book —————→						Non - specific maturity	Total
	Up to 1 months	> 1 - 3 months	> 3 - 12 months	> 1 - 5 years	Over 5 years	RM'000		
31 December 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>Assets</b>								
Cash and short term funds	41,757	800,140	-	-	-	-	841,897	
Deposits and placements with banks and other financial institutions	-	-	228,005	-	-	-	228,005	
Available-for-sale financial investments	-	-	141,080	534,967	1,235,752	3,123	1,914,922	
Held-to-maturity financial investments	-	-	50,690	320,695	245,447	-	616,832	
Loans, advances and financing	83,259	109,457	396,092	1,850,394	2,973,351	814,975	6,227,528	
Other assets	-	-	-	-	-	40,402	40,402	
	125,016	909,597	815,867	2,706,056	4,454,550	858,500	9,869,586	

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (c) Liquidity risk (cont'd)

Group	← Non-trading book →						Total
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non-specific maturity	
31 December 2016 (cont'd)	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Liabilities</b>							
Deposits from customers	1,986,761	1,124,264	437,232	-	-	-	3,548,257
Deposits from other financial institutions	200,302	-	-	-	-	-	200,302
Medium term notes	-	-	19,795	1,250,000	249,994	-	1,519,789
Borrowings	4,504	198,683	88,864	82,717	2,309,050	-	2,683,818
Other liabilities	-	-	-	-	-	869,399	869,399
Derivatives liabilities	1,117	-	-	-	-	-	1,117
<b>Total undiscounted financial liabilities</b>	<b>2,192,684</b>	<b>1,322,947</b>	<b>545,891</b>	<b>1,332,717</b>	<b>2,559,044</b>	<b>869,399</b>	<b>8,822,682</b>
<b>Net maturity mismatches</b>	<b>(2,067,668)</b>	<b>(413,350)</b>	<b>269,976</b>	<b>1,373,339</b>	<b>1,895,506</b>	<b>(10,899)</b>	<b>1,046,904</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (c) Liquidity risk (cont'd)

Group	←————— Non-trading book —————→					Non-specific maturity	Total
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years		
31 December 2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Assets</b>							
Cash and short term funds	52,790	1,203,013	-	-	-	-	1,255,803
Deposits and placements with banks and other financial institutions	-	-	180,952	-	-	-	180,952
Available-for-sale financial investments	-	-	45,157	456,006	1,422,109	3,123	1,926,395
Held-to-maturity financial investments	-	-	20,042	288,021	331,735	-	639,798
Loans, advances and financing	259,734	133,013	102,188	1,395,582	2,935,987	811,871	5,638,375
Other assets	-	-	-	-	-	34,975	34,975
Derivative asset	1,442	-	-	-	-	-	1,442
	313,966	1,336,026	348,339	2,139,609	4,689,831	849,969	9,677,740
<b>Liabilities</b>							
Deposits from customers	1,978,600	622,275	424,032	-	-	-	3,024,907
Deposits from other financial institutions	345,396	-	-	-	-	-	345,396
Medium term notes	-	-	19,789	1,250,000	250,000	-	1,519,789
Borrowings	1,657	211,048	76,612	82,717	2,403,489	-	2,775,523
Derivative financial liabilities	-	-	-	-	-	775,061	775,061
<b>Total undiscounted financial liabilities</b>	<b>2,325,653</b>	<b>833,323</b>	<b>520,433</b>	<b>1,332,717</b>	<b>2,653,489</b>	<b>775,061</b>	<b>8,440,676</b>
<b>Net maturity mismatches</b>	<b>(2,011,687)</b>	<b>502,703</b>	<b>(172,094)</b>	<b>806,892</b>	<b>2,036,342</b>	<b>74,908</b>	<b>1,237,064</b>



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (c) Liquidity risk (cont'd)

The following table shows the maturity analysis of the Bank's assets and liabilities based on principal repayment obligations:

Bank	←———— Non-trading book —————→					Non-specific maturity	Total
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years		
31 December 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Assets</b>							
Cash and short term funds	27,848	800,140	-	-	-	-	827,988
Deposits and placements with banks and other financial institutions	-	-	228,005	-	-	-	228,005
Available-for-sale financial investments	-	-	141,080	534,967	1,235,752	3,123	1,914,922
Held-to-maturity financial investments	-	-	50,690	320,695	245,447	-	616,832
Loans, advances and financing	83,259	109,457	396,092	1,850,394	2,965,840	373,982	5,779,024
Other assets	-	-	-	-	-	583,531	583,531
	111,107	909,597	815,867	2,706,056	4,447,039	960,636	9,950,302
<b>Liabilities</b>							
Deposits from customers	1,986,761	622,275	1,015,824	-	-	-	3,624,860
Deposits from other financial institutions	200,302	-	-	-	-	-	200,302
Medium term notes	-	-	19,795	1,250,000	250,000	-	1,519,795
Borrowings	4,504	198,683	88,864	82,717	2,309,050	-	2,683,818
Derivative financial liabilities	-	-	-	-	-	883,763	883,763
<b>Total undiscounted financial liabilities</b>	<b>2,191,567</b>	<b>820,958</b>	<b>1,124,483</b>	<b>1,332,717</b>	<b>2,559,050</b>	<b>883,763</b>	<b>8,912,538</b>
<b>Net maturity mismatches</b>	<b>(2,080,460)</b>	<b>88,639</b>	<b>(308,616)</b>	<b>1,373,339</b>	<b>1,887,989</b>	<b>76,873</b>	<b>1,037,764</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (c) Liquidity risk (cont'd)

Bank	←———— Non-trading book —————→					Non-specific maturity	Total
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years		
31 December 2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Assets</b>							
Cash and short term funds	46,343	1,203,013	-	-	-	-	1,249,356
Deposits and placements with banks and other financial institutions	-	-	180,952	-	-	-	180,952
Available-for-sale financial investments	-	-	45,157	456,006	1,422,109	3,123	1,926,395
Held-to-maturity financial investments	-	-	20,042	288,021	331,735	-	639,798
Loans, advances and financing	259,734	133,013	102,188	1,395,582	2,935,987	328,508	5,155,012
Other assets	-	-	-	-	-	572,131	572,131
Derivative asset	1,442	-	-	-	-	-	1,442
	307,519	1,336,026	348,339	2,139,609	4,689,831	903,762	9,725,086
<b>Liabilities</b>							
Deposits from customers	1,986,761	622,275	440,877	-	-	-	3,049,913
Deposits from other financial institutions	345,396	-	-	-	-	-	345,396
Obligation on securities sold under repurchase agreements	254,820	-	-	-	-	-	254,820
Medium term notes	-	-	19,789	1,250,000	250,000	-	1,519,789
Borrowings	1,657	211,048	76,612	82,717	2,403,489	-	2,775,523
Derivative financial liabilities	-	-	-	-	-	805,701	805,701
<b>Total undiscounted financial liabilities</b>	<b>2,588,634</b>	<b>833,323</b>	<b>537,278</b>	<b>1,332,717</b>	<b>2,653,489</b>	<b>805,701</b>	<b>8,751,142</b>
<b>Net maturity mismatches</b>	<b>(2,281,115)</b>	<b>502,703</b>	<b>(188,939)</b>	<b>806,892</b>	<b>2,036,342</b>	<b>98,061</b>	<b>973,944</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 39. Financial risk management objectives and policies (cont'd)

#### (c) Liquidity risk (cont'd)

The Bank is subject to liquidity requirements to support calls under outstanding contingent liabilities and undrawn credit facility commitments as disclosed in Note 35. These have been incorporated in the net off-balance sheet position for year ended 31 December 2016. 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.

#### (d) Operational risk

Operational risk, which inherent in all business activities, is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Operational Risk Management (ORM) takes place in a day-to-day basis at each business unit level. The Bank mitigates its operational risk by having comprehensive internal controls, conduct risk assessments through Risk Control Self Assessment (RCSA), fraud and loss analysis, system and procedures, which are reviewed regularly and subjected to periodical audits by Internal Auditors.

### 40. Dividends

	Group and Bank	
	2016	2015
	RM'000	RM'000
Dividends on ordinary shares:		
Final tax exempt (single-tier) dividend for 2014: 0.28 sen per share	-	3,780
Dividends on ordinary shares:		
Final tax exempt (single-tier) dividend for 2015: 0.5 sen per share	6,750	-
	6,750	3,780

At the forthcoming Annual General Meeting, a final single-tier dividend in respect of the financial year ended 31 December 2016 of 1.2 sen per share on 1,350,000,000 ordinary shares, amounting to a dividend payable of RM16,200,000 will be proposed for the shareholder's 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 appropriate of retained earnings in the financial year ending 31 December 2017.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business

The state of affairs as at 31 December 2016 and results for the financial year then ended under the Islamic Banking business of the Bank and included in the Group's and the Bank's financial statements are summarised as follows:

#### Statement of financial position For the financial year ended 31 December 2016

		As at 31 December 2016 RM'000	Group As at 31 December 2015 RM'000 Restated	As at 1 January 2015 RM'000 Restated
	Note			
<b>Assets</b>				
Cash and short-term funds	(a)	891,154	1,083,675	1,263,318
Deposits and placements with financial institutions	(b)	228,005	180,952	651,209
Available-for-sale financial investments	(c)	1,726,886	1,710,508	1,590,082
Held-to-maturity financial investments	(d)	566,142	588,970	591,679
Advances and financing	(e)	5,376,926	4,672,063	4,105,810
Other assets	(f)	4,347	3,613	24,255
Derivative asset (Note 10)		-	1,442	-
Investments in subsidiaries		3,582	3,582	3,582
Property and equipment		80,066	83,121	82,938
Investment properties (Note 14)		358,170	324,614	305,226
Deferred tax assets	(l)	130,446	135,074	148,293
<b>Total assets</b>		<b>9,365,724</b>	<b>8,787,614</b>	<b>8,766,392</b>
<b>Liabilities</b>				
Deposits acceptance	(g)	3,548,256	3,049,913	3,483,781
Deposits from other financial institutions	(h)	200,302	100,243	250,985
Medium term note (Note 20)		1,519,795	1,519,789	1,520,160
Term financing	(i)	937,608	1,003,164	907,854
Other liabilities	(j)	2,038,994	2,097,421	1,638,929
Derivative liability (Note 10)		1,117	-	-
Government funds	(k)	168,631	144,900	144,650
<b>Total liabilities</b>		<b>8,414,703</b>	<b>7,915,430</b>	<b>7,946,359</b>
Islamic general fund		951,021	872,184	820,033
<b>Total liabilities and Islamic banking funds</b>		<b>9,365,724</b>	<b>8,787,614</b>	<b>8,766,392</b>
<b>Commitments</b>	(t)	<b>1,427,672</b>	<b>1,436,756</b>	<b>1,238,544</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

#### Statement of financial position For the financial year ended 31 December 2016 (cont'd)

		As at 31 December 2016 RM'000	Bank As at 31 December 2015 RM'000 Restated	As at 1 January 2015 RM'000 Restated
	Note			
<b>Assets</b>				
Cash and short-term funds	(a)	890,840	1,083,675	1,263,318
Deposits and placements with financial institutions	(b)	228,005	180,952	651,209
Available-for-sale financial investments	(c)	1,726,886	1,710,508	1,590,082
Held-to-maturity financial investments	(d)	566,142	588,970	591,679
Advances and financing	(e)	5,299,487	4,578,581	4,003,358
Other assets	(f)	564,102	544,888	539,449
Derivative asset (Note 10)		-	1,442	-
Investments in subsidiaries		3,582	3,582	3,582
Property and equipment		78,739	83,121	82,938
Investment properties (Note 14)		358,170	324,614	305,226
Deferred tax asset	(l)	130,446	135,074	148,293
<b>Total assets</b>		<b>9,846,399</b>	<b>9,235,407</b>	<b>9,179,134</b>
<b>Liabilities</b>				
Deposits acceptance	(g)	3,624,860	3,049,913	3,483,781
Deposits from other financial institutions	(h)	200,302	100,243	250,985
Derivative financial liability	(f)	1,117	-	-
Medium term note (Note 20)		1,519,795	1,519,789	1,520,160
Term financing	(i)	937,608	1,003,164	907,854
Other liabilities	(j)	2,419,268	2,530,294	2,051,671
Government funds	(k)	168,630	144,900	144,650
<b>Total liabilities</b>		<b>8,871,580</b>	<b>8,348,303</b>	<b>8,359,101</b>
Islamic general fund		974,819	887,104	820,033
<b>Total liabilities and Islamic banking funds</b>		<b>9,846,399</b>	<b>9,235,407</b>	<b>9,179,134</b>
<b>Commitments</b>	(t)	<b>1,427,672</b>	<b>1,436,756</b>	<b>1,238,544</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

Statement of comprehensive income  
For the financial year ended 31 December 2016

	Note	Group		Bank	
		2016 RM'000	2015 RM'000 Restated	2016 RM'000	2015 RM'000 Restated
Income from Islamic banking business	(m)	514,870	464,901	529,110	478,426
Profit expense attributable to Islamic banking business	(o)	(190,939)	(186,058)	(193,211)	(186,063)
<b>Gross income from Islamic banking business</b>		323,931	278,843	335,899	292,363
Other operating expenses	(p)	(170,932)	(166,368)	(182,905)	(166,368)
<b>Operating profit</b>		152,999	112,475	152,994	125,995
Allowance for impairment on advances and financing	(q)	(82,585)	(45,162)	(73,702)	(43,762)
<b>Profit before taxation and zakat</b>		70,414	67,313	79,292	82,233
Tax expense/(credit)	(r)	270	(12,642)	270	(12,642)
Zakat	(s)	(5,793)	(2,000)	(5,793)	(2,000)
<b>Profit for the year</b>		64,891	52,671	73,769	67,591
<b>Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent year</b>					
Unrealised gain on revaluation of available for sale financial investments		18,844	58	18,844	58
Income tax relating to components of other comprehensive income		(4,898)	(576)	(4,898)	(576)
<b>Net other comprehensive (loss)/ income to be reclassified in profit or loss in subsequent year</b>		13,946	(518)	13,946	(518)
<b>Total comprehensive income for the year</b>		78,837	52,153	87,715	67,073

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

#### Statement of changes in Islamic General Funds For the financial year ended 31 December 2016

Group	Capital	Non- distributable available- for-sale reserve	Non- distributable profit equalisation reserve	Retained earnings	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>As 1 January 2016, as previously stated</b>	550,564	(42,736)	-	248,907	756,735
Prior year adjustments (Note 43)	-	-	-	115,449	115,449
<b>As 1 January 2016, as restated</b>	550,564	(42,736)	-	364,356	872,184
Unrealised gain on revaluation of available-for-sale financial investments	-	18,844	-	-	18,844
Unrealised loss on revaluation of ICRA	-	-	(4,898)	-	(4,898)
Profit for the year	-	-	-	64,891	64,891
Total comprehensive income for the year	-	18,844	(4,898)	64,891	78,837
<b>At 31 December 2016</b>	550,564	(23,892)	(4,898)	429,247	951,021

Group	Capital	Non- distributable available- for-sale reserve	Retained earnings	Total
	RM'000	RM'000	RM'000	RM'000
<b>As 1 January 2015, as previously stated</b>	550,564	(42,218)	194,428	702,774
Prior year adjustments (Note 43)	-	-	117,259	117,259
<b>As 1 January 2015, as restated</b>	550,564	(42,218)	311,687	820,033
Unrealised gain on revaluation of available-for-sale financial investments	-	(518)	-	(518)
Profit for the year:				
As previously stated	-	-	54,479	54,479
Prior year adjustments (Note 43)	-	-	(1,810)	(1,810)
As restated	-	-	52,669	52,669
Total comprehensive income for the year	-	(518)	52,669	52,151
<b>At 31 December 2015</b>	550,564	(42,736)	364,356	872,184

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

#### Statement of changes in Islamic General Funds For the financial year ended 31 December 2016 (cont'd)

Bank	Capital funds RM'000	Non- distributable available- for-sale reserve RM'000	Non- distributable profit equalisation reserve RM'000	Retained earnings RM'000	Total RM'000
<b>As 1 January 2016, as previously stated</b>	550,564	(42,736)	-	263,827	771,655
Prior year adjustments (Note 43)	-	-	-	115,449	115,449
<b>As 1 January 2016, as restated</b>	550,564	(42,736)	-	379,276	887,104
Unrealised loss on revaluation of available-for-sale financial investments	-	18,844	-	-	18,844
Unrealised loss on revaluation of ICRA	-	-	(4,898)	-	(4,898)
Profit for the year	-	-	-	73,769	73,769
Total comprehensive income for the year	-	18,844	(4,898)	73,769	87,715
<b>At 31 December 2016</b>	550,564	(23,892)	(4,898)	453,045	974,819

Bank	Capital funds RM'000	Non- distributable available- for-sale reserve RM'000	Retained earnings RM'000	Total RM'000
<b>As 1 January 2015, as previously stated</b>	550,564	(42,218)	194,428	702,774
Prior year adjustments (Note 43)	-	-	117,259	117,259
<b>As 1 January 2015, as restated</b>	550,564	(42,218)	311,687	820,033
Unrealised loss on revaluation of available-for-sale financial investments	-	(518)	-	(518)
Profit for the year	-	-	-	-
As previously stated	-	-	69,399	69,399
Prior year adjustments (Note 43)	-	-	(1,810)	(1,810)
As restated	-	-	67,589	67,589
Total comprehensive income for the year	-	(518)	67,589	67,071
<b>At 31 December 2015</b>	550,564	(42,736)	379,276	887,104



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

Statements of cash flows  
For the financial year ended 31 December 2016

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Cash flows used in operating activities</b>				
Profit before taxation and zakat	70,414	67,313	79,292	82,233
Adjustments for:				
Allowance for impairment loss of advances and financing	93,628	50,666	84,743	50,666
Depreciation of property, plant and equipment	3,829	-	5,156	-
Fair value adjustment	(33,367)	(19,388)	(33,367)	(19,388)
Government funds released/(writeback)	(4,961)	1,321	(4,961)	1,321
Operating profit before working capital changes	129,543	99,912	130,863	114,832
Changes in working capital:				
Other assets	830	(566,253)	(17,650)	(62,125)
Advances and financing	(789,793)	(618,319)	(796,952)	(626,409)
Deposits and placements with financial institutions	(47,053)	470,257	(47,053)	470,257
Deposits from customers	498,343	(411,272)	574,947	(411,272)
Deposits from other financial institutions	100,059	(150,742)	100,059	(150,742)
Derivative assets	995	(1,111)	995	(1,111)
Other liabilities	(60,017)	245,868	(112,616)	(263,690)
Cash used in operations	(167,093)	(931,660)	(167,407)	(930,260)
Zakat paid	(4,203)	(1,934)	(4,203)	(1,934)
Net cash used in operations	(171,296)	(933,594)	(171,610)	(932,194)
<b>Cash flow from/(used in) investing activities</b>				
Purchase of property, plant and equipment	(774)	-	(774)	-
Purchase of investment properties	(189)	-	(189)	-
Purchase of private debt securities	(318,484)	(352,775)	(318,484)	(352,775)
Proceed from redemption of private debt securities	343,778	235,101	343,778	235,101
Net cash from/(used in) investing activity	24,331	(117,674)	24,331	(117,674)

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

#### Statements of cash flows For the financial year ended 31 December 2016 (cont'd)

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
<b>Cash flows (used in)/from financing activities</b>				
Drawdown from long-term advances	33,134	976,148	33,134	976,148
Repayment from long-term advances	(98,690)	(104,523)	(98,690)	(104,523)
Proceeds from government funds	20,000	-	20,000	-
Net cash (used in)/from investing activity	(45,556)	871,625	(45,556)	871,625
<b>Net decrease in cash and cash equivalents</b>	(192,521)	(179,643)	(192,835)	(179,643)
<b>Cash and cash equivalents at beginning of year</b>	1,083,675	1,263,318	1,083,675	1,263,318
<b>Cash and cash equivalents at end of year</b>	891,154	1,083,675	890,840	1,083,675

#### Cash and cash equivalents

For the purpose of statements of cash flows, cash and cash equivalents represent the following items in the statements of financial position:

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Cash and short term funds	891,154	1,083,675	890,840	1,083,675

#### Notes to the financial statements For the financial year ended 31 December 2016

##### (a) Cash and short-term funds

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Cash at banks and on hand	90,701	94,555	90,701	94,555
Money at call and deposit placements maturing within three months	800,453	989,120	800,139	989,120
	891,154	1,083,675	890,840	1,083,675

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

Notes to the financial statements  
For the financial year ended 31 December 2016 (cont'd)

#### (b) Deposits and placements with banks and other financial institutions

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Licensed banks	228,005	112,830	228,005	112,830
Other financial institutions	-	68,122	-	68,122
	228,005	180,952	228,005	180,952

The maturity structure of deposits and placements are as follows:

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Three months to six months	66,623	97,307	66,623	97,307
Six months to one year	161,382	83,645	161,382	83,645
	228,005	180,952	228,005	180,952

#### (c) Available-for-sale financial investments

	Group and Bank	
	2016	2015
	RM'000	RM'000
		Restated
<b>At fair value</b>		
Money market instruments:		
Malaysian Government Investment Issues	547,854	667,779
Commercial papers	95,341	20,169
	643,195	687,948
Private debt securities	1,083,691	1,022,560
<b>Total available-for-sale financial investments</b>	<b>1,726,886</b>	<b>1,710,508</b>

The maturity structure of available-for-sale money market instruments and private debt securities are as follows:

	Group and Bank	
	2016	2015
	RM'000	RM'000
		Restated
Within one year	141,080	45,156
More than one year to three years	139,060	59,766
More than three years to five years	380,902	381,385
More than five years	1,065,844	1,224,201
	1,726,886	1,710,508

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

Notes to the financial statements  
For the financial year ended 31 December 2016 (cont'd)

#### (d) Held-to-maturity financial investments

	Group and Bank	
	2016	2015
	RM'000	RM'000
		Restated
<b>At amortised cost</b>		
<u>Money market instruments:</u>		
Malaysian Government Investment Issues	73,659	72,887
	73,659	72,887
<u>Unquoted securities</u>		
Private debt securities	492,483	516,083
	566,142	588,970

The maturity structure of held-to-maturity money market instruments and private debt securities are as follows:

	Group and Bank	
	2016	2015
	RM'000	RM'000
		Restated
Within one year	-	20,042
More than one year to three years	94,026	25,097
More than three years to five years	226,669	212,691
More than five years	245,447	331,140
	566,142	588,970

The indicative market values of held-to-maturity money market instruments and private debt securities are as follows:

	Group and Bank	
	2016	2015
	RM'000	RM'000
		Restated
Malaysian Government Investment Issues	60,606	60,426
Private debt securities	504,962	514,434
	565,568	574,860

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

Notes to the financial statements  
For the financial year ended 31 December 2016 (cont'd)

#### (e) Advances and financing

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Bai Bithaman Ajil	2,461,224	2,295,404	2,395,677	2,226,147
Ijarah	580,189	264,926	551,103	236,835
Murabahah	1,188,195	320,763	1,178,817	319,954
Bai' Dayn	164,885	99,097	164,491	98,703
Istisna	898,055	602,299	889,130	589,881
Ijarah Thumma Al-Bai	268,281	335,745	230,095	298,428
Bai' Inah	21,322	992,695	11,935	981,776
Murabahah Dayn	2,896	19,064	8,783	16,095
Tawwaruq	119,279	7,870	119,279	7,870
Gross advances and financing	5,704,326	4,937,863	5,549,310	4,775,689
Less: Allowance for impairment on advances and financing				
- Individual assessment allowance (Note 41 (e)(x))	(204,926)	(166,845)	(150,395)	(121,403)
- Collective assessment allowance (Note 41 (e)(x))	(122,474)	(98,955)	(99,428)	(75,705)
Net advances and financing	5,376,926	4,672,063	5,299,487	4,578,581
Gross impaired advances and financing (Note 41 (e)(vi))	655,289	557,653	493,115	395,479
Net impaired advances and financing	450,363	390,808	342,720	274,076

Included in advances and financing are gross advances and financing of RM88,106,000 (2015: RM82,923,000) financed by the Government funds. The treatment of the credit losses incurred for these advances and financing are as disclosed in Note 2.15(ii).

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

Notes to the financial statements  
For the financial year ended 31 December 2016 (cont'd)

#### (e) Advances and financing (cont'd)

(i) The maturity profile of the gross advances and financing are as follows:

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Maturity within one year	659,559	558,179	564,580	470,936
More than one year to three years	645,819	578,498	615,614	545,560
More than three years to five years	1,158,768	770,642	1,143,333	756,895
More than five years	3,240,180	3,030,544	3,225,783	3,002,298
	5,704,326	4,937,863	5,549,310	4,775,689

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

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Domestic business enterprise	5,685,736	4,917,024	5,530,720	4,754,850
Individual	18,590	20,839	18,590	20,839
	5,704,326	4,937,863	5,549,310	4,775,689

(iii) Gross advances and financing analysed by industry are as follows:

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Import, export, wholesale, retail trade, restaurants and hotels	1,161,713	954,973	1,154,056	944,436
Manufacturing	1,062,166	980,055	975,081	894,007
Community, social and personal services	1,006,690	854,530	986,028	830,068
Transportation and communication	833,977	810,258	800,094	775,620
Financial, insurance, real estate and business services	690,238	590,689	686,809	586,655
Constructions	875,944	640,755	874,401	639,235
Mining and quarrying	30,498	43,367	30,498	43,367
Electricity, gas and water supply	20,694	33,371	20,250	32,751
Agriculture, forestry and fishing	3,816	9,026	3,503	8,711
Others	18,590	20,839	18,590	20,839
	5,704,326	4,937,863	5,549,310	4,775,689

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

#### Notes to the financial statements

For the financial year ended 31 December 2016 (cont'd)

#### (e) Advances and financing (cont'd)

(vi) Gross advances and financing analysed by location and sector are as follows:

Group 2016	Northern	Kuala Lumpur	East Selangor	Coast	Southern	Sabah	Sarawak	Total
	Region	Region	Region	Region	Region	Region	Region	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Import, export, wholesale, retail trade, restaurants and hotels	184,436	244,267	197,930	167,471	92,544	240,159	34,906	1,161,713
Manufacturing	156,959	335,500	116,974	112,208	252,611	41,910	46,004	1,062,166
Community, social and personal services	82,266	349,313	143,331	189,217	149,671	29,843	63,049	1,006,690
Transportation and communication	137,479	196,272	114,599	111,692	100,391	88,640	84,904	833,977
Financial, insurance, real estate and business services	16,957	385,649	105,840	32,665	99,631	42,185	7,311	690,238
Constructions	106,267	257,572	159,938	73,507	136,281	54,307	88,072	875,944
Mining	-	6,462	10,430	9,873	-	555	3,178	30,498
Electricity, gas and water supply	1,101	8,796	5,602	2,085	1,534	450	1,126	20,694
Agriculture, forestry and fishing	-	806	-	203	166	2,641	-	3,816
Others	-	18,590	-	-	-	-	-	18,590
	685,465	1,803,227	854,644	698,921	832,829	500,690	328,550	5,704,326

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

#### Notes to the financial statements

For the financial year ended 31 December 2016 (cont'd)

#### (e) Advances and financing (cont'd)

(vi) Gross advances and financing analysed by location and sector are as follows: (cont'd)

Group 2015	Northern	Kuala	East	Coast	Southern	Sabah	Sarawak	Total
	Region	Lumpur	Selangor					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Import, export, wholesale, retail trade, restaurants and hotels	156,457	200,101	161,134	136,948	109,010	171,642	19,681	954,973
Manufacturing	130,294	350,462	97,670	91,458	236,433	32,466	41,272	980,055
Community, social and personal services	76,780	281,302	62,729	176,655	171,918	19,364	65,782	854,530
Transportation and communication	132,269	182,504	112,335	116,710	105,395	100,055	60,990	810,258
Financial, insurance, real estate and business services	65,786	320,469	95,376	36,158	15,886	22,468	34,546	590,689
Constructions	84,715	155,084	146,956	50,062	114,295	20,134	69,509	640,755
Mining	-	15,912	10,824	12,241	2,753	1,266	371	43,367
Electricity, gas and water supply	672	3,177	15,576	272	12,983	59	632	33,371
Agriculture, forestry and fishing	-	-	-	6,114	91	2,821	-	9,026
Others	-	20,839	-	-	-	-	-	20,839
	646,973	1,529,850	702,600	626,618	768,764	370,275	292,783	4,937,863



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

#### Notes to the financial statements

For the financial year ended 31 December 2016 (cont'd)

#### (e) Advances and financing (cont'd)

(vi) Gross advances and financing analysed by location and sector are as follows: (cont'd)

Bank 2016	Northern	Kuala	East	Coast	Southern	Sabah	Sarawak	Total
	Region	Lumpur	Selangor					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Import, export, wholesale, retail trade, restaurants and hotels	181,976	242,856	197,540	166,214	91,766	238,871	34,833	1,154,056
Manufacturing	111,966	315,217	113,937	103,753	250,537	33,852	45,819	975,081
Community, social and personal services	78,372	346,421	138,572	189,029	144,530	29,418	59,686	986,028
Transportation and communication	128,734	193,703	112,648	110,447	98,459	71,677	84,426	800,094
Financial, insurance, real estate and business services	16,270	384,525	104,721	32,417	99,465	42,140	7,271	686,809
Constructions	106,185	256,345	159,822	73,429	136,241	54,307	88,072	874,401
Mining	-	6,462	10,430	9,873	-	555	3,178	30,498
Electricity, gas and water supply	1,101	8,352	5,602	2,085	1,535	450	1,125	20,250
Agriculture, forestry and fishing	-	493	-	203	166	2,641	-	3,503
Others	-	18,590	-	-	-	-	-	18,590
	624,604	1,772,964	843,272	687,450	822,699	473,911	324,410	5,549,310

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

#### Notes to the financial statements

For the financial year ended 31 December 2016 (cont'd)

#### (e) Advances and financing (cont'd)

(vi) Gross advances and financing analysed by location and sector are as follows: (cont'd)

Bank 2015	Northern	Kuala	Selangor	East	Southern	Sabah	Sarawak	Total
	Region	Lumpur	Region	Coast	Region	Region	Region	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Import, export, wholesale, retail trade, restaurants and hotels	153,591	199,326	157,902	136,068	107,399	170,534	19,616	944,436
Manufacturing	110,515	345,970	86,995	76,344	220,777	14,526	38,880	894,007
Community, social and personal services	66,787	281,302	59,816	175,293	169,606	19,364	57,900	830,068
Transportation and communication	124,815	182,228	109,246	113,641	103,553	81,577	60,560	775,620
Financial, insurance, real estate and business services	64,864	319,930	93,827	35,597	15,560	22,331	34,546	586,655
Constructions	84,173	155,035	146,497	49,964	113,923	20,134	69,509	639,235
Mining	-	15,912	10,824	12,241	2,753	1,266	371	43,367
Electricity, gas and water supply	672	3,177	15,576	272	12,363	59	632	32,751
Agriculture, forestry and fishing	-	-	-	5,799	91	2,821	-	8,711
Others	-	20,839	-	-	-	-	-	20,839
	605,417	1,523,719	680,683	605,219	746,025	332,612	282,014	4,775,689

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

#### Notes to the financial statements

For the financial year ended 31 December 2016 (cont'd)

#### (e) Advances and financing

(v) Gross advances and financing analysed by profit rate sensitivity are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Fixed rate				
- Staff financing	18,590	20,839	18,590	20,839
- Hire purchase receivables	212,105	291,901	171,215	251,882
- Leasing	283,454	239,409	256,965	213,913
- Revolving credits	311,602	361,937	307,717	357,765
- Other term financing	1,654,504	1,706,973	1,569,550	1,615,654
Variable rate				
- Hire purchase receivables	28,056	30,258	28,056	30,258
- Leasing	23,309	32,183	23,309	32,183
- Revolving credits	391,001	68,145	391,004	68,145
- Other term financing	2,781,705	2,186,218	2,782,904	2,185,050
	5,704,326	4,937,863	5,549,310	4,775,689

(vi) Impaired financing analysed by industry are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Import, export, wholesale, retail trade, restaurants and hotels	122,933	72,510	108,120	61,973
Manufacturing	209,091	220,827	122,006	134,779
Community, social and personal services	113,850	106,644	93,188	82,182
Transportation and communication	118,497	85,390	84,613	50,753
Financial, insurance, real estate and business services	25,775	30,615	22,345	26,582
Constructions	63,389	39,999	61,846	38,478
Mining and quarrying	626	-	626	-
Electricity, gas and water supply	493	1,321	49	701
Agriculture, forestry and fishing	635	347	322	31
	655,289	557,653	493,115	395,479

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

Notes to the financial statements

For the financial year ended 31 December 2016 (cont'd)

#### (e) Advances and financing (cont'd)

(vii) Impaired advances and financing analysed by location and sector are as follows:

Group 2016	Northern	Kuala	Selangor	East	Southern	Sabah	Sarawak	Total
	Region	Lumpur	Region	Coast	Region	Region	Region	
	RM'000	Region	RM'000	Region	RM'000	RM'000	RM'000	RM'000
Import, export, wholesale, retail trade, restaurants and hotels	9,511	38,654	25,848	14,149	8,308	24,585	1,878	122,933
Manufacturing	66,626	56,420	14,468	21,111	40,907	9,130	429	209,091
Community, social and personal services	7,865	43,571	14,296	36,051	7,322	687	4,058	113,850
Transportation and communication	16,524	7,671	10,126	35,158	8,180	17,991	22,847	118,497
Financial, insurance, real estate and business services	1,480	18,330	2,994	1,933	953	44	41	25,775
Constructions	1,837	27,202	346	667	32,531	-	806	63,389
Mining	-	-	280	346	-	-	-	626
Electricity, gas and water supply	-	444	49	-	-	-	-	493
Agriculture, forestry and fishing	-	313	-	101	89	132	-	635
	103,843	192,605	68,407	109,516	98,290	52,569	30,059	655,289

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

#### Notes to the financial statements

For the financial year ended 31 December 2016 (cont'd)

#### (e) Advances and financing (cont'd)

(vii) Impaired advances and financing analysed by location and sector are as follows: (cont'd)

Group 2015	Northern	Kuala	Selangor	East	Southern	Sabah	Sarawak	Total
	Region	Lumpur	Region	Coast	Region	Region	Region	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Import, export, wholesale, retail trade, restaurants and hotels	10,722	25,199	8,029	4,373	11,533	10,753	1,901	72,510
Manufacturing	39,971	64,005	16,901	20,232	58,068	19,036	2,614	220,827
Community, social and personal services	10,871	47,583	4,547	32,567	2,850	138	8,088	106,644
Transportation and communication	11,830	5,476	9,366	34,595	4,035	19,477	611	85,390
Financial, insurance, real estate and business services	1,728	3,927	2,142	1,334	444	173	20,867	30,615
Constructions	1,902	18,042	5,834	564	13,627	30	-	39,999
Electricity, gas and water supply	-	643	-	-	620	58	-	1,321
Agriculture, forestry and fishing	-	-	-	316	-	31	-	347
	77,024	164,875	46,819	93,981	91,177	49,696	34,081	557,653

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

Notes to the financial statements

For the financial year ended 31 December 2016 (cont'd)

#### (e) Advances and financing (cont'd)

(vii) Impaired advances and financing analysed by location and sector are as follows: (cont'd.)

Bank 2016	Northern	Kuala	Selangor	East	Southern	Sabah	Sarawak	Total
	Region	Lumpur	Region	Coast	Region	Region	Region	
	RM'000	Region	RM'000	Region	RM'000	RM'000	RM'000	RM'000
Import, export, wholesale, retail trade, restaurants and hotels	7,051	30,083	25,459	12,892	7,533	23,298	1,804	108,120
Manufacturing	21,634	36,136	11,432	12,656	38,831	1,072	245	122,006
Community, social and personal services	3,972	40,677	9,537	35,863	2,180	263	696	93,188
Transportation and communication	7,778	5,101	8,175	33,913	6,248	1,029	22,369	84,613
Financial, insurance, real estate and business services	794	17,206	1,876	1,685	784	-	-	22,345
Constructions	1,755	25,974	230	588	32,493	-	806	61,846
Mining	-	-	280	346	-	-	-	626
Electricity, gas and water supply	-	-	49	-	-	-	-	49
Agriculture, forestry and fishing	-	-	-	101	89	132	-	322
	42,984	155,177	57,038	98,044	88,158	25,794	25,920	493,115

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

#### Notes to the financial statements

For the financial year ended 31 December 2016 (cont'd)

#### (e) Advances and financing (cont'd)

(vii) Impaired advances and financing analysed by location and sector are as follows: (cont'd.)

Bank 2015	Northern	Kuala	East	Coast	Southern	Sabah	Sarawak	Total
	Region	Lumpur	Selangor					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Import, export, wholesale, retail trade, restaurants and hotels	7,856	24,424	4,798	3,493	9,922	9,645	1,835	61,973
Manufacturing	20,192	59,514	6,226	5,118	42,412	1,096	221	134,779
Community, social and personal services	878	47,583	1,634	31,205	538	138	206	82,182
Transportation and communication	4,377	5,200	6,277	31,526	2,193	999	181	50,753
Financial, insurance, real estate and business services	806	3,387	593	773	119	37	20,867	26,582
Constructions	1,360	17,993	5,375	465	13,255	30	-	38,478
Electricity, gas and water supply	-	643	-	-	-	58	-	701
Agriculture, forestry and fishing	-	-	-	-	-	31	-	31
	35,469	158,744	24,903	72,580	68,439	12,034	23,310	395,479

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

#### Notes to the financial statements

For the financial year ended 31 December 2016 (cont'd)

#### (e) Advances and financing

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	557,653	405,589	395,479	245,759
Impaired during the year	178,058	185,496	178,058	175,582
Reclassified as non-impaired	(11,824)	(19,531)	(11,824)	(19,531)
Amount recovered	(36,570)	(13,901)	(36,570)	(6,331)
Amount written-off	(32,028)	-	(32,028)	-
At 31 December	655,289	557,653	493,115	395,479

Net impaired advances and financing after individual assessment allowance as % of net advances and financing (excluding collective assessment allowance) are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Net impaired loans as %	8.19%	8.19%	6.35%	5.89%

(x) Movements in the allowance for financing are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Individual assessment allowance</b>				
At 1 January	166,845	124,206	121,403	75,141
Amount written-off	(32,028)	-	(32,028)	-
Transfer from collective allowance	2,337	2,979	2,337	2,979
Allowance made during the year (Note 41 (q))	124,769	49,292	115,680	49,292
Writeback made during the year (Note 41 (q))	(56,997)	(9,632)	(56,997)	(6,009)
At 31 December	204,926	166,845	150,395	121,403
<b>Collective assessment allowance</b>				
At 1 January	98,955	89,528	75,705	71,301
Amount written-off	-	-	-	-
Transfer to individual allowance	(2,337)	(2,979)	(2,337)	(2,979)
Allowance made during the year (Note 41 (q))	105,769	44,282	105,973	38,705
Writeback made during the year (Note 41 (q))	(79,913)	(31,876)	(79,913)	(31,322)
At 31 December	122,474	98,955	99,428	75,705



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

#### Notes to the financial statements

For the financial year ended 31 December 2016 (cont'd)

#### (e) Advances and financing (cont'd)

(xi) Gross advances and financing by types and Shariah contracts are as follows:

Group	Hire purchase	Leasing receivables	Other term loans	Revolving credit	Staff financing	Total
2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bai Bithaman Ajil	1,753	261,759	2,171,935	7,187	18,590	2,461,224
Ijarah	2,597	43,511	534,081	-	-	580,189
Murabahah	-	-	696,950	491,245	-	1,188,195
Bai' Dayn	-	-	475	164,410	-	164,885
Istisna	-	30	894,185	3,840	-	898,055
Ijarah Thumma Al-Bai	235,703	-	603	31,975	-	268,281
Bai' Inah	107	-	20,165	1,050	-	21,322
Murabahah Dayn	-	-	-	2,896	-	2,896
Tawwaruq	-	-	119,279	-	-	119,279
	240,160	305,300	4,437,673	702,603	18,590	5,704,326

Group	Hire purchase	Leasing receivables	Other term loans	Revolving credit	Staff financing	Total
2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bai Bithaman Ajil	-	-	2,274,565	-	20,839	2,295,404
Ijarah	7,726	257,200	-	-	-	264,926
Murabahah	-	-	8,842	311,921	-	320,763
Bai' Dayn	-	-	-	99,097	-	99,097
Istisna	7,043	-	595,256	-	-	602,299
Ijarah Thumma Al-Bai	307,283	14,392	14,070	-	-	335,745
Bai' Inah	107	-	992,588	-	-	992,695
Murabahah Dayn	-	-	-	19,064	-	19,064
Tawwaruq	-	-	7,870	-	-	7,870
	322,159	271,592	3,893,191	430,082	20,839	4,937,863

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

#### Notes to the financial statements

For the financial year ended 31 December 2016 (cont'd)

#### (e) Advances and financing (cont'd)

(xi) Gross advances and financing by types and Shariah contracts are as follows:

Bank	Hire purchase	Leasing receivables	Other term loans	Revolving credit	Staff financing	Total
2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bai Bithaman Ajil	1,753	263,223	2,104,923	7,188	18,590	2,395,677
Ijarah	-	17,022	534,081	-	-	551,103
Murabahah	-	-	688,167	490,650	-	1,178,817
Bai' Dayn	-	-	475	164,016	-	164,491
Istisna	-	30	885,259	3,841	-	889,130
Ijarah Thumma Al-Bai	197,518	-	603	31,974	-	230,095
Bai' Inah	-	-	10,884	1,051	-	11,935
Murabahah Dayn	-	-	8,783	-	-	8,783
Tawwaruq	-	-	119,279	-	-	119,279
	199,271	280,275	4,352,454	698,720	18,590	5,549,310

Bank	Hire purchase	Leasing receivables	Other term loans	Revolving credit	Staff financing	Total
2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bai Bithaman Ajil	-	-	2,205,308	-	20,839	2,226,147
Ijarah	5,131	231,704	-	-	-	236,835
Murabahah	-	-	8,842	311,112	-	319,954
Bai' Dayn	-	-	-	98,703	-	98,703
Istisna	7,043	-	582,838	-	-	589,881
Ijarah Thumma Al-Bai	269,966	14,392	14,070	-	-	298,428
Bai' Inah	-	-	981,776	-	-	981,776
Murabahah Dayn	-	-	-	16,095	-	16,095
Tawwaruq	-	-	7,870	-	-	7,870
	282,140	246,096	3,800,704	425,910	20,839	4,775,689

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

#### Notes to the financial statements

For the financial year ended 31 December 2016 (cont'd)

#### (f) Other assets

	Group		Bank	
	2016 RM'000	2015 RM'000 Restated	2016 RM'000	2015 RM'000 Restated
Amount due from subsidiaries	-	-	506,690	541,275
Other receivables and prepayments	4,347	3,613	57,412	3,613
	4,347	3,613	564,102	544,888

Included in amount due from subsidiaries is amount due from SMEB Asset Management Sdn Bhd (SAM) for Bai' Inah facility granted by the Bank amounting to RM510.0 million. The facility is granted to finance the purchase of impaired loans and financing. The Bank extended unsecured Bai' Inah facility (facility) at the profit rate of 3.50% per annum. Principal and profit are repayable over a period of 8 years commencing from 31 December 2016, after a grace period of 2 years. The facility will mature on 31 December 2023.

#### (g) Deposits acceptance

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Term deposit:				
- Commodity Murabahah / Tawarruq	3,548,256	3,049,913	3,624,860	3,049,913

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Government and statutory bodies	2,545,699	2,104,919	2,545,699	2,104,919
Business enterprises	1,062,557	873,379	1,079,161	873,379
Others	-	71,615	-	71,615
	3,548,256	3,049,913	3,624,860	3,049,913

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

Notes to the financial statements  
For the financial year ended 31 December 2016 (cont'd)

#### (g) Deposits acceptance (cont'd)

(ii) The deposits maturity structure are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Less than three months	3,111,025	2,600,875	2,914,721	2,600,875
Three months to six months	235,059	210,193	646,739	210,193
Six months to one year	201,303	238,845	63,400	238,845
	3,548,256	3,049,913	3,624,860	3,049,913

#### (h) Deposits from other financial institutions

	Group and Bank	
	2016 RM'000	2015 RM'000
Licensed banks	200,302	100,243
The deposit maturity structure is as follows:		
Less than three months	200,302	100,243

#### (i) Term financing

	Group and Bank	
	2016 RM'000	2015 RM'000
Unsecured term financing	937,608	1,003,164

The maturity structure of the term financing are as follows:

	Group and Bank	
	2016 RM'000	2015 RM'000
Within one year	104,572	29,401
More than five years	833,036	973,763
	937,608	1,003,164

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

Notes to the financial statements  
For the financial year ended 31 December 2016 (cont'd)

#### (h) Deposits from other financial institutions

##### (i) Term financing (cont'd)

The unsecured term financing denominated in RM are sourced from the following:

	Group and Bank	
	2016	2015
	RM'000	RM'000
Loans from:		
- Government of Malaysia	915,408	662,064
- Bank Negara Malaysia (BNM)	22,200	341,100
	937,608	1,003,164

The profit rates on the financing from the Government of Malaysia is 1.00% - 2.75% (2015: 1.00% - 2.75%) per annum. The rate for BNM ranges from 1.00% - 2.75% (2015: 1.00% - 2.75%).

#### (j) Other liabilities

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
		Restated		Restated
Other payables and accruals (Note 22a)	1,457,607	1,892,845	1,837,881	2,289,962
Amount due to subsidiaries	-	-	-	35,756
Islamic margin account	494,078	124,850	494,078	124,850
Guaranteed payable	83,324	77,331	83,324	77,331
Provision for zakat	3,985	2,395	3,985	2,395
	2,038,994	2,097,421	2,419,268	2,530,294

#### (k) Government funds

	Group and Bank	
	2016	2015
	RM'000	RM'000
To finance:		
Advances and financing	168,631	144,900
	168,631	144,900

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

#### Notes to the financial statements

For the financial year ended 31 December 2016 (cont'd)

#### (k) Government funds (cont'd)

(a) To finance advances and financing:

Group and Bank	Program dan Skim	Basic Capital Scheme (SMA)	Tabung Usahawan Siswazah (TUS)	Dana Usahawan Negeri Terengganu	Skim Pembangunan Ekonomi Desa-Islamic	Program dan Skim Usahawan Kraf	Skim Anjakan Usahawan	Total	
	Soff Loan Usahawan Scheme	Batifik (RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)		
At 1 January 2016	36,754	4,147	27,932	17,952	5,612	47,758	4,745	-	144,900
Addition	-	-	-	-	-	-	-	19,604	19,604
Write-off	-	-	-	-	-	-	-	-	-
Loan written-off recoverable	42	-	3,461	348	365	754	10	-	4,980
Muqasah	-	-	-	-	(535)	(318)	-	-	(853)
At 31 December 2016	36,796	4,147	31,393	18,300	5,442	48,194	4,755	19,604	168,631
At 1 January 2015	36,716	4,121	29,049	16,857	5,286	47,881	4,740	-	144,650
Payment	-	-	-	-	-	-	-	-	-
Write-off	-	-	(2,182)	-	-	(382)	-	-	(2,564)
Loan written-off recoverable	38	26	1,065	1,095	971	631	5	-	3,831
Muqasah	-	-	-	-	(645)	(426)	-	-	(1,071)
Placement expenses payable	-	-	-	-	-	54	-	-	54
At 31 December 2015	36,754	4,147	27,932	17,952	5,612	47,758	4,745	-	144,900

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

Notes to the financial statements  
For the financial year ended 31 December 2016 (cont'd)

#### (l) Deferred tax

	Group and Bank	
	2016 RM'000	2015 RM'000
<b>At 1 January</b>	135,074	148,293
Recognised in profit or loss (Note r)	270	(12,643)
Recognised in equity	(4,898)	(576)
<b>At 31 December</b>	<b>130,446</b>	<b>135,074</b>
<b>Presented before appropriate offsetting as follows:</b>		
Deferred tax assets	143,490	142,436
Deferred tax liabilities	(13,044)	(7,362)
	<b>130,446</b>	<b>135,074</b>

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

#### Deferred tax assets of the Group and Bank:

	Un-absorbed business losses and capital allowance RM'000	Provision RM'000	MTM revaluation on bonds RM'000	Total RM'000
<b>Group and Bank</b>				
<b>At 1 January 2016</b>	125,638	3,303	13,495	142,436
Recognised in profit or loss	5,444	508	-	5,952
Recognised in equity	-	-	(4,898)	(4,898)
<b>At 31 December 2016</b>	<b>131,082</b>	<b>3,811</b>	<b>8,597</b>	<b>143,490</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

Notes to the financial statements

For the financial year ended 31 December 2016 (cont'd)

#### (l) Deferred tax

Deferred tax assets of the Group and Bank (cont'd) :

	Un-absorbed business losses and capital allowance RM'000	Provision RM'000	MTM revaluation on bonds RM'000	Total RM'000
<b>Group and Bank</b>				
<b>At 1 January 2015</b>	143,204	4,296	14,071	161,571
Recognised in profit or loss	(17,566)	(993)	-	(18,559)
Recognised in equity	-	-	(576)	(576)
<b>At 31 December 2015</b>	125,638	3,303	13,495	142,436

Deferred tax liabilities of the Group and Bank:

	Investment property RM'000	Property and equipment RM'000	Total RM'000
<b>At 1 January 2016</b>	-	(7,362)	(7,362)
Recognised in profit or loss	(7,251)	1,569	(5,682)
<b>At 31 December 2016</b>	(7,251)	(5,793)	(13,044)
<b>At 1 January 2015</b>	-	(13,278)	(13,278)
Recognised in profit or loss	-	5,916	5,916
<b>At 31 December 2015</b>	-	(7,362)	(7,362)



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

#### Notes to the financial statements

For the financial year ended 31 December 2016 (cont'd)

#### (m) Income from Islamic banking business

	Group		Bank	
	2016 RM'000	2015 RM'000 Restated	2016 RM'000	2015 RM'000 Restated
Income from advances and financing				
- Bai Bithaman Ajil	137,319	129,560	136,004	127,300
- Ijarah	31,822	14,953	30,752	13,624
- Bai' Murabahah	65,170	18,105	65,778	18,406
- Bai' Dayn	9,044	5,593	9,179	5,678
- Bai' Istisna	49,256	33,996	49,614	33,933
- Ijarah Thuma Al-Bai	14,715	18,951	12,839	17,167
- Bai' Inah	1,169	56,031	666	56,478
- Murabahah Dayn	159	1,076	490	926
- Tawwaruq	6,542	444	6,656	453
Total income from advances and financing	315,195	278,709	311,978	273,965
Mudharabah deposit acceptance	46,110	48,478	46,102	48,478
Derivative asset/liability	4,386	1,722	4,386	1,722
Available-for-sale financial investments	75,095	72,556	75,096	72,556
Held-to-maturity financial investments	26,233	27,914	26,233	27,914
Other income (Note 41(n))	47,851	35,522	65,315	53,791
	514,870	464,901	529,110	478,426

Included in income from loans, advances and financing is profit on impaired financing amounting to RM11,126,363 (2015: RM10,781,045).

#### (n) Other income

	Group		Bank	
	2016 RM'000	2015 RM'000 Restated	2016 RM'000	2015 RM'000 Restated
Fee income	7,441	7,569	7,441	7,569
Rental income	9,998	9,676	9,998	9,997
Government funds (writeback) /released	(4,156)	(1,321)	(4,961)	(1,321)
Management fee	-	-	419	98
Fair value adjustment (Note 14)	33,367	19,388	33,367	19,388
Others	1,201	210	19,051	18,060
	47,851	35,522	65,315	53,791

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

Notes to the financial statements

For the financial year ended 31 December 2016 (cont'd)

#### (o) Profit expense attributable to Islamic banking business

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Commodity murabahah	126,558	118,473	128,831	118,478
Medium term note	56,820	57,945	56,820	57,945
Long term financing	3,460	4,028	3,460	4,028
Deposits from other financial institutions	3,040	4,942	3,040	4,942
Mudharabah deposit acceptance	-	670	-	670
Others	1,061	-	1,060	-
	190,939	186,058	193,211	186,063

#### (p) Other operating expenses

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
		Restated		Restated
Personnel expenses	103,980	94,031	103,980	97,880
Establishment related expenses	29,626	21,881	25,134	21,881
Promotion and marketing expenses	4,272	3,369	4,272	3,369
Administration and general expenses	33,054	47,087	49,519	43,238
	170,932	166,368	182,905	166,368

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

#### Notes to the financial statements

For the financial year ended 31 December 2016 (cont'd)

#### (q) Allowance/(writeback) for impairment on advances and financing

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Allowance for advances and financing during the year				
- Individual assessment allowance (Note 41(e)(x))	124,769	49,292	115,680	49,292
- Collective assessment allowance (Note 41(e)(x))	105,769	44,282	105,973	38,705
	230,538	93,574	221,653	87,997
Writeback/recoveries for advances and financing during the year				
- Individual assessment allowance (Note 41(e)(x))	(56,997)	(9,632)	(56,997)	(6,009)
- Collective assessment allowance (Note 41(e)(x))	(79,913)	(31,876)	(79,913)	(31,322)
	(136,910)	(41,508)	(136,910)	(37,331)
Recoveries from advances and financing written-off	(11,043)	(6,904)	(11,041)	(6,904)
Total allowance for impairment loss on advances and financing	82,585	45,162	73,702	43,762

#### (r) Tax expense/(credit)

	Group and Bank	
	2016 RM'000	2015 RM'000
<b>Deferred tax assets ( Note (1))</b>		
Origination or reversal of temporary differences	11,520	(9,964)
Under/(over) provision in prior year	(11,790)	22,607
	(270)	12,643

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

#### Notes to the financial statements

For the financial year ended 31 December 2016 (cont'd)

#### (r) Tax expense/(credit) (cont'd)

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2015: 25%) of the estimated assessable profit for the year.

The reconciliation between tax expense and accounting profit of the Group and Bank multiplied by the applicable corporate tax rate are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit before taxation and zakat	70,414	67,313	79,292	82,233
Income tax at 24% (2015: 25%)	16,899	16,828	19,030	20,558
Non-deductible expenses	3,611	5,839	1,480	2,109
Non-taxable income	(8,990)	(61)	(8,990)	(61)
Under/(over) provision of deferred tax in prior year	(11,790)	(9,964)	(11,790)	(9,964)
Tax expense for the year	(270)	12,642	(270)	12,642

#### (s) Zakat

	Group and Bank	
	2016 RM'000	2015 RM'000
Zakat for the year	4,000	2,000
Under provision of zakat expenses in prior year	1,793	-
	5,793	2,000

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

Notes to the financial statements  
For the financial year ended 31 December 2016 (cont'd)

#### (t) Commitments

	Group and Bank	
	2016	2015
	RM'000	RM'000
Direct credit substitutes	149,693	167,610
Transaction-related-contingent items	229,417	254,000
Irrevocable commitments to extend credit:		
- maturity exceeding one year	61,698	78,878
- maturity not exceeding one year	736,864	536,268
Profit rate related contract	250,000	400,000
	1,427,672	1,436,756

#### (u) Capital adequacy

##### Capital management

The following table set forth capital resources and capital adequacy for the Bank's Islamic as at reporting period:

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
			Restated	Restated
Tier I Capital				
Capital funds	550,564	550,564	550,564	550,564
Retained earnings	429,247	364,356	453,045	379,276
Less: Deferred tax assets	(130,446)	(135,074)	(130,446)	(135,074)
Less: Property revaluation reserve	(197,489)	(164,122)	(197,489)	(164,122)
Total Tier I capital	651,876	615,724	675,674	630,044

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

Notes to the financial statements  
For the financial year ended 31 December 2016 (cont'd)

#### (u) Capital adequacy (cont'd)

##### Capital management (cont'd)

The following table set forth capital resources and capital adequacy for the Bank's Islamic as at reporting period:

	Group		Bank	
	2016	2015	2016	2015
Tier II Capital	RM'000	RM'000	RM'000	RM'000
Collective allowance for advances and financing*	74,601	58,987	74,601	58,987
Property revaluation reserve	98,744	82,061	98,744	82,061
Government funds	168,631	144,900	168,630	144,900
<b>Total Tier II capital</b>	<b>341,976</b>	<b>285,948</b>	<b>341,975</b>	<b>285,948</b>
Total capital	993,852	901,672	1,017,649	916,592
Less: Investment in subsidiaries	-	-	(3,582)	(3,582)
<b>Total capital base</b>	<b>993,852</b>	<b>901,672</b>	<b>1,014,067</b>	<b>913,010</b>

\* The eligible amounts for Tier II Capital is only limited to the excess of total collective allowances over the identifiable incurred losses in the collective allowance pool.

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

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
20%	206,579	252,852	206,579	252,852
50%	24,163	29,422	24,163	29,422
100%	7,863,781	6,005,359	7,851,892	6,616,251
	<b>8,094,523</b>	<b>6,287,633</b>	<b>8,082,634</b>	<b>6,898,525</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 41. Islamic banking business (cont'd)

Notes to the financial statements  
For the financial year ended 31 December 2016 (cont'd)

#### (u) Capital adequacy (cont'd)

##### Capital management (cont'd)

	Group		Bank	
	2016	2,015	2016	2,015
	RM'000	RM'000	RM'000	RM'000
Before deducting proposed dividends:				
Core capital ratio	8.05%	9.79%	8.36%	9.14%
Risk-weighted capital ratio	12.28%	14.34%	12.55%	13.23%
After deducting proposed dividends:				
Core capital ratio	7.85%	9.69%	8.16%	9.04%
Risk-weighted capital ratio	12.08%	14.23%	12.35%	13.14%

The capital adequacy ratios of the Islamic banking business are computed in accordance with the requirements of the Bank Negara Malaysia's Capital Framework for Development Financial Institutions that is based on Basel I capital adequacy framework requirements.

### 42. Subsequent event

Ministry of Finance (MOF) vide its letter dated 7 September 2016, had approved in principle the conversion of the long term borrowing granted by the Government of Malaysia to the Bank amounting to RM500.0 million into the share capital of the Bank. This conversion will not only assist the Bank to improve its capital adequacy requirements but also to increase the Bank's financing capacity in meeting the needs of the unserved and underserved market.

The conversion was subsequently approved by the Parliament of Malaysia on 24 November 2016 and the Bank expects the conversion to be completed by the first half of year 2017.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 43. Prior year adjustments and reclassifications

#### i) Prior year adjustments

During the current financial year, the following prior year adjustments were made:

##### a) Investment properties

During the financial year, the Group and the Bank have decided to change their accounting policy in measuring their investment properties from cost model to fair value model to better reflect the value of these properties. This change in accounting policy has been adjusted retrospectively to the financial statements of the Group and of the Bank.

##### b) Other liabilities

Included in other liabilities of the Group and of the Bank are certain debit balances since prior years which are not supportable and does not reconcile to the general ledger. Based on information available during the current year, the management decided to charge these balances to retained earnings and profit or loss respectively.

#### ii) Reclassifications

The presentation and classification of items in the current year's financial statements have been consistent with the previous financial year except for the following comparative amounts which have been reclassified to conform with the current year's presentation:

##### Presentation of interest receivables

Interest receivables were reclassified and presented within their respective principal balances.



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 43. Prior year adjustments and reclassifications (cont'd)

#### Statement of financial position

	Group			
	As at 31 December 2015			
	As previously stated RM'000	Prior year adjustment RM'000	Reclassification RM'000	As restated RM'000
<b>ASSETS</b>				
Other assets	60,676	-	(25,701)	34,975
Investment properties	156,333	168,281	-	324,614
Available-for-sale financial investments	1,908,948		17,447	1,926,395
Held-to-maturity financial investments	631,544		8,254	639,798
<b>LIABILITIES</b>				
Other liabilities	722,229	52,832	-	775,061
<b>EQUITY</b>				
(Accumulated losses)/ Retained profit	(52,465)	115,449	-	62,984

#### Statement of financial position

	Bank			
	As at 31 December 2015			
	As previously stated RM'000	Prior year adjustment RM'000	Reclassification RM'000	As restated RM'000
<b>ASSETS</b>				
Other assets	597,832	-	(25,701)	572,131
Investment properties	156,333	168,281	-	324,614
Available-for-sale financial investments	1,908,948		17,447	1,926,395
Held-to-maturity financial investments	631,544		8,254	639,798
<b>LIABILITIES</b>				
Other liabilities	752,869	52,832	-	805,701
<b>EQUITY</b>				
(Accumulated losses)/ Retained profit	(62,279)	115,449	-	53,170

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 43. Prior year adjustments and reclassifications (cont'd)

#### Statement of comprehensive income

Group				
For the Financial Year Ended 31 December 2015				
	As previously stated	Prior year adjustment	Reclassification	As restated
	RM'000	RM'000	RM'000	RM'000
Gross income from Islamic banking business	259,455	19,388	-	278,843
Other operating expenses	179,122	21,198	-	200,320

Bank				
For the Financial Year Ended 31 December 2015				
	As previously stated	Prior year adjustment	Reclassification	As restated
	RM'000	RM'000	RM'000	RM'000
Gross income from Islamic banking business	272,975	19,388	-	292,363
Other operating expenses	185,225	21,198	-	206,423

#### Islamic banking business

#### Statements of financial position

Group				
As at 31 December 2015				
	As previously stated	Prior year adjustment	Reclassification	As restated
	RM'000	RM'000	RM'000	RM'000
<b>ASSETS</b>				
Other assets	27,814	-	(24,201)	3,613
Investment properties	156,333	168,281	-	324,614
Available-for-sale financial investments	1,693,966		16,542	1,710,508
Held-to-maturity financial investments	581,311		7,659	588,970
<b>LIABILITIES</b>				
Other liabilities	2,044,589	52,832	-	2,097,421
<b>EQUITY</b>				
Islamic general fund	756,735	115,449	-	872,184

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 43. Prior year adjustments and reclassifications (cont'd)

#### Islamic banking business (cont'd)

#### Statements of financial position (cont'd)

	Bank			
	As at 31 December 2015			
	As previously stated	Prior year adjustment	Reclassification	As restated
	RM'000	RM'000	RM'000	RM'000
<b>ASSETS</b>				
Other assets	569,089	-	(24,201)	544,888
Investment properties	156,333	168,281	-	324,614
Available-for-sale financial investments	1,693,966		16,542	1,710,508
Held-to-maturity financial investments	581,311		7,659	588,970
<b>LIABILITIES</b>				
Other liabilities	2,477,462	52,832	-	2,530,294
<b>EQUITY</b>				
Islamic general fund	771,655	115,449	-	887,104

#### Statements of comprehensive income

	Group			
	For the Financial Year Ended 31 December 2015			
	As previously stated	Prior year adjustments	Reclassification	As restated
	RM'000	RM'000	RM'000	RM'000
Income from Islamic banking				
business	445,513	19,388	-	464,901
Other operating expenses	145,170	21,198	-	166,368

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 43. Prior year adjustments and reclassifications (cont'd)

#### Islamic banking business (cont'd)

#### Statements of comprehensive income (cont'd)

	Bank			
	For the Financial Year Ended 31 December 2015			
	As previously stated	Prior year adjustments	Reclassification	As restated
	RM'000	RM'000	RM'000	RM'000
Income from Islamic banking				
business	459,038	19,388	-	478,426
Other operating expenses	145,170	21,198	-	166,368

#### Statements of financial position

	Group			
	As at 1 January 2015			
	As previously stated	Prior year adjustments	Reclassification	As restated
	RM'000	RM'000	RM'000	RM'000
<b>ASSETS</b>				
Investment properties	160,492	144,734	-	305,226
<b>LIABILITIES</b>				
Other liabilities	555,432	27,475	-	582,907
<b>EQUITY</b>				
(Accumulated losses)/ Retained earnings	(87,962)	117,259	-	29,297

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 43. Prior year adjustments and reclassifications (cont'd)

#### Statements of financial position (cont'd)

	As previously stated RM'000	Bank		As restated RM'000
		As at 1 January 2015		
		Prior year adjustments RM'000	Reclassification RM'000	
<b>ASSETS</b>				
Investment properties	160,492	144,734	-	305,226
<b>LIABILITIES</b>				
Other liabilities	559,480	27,475	-	586,955
<b>EQUITY</b>				
(Accumulated losses)/ Retained earnings	(92,328)	117,259	-	24,931

#### Islamic banking business

#### Statements of financial position

	As previously stated RM'000	Group		As restated RM'000
		As at 1 January 2015		
		Prior year adjustments RM'000	Reclassification RM'000	
<b>ASSETS</b>				
Investment properties	160,492	144,734	-	305,226
<b>LIABILITIES</b>				
Other liabilities	1,611,456	27,475	-	1,638,931
<b>EQUITY</b>				
Islamic general fund	702,774	117,259	-	820,033

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016 (cont'd)

### 43. Prior year adjustments and reclassifications (cont'd)

#### Islamic banking business

#### Statements of financial position (cont'd)

	As previously stated RM'000	Bank		As restated RM'000
		As at 1 January 2015		
		Prior year adjustments RM'000	Reclassification RM'000	
<b>ASSETS</b>				
Investment properties	160,492	144,734	-	305,226
<b>LIABILITIES</b>				
Other liabilities	2,024,198	27,475	-	2,051,673
<b>EQUITY</b>				
Islamic general fund	702,774	117,259	-	820,033

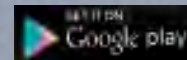
For business. For growth. For life.

**BOOK YOUR BANKER**



[byb.smebank.com.my](http://byb.smebank.com.my)

**DOWNLOAD OUR  
MOBILE APP NOW!**



**SMALL MEDIUM ENTERPRISE DEVELOPMENT BANK MALAYSIA BERHAD (49572-H)**

Menara SME Bank, Jalan Sultan Ismail, 50250 Kuala Lumpur

*An Agency under MITI*

☎ +603 2615 2020 (General Line)

🌐 [www.smebank.com.my](http://www.smebank.com.my)

📘 [www.facebook.com/smebank](https://www.facebook.com/smebank)

✉ [customercare@smebank.com.my](mailto:customercare@smebank.com.my)

☎ +603 2698 1748 (Fax No.)

🌐 [www.YourSuccessOurStory.com](http://www.YourSuccessOurStory.com)

🐦 [www.twitter.com/SME\\_Bank](https://www.twitter.com/SME_Bank)

☎ 1800-88-3131 (Customer Care Centre)