



**BANK PERTANIAN MALAYSIA BERHAD
(811810-U)
(Incorporated in Malaysia)**

**Directors' Report and Audited Financial Statements
31 December 2013**

Company No: 811810-U



BANK PERTANIAN MALAYSIA BERHAD
(Company No: 811810-U)
(Incorporated in Malaysia)

AUDITED FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2013
(In Ringgit Malaysia)

Company No: 811810-U

BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

FINANCIAL STATEMENTS

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BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Bank for the financial year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are banking, financing, investment and servicing as provided under the Bank Pertanian Malaysia Berhad Act, 2008.

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

RESULTS

	RM'000
Profit before tax and zakat	319,309
Tax	(77,727)
Zakat	(1,826)
	<hr/>
Net profit for the year	<u><u>239,756</u></u>

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 Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

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DIVIDENDS

Since the end of the previous financial year, the amount of dividends paid or proposed by the Bank are as follows:

	RM'000
In respect of the financial year ended 31 December 2012, a final dividend of 3 sen less 25% tax on 1,000,000,000 ordinary shares declared on 21 June 2013 and paid on 26 June 2013.	22,500
In respect of the financial year ended 31 December 2013, an interim dividend of 1.2 sen less 25% tax on 1,000,000,000 ordinary shares declared on 25 September 2013 and paid on 4 October 2013.	<u>9,000</u>
	<u>31,500</u>

At the forthcoming Annual General Meeting, a final single tier dividend in respect of the current financial year ended 31 December 2013 of 0.8 sen on 1,000,000,000 ordinary shares of RM1.00 each, amounting to dividend payable of RM8,000,000 will be proposed for 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 appropriation of retained earnings in the financial year ending 31 December 2014.

ISSUE OF SHARES AND DEBENTURES

The Bank has not issued any new shares or debentures during the financial year.

SHARE OPTIONS

No options have been granted by the Bank to any party during the financial year to take up unissued shares of the Bank.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Bank. As at the end of the financial year, there were no unissued shares of the Bank under options.

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DIRECTORS

The following directors served on the Board of the Bank since the date of the last report:

Y. Bhg Tan Sri Faizah Mohd Tahir (Chairman)

Y. Bhg Dato' Wan Mohd Fadzmi bin Wan Othman
(President/Chief Executive Officer)

Y. Bhg Datuk Dr. Saharan Haji Anang

Puan Rashidah Mohd Sies

Y. Bhg Datuk Johar Che Mat

Encik Ng Chih Kaye

Encik Md. Hilmi Datuk Haji Md. Noor

Y. Bhg Dato' Che Mohd Hashim Abdullah

Y. Bhg Dato' Salehuddin Saidin
(appointed on 3 May 2013)

Y. Bhg Datin Ruzaina Wan Haniff
(resigned on 28 February 2013)

DIRECTORS' INTERESTS

None of the directors in office at the end of the financial year held shares or had beneficial interest in the shares of the Bank during and at the end of the financial year.

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DIRECTORS' BENEFITS

There were no arrangements during and at the end of the financial year which had the objective of enabling directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of the Bank or any other corporate body.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors from the Bank and related corporations, or the fixed salary of a full time employee of the Bank as disclosed in Note 32 to the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

OTHER STATUTORY INFORMATION

- (a) Before the statement of financial position and statement of comprehensive income of the Bank were made out, the directors took reasonable steps:
 - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowances had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected to so realise.

- (b) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Bank which would render:
 - (i) the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Bank inadequate to any substantial extent; and
 - (ii) the values attributed to current assets in the financial statements of the Bank misleading.

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OTHER STATUTORY INFORMATION (cont'd)

- (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 Bank misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Bank which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
 - (i) any charge on the assets of the 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 Bank which has arisen since the end of the financial year other than those arising from the normal course of business of the Bank.
- (f) In the opinion of the directors:
 - (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Bank to meet their obligations as and when they fall due; and
 - (ii) no item or 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 Bank for the financial year in which this report is made.

HOLDING COMPANY

Bank Pertanian Malaysia Berhad ("Agrobank") is wholly-owned by the Ministry of Finance (Incorporated) on behalf of the government of Malaysia.

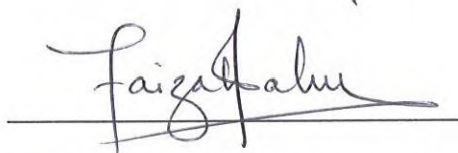
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BANK PERTANIAN MALAYSIA BERHAD
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AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 26 June 2014.



TAN SRI FAIZAH MOHD TAHIR



**DATO' WAN MOHD FADZMI WAN
OTHMAN**

Company No: 811810-U

BANK PERTANIAN MALAYSIA BERHAD

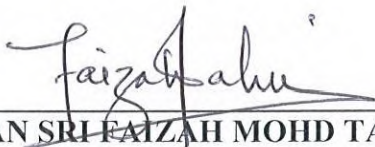
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

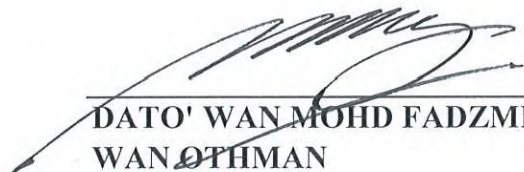
Pursuant to Section 169(15) of the Companies Act, 1965

We, **TAN SRI FAIZAH MOHD TAHIR** and **DATO' WAN MOHD FADZMI WAN OTHMAN** being two of the directors of **BANK PERTANIAN MALAYSIA BERHAD**, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 12 to 166 are properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 December 2013 and of the results and cash flows of the Bank for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 26 June 2014.



TAN SRI FAIZAH MOHD TAHIR



**DATO' WAN MOHD FADZMI
WAN OTHMAN**

STATUTORY DECLARATION

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

I, **SYED NAUFAL SHAHABUDIN BIN SYED ABDUL JABBAR SHAHABUDIN** being the officer primarily responsible for the financial management of **BANK PERTANIAN MALAYSIA BERHAD**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 12 to 166 are in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.



SYED NAUFAL SHAHABUDIN BIN SYED ABDUL JABBAR SHAHABUDIN

Subscribed and solemnly declared by the abovenamed

SYED NAUFAL SHAHABUDIN BIN SYED ABDUL JABBAR SHAHABUDIN

at **KUALA LUMPUR** in the Federal Territory on

26 June 2014.

Before me,



COMMISSIONER FOR OATHS
KAMALA LOSHANE A/P AMBALAVANAR
PESURUHJAYA SUMPAN
(COMMISSIONER FOR OATHS)
Lot 1, Bazaar 4, Level 1, Block G (Selatan)
Pusat Bandar Damansara
50490 Kuala Lumpur



Company No: 811810-U

BANK PERTANIAN MALAYSIA BERHAD

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SHARIAH COMMITTEE'S REPORT

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

Assalamualaikum Warahmatullahi Wabarakatuh

To the shareholder, depositors and customers of Bank Pertanian Malaysia Berhad:

In compliance with the letter of appointment, we are required to submit the following report in relation to the Islamic banking operations at Bank Pertanian Malaysia Berhad.

We have reviewed the Shariah principles and the contracts relating to Islamic banking transactions and applications introduced by Bank Pertanian Malaysia Berhad during the financial year ended 31 December 2013. We have also conducted our review to form an independent opinion as to whether Islamic banking operations of Bank Pertanian Malaysia Berhad has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia and the Shariah Committee of the Bank.

As regards to the above, the management of Bank Pertanian Malaysia Berhad is responsible for ensuring that the Bank conducts its Islamic banking operations in accordance with Shariah. It is our responsibility to form an independent review opinion in respect of the Islamic banking operations of Bank Pertanian Malaysia Berhad, based on our review of the Islamic banking operations of Bank Pertanian Malaysia Berhad and to report to you.

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

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that Bank Pertanian Malaysia Berhad has not violated Shariah.

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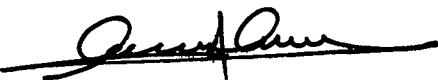
(Incorporated in Malaysia)

SHARIAH COMMITTEE'S REPORT (cont'd)


In our opinion:

- (a) The contracts, transactions and dealings entered into by Bank Pertanian Malaysia Berhad during the financial year ended 31 December 2013 that we have reviewed are in compliance with Shariah. For cases which have been identified as not fulfilling certain requirements under Shariah principles and concepts as explained below, remedial measures have been identified and ongoing rectification efforts on the affected accounts are currently being implemented. In the event the affected accounts cannot be rectified, the income will not be recognised as the Bank's income.
- (b) Remedial measures have been taken for the insufficient distribution of profit for Mudharabah based accounts by providing the undistributed amount to affected customers. As such, the provision has impacted the Bank's performance and retained earnings as disclosed in note (34) to the accounts.
- (c) The allocation of profit and loss relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah.
- (d) All earnings that have been realised from sources or by means prohibited under Shariah will be channelled for charitable purposes.
- (e) The calculation and distribution of zakat is in compliance with Shariah.
- (f) We have also reviewed the exercise of conversion to Full Fledged Islamic Banking ("FFIB") and we are satisfied that the process is in line with Shariah.

We, Dr. Mohamed Fairouz Abdul Khir and Dr. Mohamad Sabri Zakaria, being two of the members of the Shariah Committee of Bank Pertanian Malaysia Berhad, to the best of our knowledge, do hereby confirm on behalf of the members of the Shariah Committee, that the Islamic banking operations of Bank Pertanian Malaysia Berhad for the financial year ended 31 December 2013 have been conducted in conformity with Shariah.



Dr. Mohamed Fairouz Abdul Khir
Chairman of the Committee



Dr. Mohamad Sabri Zakaria
Member of the Committee

Kuala Lumpur, Malaysia
26 June 2014

811810-U

**Independent auditors' report to the member of
Bank Pertanian Malaysia Berhad
(Incorporated in Malaysia)**

Report on the financial statements

We have audited the financial statements of Bank Pertanian Malaysia Berhad, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 12 to 166.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation of financial statements so as to 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 responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

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Independent auditors' report to the member of
Bank Pertanian Malaysia Berhad (cont'd)
(Incorporated in Malaysia)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2013 and of its financial performance and 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.

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

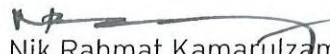
Other matters

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



Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
26 June 2014



Nik Rahmat Kamarulzaman bin Nik Ab. Rahman
No. 1759/02/16(J)
Chartered Accountant

Company No: 811810-U

BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	2013 RM'000	2012 RM'000 Restated
Interest income	5	117,784	181,272
Interest expense	6	(36,713)	(87,408)
Net interest income		<u>81,071</u>	<u>93,864</u>
Income from Islamic banking business	35(a)	<u>423,825</u>	<u>424,363</u>
		504,896	518,227
Non-interest income:			
Fee and other operating income	7(a)	7,862	18,378
Investment income	7(b)	185,132	241,630
Net income		<u>697,890</u>	<u>778,235</u>
Compensation expenses		-	(18,021)
Overhead expenses	8	(359,634)	(350,257)
Operating profit		<u>338,256</u>	<u>409,957</u>
Government grants	9	20,806	32,433
Net operating profit		<u>359,062</u>	<u>442,390</u>
Allowance for impairment on loans, financing and advances	10	(35,835)	(87,290)
(Allowance for)/write back of impairment on investment securities	11	(3,918)	263
Profit before tax and zakat		<u>319,309</u>	<u>355,363</u>
Tax expense	12	(77,727)	(7,349)
Zakat	13	(1,826)	(2,082)
Net profit for the year		<u>239,756</u>	<u>345,932</u>

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

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BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (cont'd)**

	2013	2012
	RM'000	RM'000
		Restated
Net profit for the year	239,756	345,932
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		
Unrealised (loss)/gain on fair value changes on available for sale ("AFS") investment securities	(66,728)	16,383
Transfer to profit or loss on disposal of AFS investment securities	(179,433)	(237,167)
Income tax relating to components of other comprehensive income	62,032	54,560
	<hr/>	<hr/>
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	(184,129)	(166,224)
	<hr/>	<hr/>
Total comprehensive income for the year	<u>55,627</u>	<u>179,708</u>

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

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BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013**

	Note	31 December 2013 RM'000	31 December 2012 RM'000 Restated	1 January 2012 RM'000 Restated
ASSETS				
Cash and short term funds	14	1,273,397	1,827,012	3,413,040
Deposits with financial institutions	15	60,000	-	20,000
Investment securities	16	3,588,054	3,459,062	2,884,941
Loans, financing and advances	17	5,850,154	5,867,648	5,456,358
Other assets	18	96,201	95,920	116,247
Property, plant and equipment	19	195,394	190,856	196,930
Intangible assets	20	26,941	20,898	23,556
Deferred tax assets	21	48,572	-	-
TOTAL ASSETS		11,138,713	11,461,396	12,111,072
LIABILITIES AND EQUITY				
Liabilities				
Deposits from customers	22	6,594,646	6,863,216	7,546,544
Other liabilities				
Other payables and accruals	23(a)	326,935	324,599	231,835
Paddy credit gratuity scheme	23(b)	2,225	2,185	2,249
Deferred tax liabilities	21	-	13,788	61,080
Loan scheme fund	24	1,555,347	1,639,626	1,775,404
Government grants				
Operating	25	35,402	41,872	54,877
Launching	26	17,269	21,598	26,016
Funds	27	257,500	229,250	245,013
Total Liabilities		8,789,324	9,136,134	9,943,018

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

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BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013 (cont'd)

	Note	31 December 2013 RM'000	31 December 2012 RM'000 Restated	1 January 2012 RM'000 Restated
Equity				
Share capital	28	1,000,000	1,000,000	1,000,000
Reserves	29	<u>1,349,389</u>	<u>1,325,262</u>	<u>1,168,054</u>
Total Equity		<u>2,349,389</u>	<u>2,325,262</u>	<u>2,168,054</u>
TOTAL LIABILITIES AND EQUITY		<u>11,138,713</u>	<u>11,461,396</u>	<u>12,111,072</u>

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

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BANK PERTANIAN MALAYSIA BERHAD
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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Non-distributable reserves			Distributable reserves	
	Share capital	Statutory reserves	Investment revaluation reserve	Retained earnings	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 January 2013, as previously stated	1,000,000	487,109	321,719	659,565	2,468,393
Prior year adjustments (note 34)	-	-	-	(143,131)	(143,131)
As at 1 January 2013, as restated	1,000,000	487,109	321,719	516,434	2,325,262
Net profit for the year	-	-	-	239,756	239,756
Other comprehensive loss for the year	-	-	(184,129)	-	(184,129)
Total comprehensive (loss)/ income for the year	-	-	(184,129)	239,756	55,627
Dividends paid (note 30)	-	-	-	(31,500)	(31,500)
At 31 December 2013	1,000,000	487,109	137,590	724,690	2,349,389

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

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BANK PERTANIAN MALAYSIA BERHAD

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STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (cont'd)

	Non-distributable reserves			Distributable reserves	Total RM'000
	Share capital RM'000	Statutory reserves RM'000	Investment revaluation reserve RM'000	Retained earnings RM'000	
As at 1 January 2012, as previously stated	1,000,000	487,109	487,943	250,932	2,225,984
Prior year adjustments (note 34)	-	-	-	(57,930)	(57,930)
As at 1 January 2012, as restated	1,000,000	487,109	487,943	193,002	2,168,054
Net profit for the year	-	-	-	345,932	345,932
Other comprehensive loss for the year	-	-	(166,224)	-	(166,224)
Total comprehensive (loss)/ income for the year	-	-	(166,224)	345,932	179,708
Dividends paid (note 30)	-	-	-	(22,500)	(22,500)
At 31 December 2012	1,000,000	487,109	321,719	516,434	2,325,262

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

Company No: 811810-U

BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

**STATEMENT OF CASH FLOW
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

	2013	2012
	RM'000	RM'000
		Restated
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax and zakat	319,309	355,363
Adjustments for:		
Allowance for impairment on loans, financing and advances-net	116,735	173,006
Allowance for impairment on investment securities	3,918	(263)
Depreciation of property, plant and equipment	27,358	26,999
Amortisation of computer software	12,433	13,628
Interest expense/profit charged on loans/financing scheme fund	215	5,757
Write off of property, plant and equipment	1,589	396
Write off of intangible assets	-	93
Gain on disposal of investment securities	(174,192)	(230,722)
Dividends from investment securities	(10,940)	(10,908)
Government Grants release as income	(10,007)	(15,010)
Amortisation of:		
Special Fund for Terengganu Fishery ("DKSP")	(700)	(661)
Government Grants - Operating	(6,470)	(12,788)
Government Grants - Launching	(3,343)	(3,316)
Operating profit before working capital changes	275,905	301,574
Change in loans, financing and advances	(97,718)	(403,336)
Change in other assets	(281)	20,320
Change in deposits with financial institutions	(60,000)	20,000
Change in deposits from customers	(268,570)	(863,377)
Change in other payables and accruals	(115)	79,188
Change in paddy credit gratuity scheme	40	(64)
Change in deferred tax liabilities	(62,032)	(54,560)
Cash used in operating activities	(212,771)	(900,255)
Tax paid	(76,564)	(74)
Zakat paid	(3,432)	(2,854)
Net cash used in operating activities	(292,767)	(903,183)

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

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BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

STATEMENT OF CASH FLOW

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (cont'd)

	2013	2012
	RM'000	RM'000
		Restated
CASH FLOW FROM INVESTING ACTIVITIES		
Increase in investment securities	(337,552)	(1,806,816)
Purchase of property, plant and equipment	(33,485)	(21,321)
Purchase of computer software	(18,476)	(11,063)
Proceeds from disposal of investment securities	194,705	1,310,801
Dividends received from investment securities	10,940	10,908
	<u>(183,868)</u>	<u>(517,491)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Interest/profit paid on loan scheme fund and OECF	(7,261)	(4,909)
Proceeds from:		
Loan from OECF	6,426	-
Fund For Food ("3F")	152,334	652
Food Production Credit Scheme ("SKPM")	-	250
Micro Enterprise Fund	15,759	14,493
Bumiputera Commercial and Industrial Community Scheme HUB ("MPPB HUB")	40,000	-
Repayments of loan scheme fund	(243,855)	(147,968)
Foreign exchange differences	(7,897)	(4,053)
Government grants- Launching utilised	(986)	(1,102)
Government grants- Operating utilised	-	(217)
Dividends paid	(31,500)	(22,500)
	<u>(76,980)</u>	<u>(165,354)</u>
Net cash used in investing activities	(183,868)	(517,491)
Net cash used in financing activities	(76,980)	(165,354)

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

Company No: 811810-U

BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

STATEMENT OF CASH FLOW

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (cont'd)

	2013	2012
	RM'000	RM'000
		Restated
NET DECREASE IN CASH AND CASH EQUIVALENTS	(553,615)	(1,586,028)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>1,827,012</u>	<u>3,413,040</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u><u>1,273,397</u></u>	<u><u>1,827,012</u></u>
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash and short term funds (Note 14)	<u><u>1,273,397</u></u>	<u><u>1,827,012</u></u>

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

Company No: 811810-U

BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

1. CORPORATE INFORMATION

Bank Pertanian Malaysia Berhad ("the Bank") is a public limited liability company, incorporated and domiciled in Malaysia.

The principal activities of the Bank are banking, financing, investment and related services as provided under the Bank Pertanian Malaysia Berhad Act, 2008.

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

The registered office is at Level 3, Bangunan Agrobank, Leboh Pasar Besar, 50726 Kuala Lumpur, Malaysia.

The principal place of business of the Bank is at Bangunan Agrobank, Leboh Pasar Besar, 50726 Kuala Lumpur, Malaysia.

The financial statements have been approved and authorised for issuance by the Board of Directors in accordance with a resolution dated 26 June 2014.

2. BASIS OF PREPARATION

The financial statements of the Bank have been prepared under the historical cost convention, unless otherwise stated in the accounting policies.

2.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

2.2 Functional and presentation currency

The financial statements are presented in Ringgit Malaysia (RM), which is the Bank's functional currency, and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Summary of significant accounting policies

(a) Basis of accounting

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, except for the adoption of the MFRSs, amendments to MFRSs, Issues Committee ("IC") Interpretations and Technical Releases as disclosed in Note 3.2.

(b) Revenue recognition

Interest is recognised as interest income and interest expense in the statement of comprehensive income for all interest bearing financial instruments classified as Held to Maturity ("HTM"), AFS or loans and receivables using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that is used to discount the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating effective interest, the Bank estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. Fees, including those for early redemption, are included in the calculation to the extent that they can be measured and are considered to be an integral part of the effective interest rate. Cash flows arising from the direct and incremental costs of issuing financial instruments are also taken into account in the calculation. Where it is not possible to otherwise estimate reliably the cash flows or the expected life of a financial instrument, effective interest is calculated by reference to the payments or receipts specified in the contract, and the full contractual term.

BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(b) Revenue recognition (cont'd)

Unless included in the effective interest calculation, fees and commissions are recognised based on an accrual basis upon rendering of services.

Dividends are recognised when the right to receive payment is established. In the financial statements, this is when the dividends are received or deemed received.

Income from rental is recognised on an accrual basis in accordance with the terms of the agreement.

(c) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all conditions attached will be met. Grants from the Government of Malaysia consist of the following:

(i) Government grants - Operating (note 25)

Unutilised operating grants are shown separately from the Bank's other sources of funds. Operating grants received for capital expenditure are recognised as deferred capital grants in the statement of financial position. The grants are amortised to profit or loss on a systematic basis over the useful life of the assets. Operating grants for development expenditure is deducted from the operating grants upon utilisation.

(ii) Government grants - Launching (note 26)

Launching grants received for capital expenditure are recognised as deferred capital grant in the statement of financial position. The grants are amortised to profit or loss on a systematic basis over the useful life of the assets whereas the launching grants for development expenditure is deducted from the launching grants upon utilisation.

BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(c) Government grants (cont'd)

(iii) Government grants - Funds (note 27)

These funds are received to provide financing to eligible customers and utilise against credit losses and charges arising from these financing. Any credit loss or charges as a result of the financing being defaulted are recognised and utilised against the grants.

(d) Financial assets and liabilities

(1) Initial recognition and subsequent measurement

Financial instruments are classified into the following categories - loans and receivables, financial investments HTM and financial investments AFS.

Management determines the classification of financial instruments at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified in this category include cash and balances with banks and loans, financing and advances. These financial assets are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest income on loans and receivables is recognised as “Interest income” in profit or loss.

BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(d) Financial assets and liabilities (cont'd)

(1) Initial recognition and subsequent measurement (cont'd)

(i) Loans and receivables (cont'd)

Impairment losses on loans, financing and advances are recognised in profit or loss as “Allowance for impairment on loans, financing and advances”.

(ii) Held-to-maturity ("HTM")

Financial investments HTM are non-derivative financial assets with fixed or determinable payments that management has the intention and ability to hold to maturity. These financial assets are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest on investments HTM is included in “Interest Income” in profit or loss. Impairment losses, if any, are recognised in profit or loss as "Allowance for impairment on investment securities". Regular way purchases and sales of financial investments HTM are recognised at settlement date. If the Bank was to sell or reclassify more than an insignificant amount of financial investments HTM before maturity, the entire category would be tainted and be reclassified to AFS. Furthermore, the Bank would be prohibited from classifying those financial assets as HTM for the following two years.

BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(d) Financial assets and liabilities (cont'd)

(1) Initial recognition and subsequent measurement (cont'd)

(iii) Available-for-sale ("AFS")

Financial investments AFS are non-derivative financial assets that are designated as AFS and are not categorised into any of the other categories above. Financial investments AFS include financial assets that are intended to be held for an indefinite period of time, which may be sold in response to liquidity needs or changes in market conditions. These financial assets are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at fair value.

Gains and losses arising from changes in fair value are recognised in the statement of comprehensive income under other comprehensive income, except for impairment losses, which are recognised in profit or loss. If an investment AFS is determined to be impaired, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Likewise, upon disposal of investments AFS, the cumulative fair value gain or loss recognised in equity is also transferred to profit or loss. Interest income on financial investments AFS is included as interest income in profit or loss. Dividends on AFS equity instrument recognised in profit or loss when the Bank's right to receive payment is established. Regular way purchases and sales of financial investments AFS are recognised at settlement date.

Investments in unquoted equity instruments which are classified as AFS and whose fair value cannot be reliably measured are measured at cost. These investments are assessed for impairment at each reporting period.

BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(d) Financial assets and liabilities (cont'd)

(1) Initial recognition and subsequent measurement (cont'd)

(iv) Financial liabilities

Financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortised cost. Financial liabilities measured at amortised cost include deposits from customers.

(2) Derecognition

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

(3) Determination of fair value

The Bank measures financial instruments such as financial investments AFS at fair value at each statement of financial position date.

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:

(i) In the principal market for the asset or liability, or

(ii) In the absence of a principal market, in the most advantageous market for the asset or liability

BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(d) Financial assets and liabilities (cont'd)

(3) Determination of fair value (cont'd)

The principal or the most advantageous market must be accessible to 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 Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are 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 liabilities.
- 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.

BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(d) Financial assets and liabilities (cont'd)

(3) Determination of fair value (cont'd)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between fair value hierarchy levels by re-assessing 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 disclosure, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risk of the asset or liability and the level of the fair value hierarchy as explained above.

(4) Impairment of financial assets

(i) Loans, financing and advances

Loans, financing and advances (“loan(s)”) of the Bank are classified as impaired when they fulfil either of the following criteria:

- (1) principal or interest or both are past due for three (3) months or more;
- (2) where a loan is in arrears for less than three (3) months, but exhibits indications of credit weaknesses; or
- (3) where an impaired loan has been rescheduled or restructured, the loan will continue to be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of six (6) months for non retail loans and three (3) months for retail loans.

BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(d) Financial assets and liabilities (cont'd)

(4) Impairment of financial assets (cont'd)

(i) Loans, financing and advances (cont'd)

For the determination of impairment on loans, the Bank conducts assessments at each reporting period whether there is any objective evidence that a loan or a group of loans is impaired. A loan or a group of loans is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (i.e. an “incurred loss event”) and that loss event has an impact on the estimated future cash flows of the loan or group of loans that can be reliably estimated.

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

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

BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(d) Financial assets and liabilities (cont'd)

(4) Impairment of financial assets (cont'd)

(i) Loans, financing and advances (cont'd)

The Bank first assesses individually whether objective evidence of impairment exists for loans which are individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed loan, the loan is then included as a part of collective assessment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the loan's carrying amount and the present value of the estimated future cash flows. The carrying amount of the loan is impaired through the use of an allowance account and the impaired amount of loss is recognised in profit or loss. Where appropriate, the calculation of the present value of estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For collective assessment, the non-impaired loans and impaired loans which are not individually significant are grouped on the basis of homogenous risk characteristics that are indicative of the borrowers' ability to pay all amounts due according to the contractual terms. The collective impairment is computed by multiplying the exposure with the Probability of Default ("PD") and Loss Given Default ("LGD"). The PD is based on migration or regression analysis and the LGD is determined by using the collateral shortfall method. Where a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are only written off after the necessary procedures have been completed and the amount of the loss has been determined.

Subsequent recoveries of the amounts previously written off are recognised in profit or loss.

BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(d) Financial assets and liabilities (cont'd)

(4) Impairment of financial assets (cont'd)

(i) Loans, financing and advances (cont'd)

Where a loan shows evidence of credit weaknesses, the Bank may seek to renegotiate the loan rather than to take possession of collateral. This may involve an extension of the payment arrangements via rescheduling or the renegotiation of new loan terms and conditions via restructuring. Management monitors the renegotiated loan to ensure that all the revised terms are met and that the repayments are made promptly for a continuous period. Where an impaired loan is renegotiated, the borrower must adhere to the revised and/or restructured repayment terms for a continuous period of six months for non retail loans and 3 months for retail loans before the loan is classified as non impaired. These loans continue to be subjected to individual or collective impairment assessment.

(ii) Financial investments AFS

The Bank assesses at each reporting period whether there is objective evidence that a financial investment classified as AFS is impaired. In the case of quoted equity investments, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether objective evidence of impairment exists. Where such evidence exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised) is removed from equity and recognised in profit or loss. For unquoted equity investments which are measured at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(d) Financial assets and liabilities (cont'd)

(4) Impairment of financial assets (cont'd)

(ii) Financial investments AFS (cont'd)

Impairment losses on AFS 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 AFS 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 and loss.

(iii) Financial investments HTM

The Bank assesses at each reporting period whether objective evidence of impairment of financial investments HTM exists as a result of one or more loss events and that loss event has an impact on the estimated future cash flows of the financial investment or group of financial investments that can be reliably estimated. Where there is objective evidence of impairment, an impairment loss is recognised as the difference between the acquisition cost and the present value of the estimated future cash flows, less any impairment loss previously recognised.

(e) Foreign currency

(i) Functional currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates i.e. the functional currency. The financial statements of the Bank are presented in RM which is the Bank's functional and presentation currency.

BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(e) Foreign currency (cont'd)

(ii) Foreign currency transactions

In preparing the financial statements of the Bank, transactions in currencies other than the Bank's functional currency are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

(f) Income tax

(i) Current tax

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

Current taxes are recognised in 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.

BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(f) Income tax (cont'd)

(ii) Deferred tax

Deferred tax is provided for, using the “liability” method, on temporary differences as of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised for all taxable temporary differences while deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

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

The carrying amount of deferred tax assets, if any, is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the reporting period. Deferred tax is recognised in profit or loss, except when it arises from a transaction which is recognised directly in equity.

BANK PERTANIAN MALAYSIA BERHAD

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(f) Income tax (cont'd)

(ii) Deferred tax (cont'd)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

(g) Employees' benefit

(i) Short-term benefit

Wages, salaries, other fixed remuneration and bonuses are recognised as expenses in the year that services have been rendered by the employees. Short term accumulated compensated annual leave is limited to 120 days throughout the service tenure and is recognised when service has been rendered. With the approval of the head of department, the annual leave is allowed to be carried forward for a maximum period of two (2) years after which it will be forfeited and no compensation will be paid. Medical leave is recognised when the absences occur.

(ii) Defined contribution plan

The Bank is required by law to make monthly contributions to the Employees Provident Fund ("EPF") at certain prescribed rates based on the employees' salaries. Such contributions are recognised as expense in profit or loss as incurred.

BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(g) Employees' benefit (cont'd)

(iii) Retirement benefit

Eligible staff are entitled for a lump sum gratuity payment upon attainment of normal retirement age of 60 years or early retirement age of 45 years for female employees and 50 years for male employees. The gratuity payment is equivalent to 0.75 of their last drawn salary multiplied by the number of years of service and a leave replacement benefit payment equivalent to 4 times their last drawn salary.

The retirement benefit liability recognised in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period, together with adjustments for actuarial gains/losses and unrecognised past service cost reflecting only the number of years of service completed up to the statement of financial position date.

The defined benefit obligation, calculated using the projected unit credit method, is determined by independent actuaries, by discounting the estimated future cash outflows using market yields at the end of the reporting period on Malaysian Government Securities which have currency and terms to maturity approximating the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in retained earnings in other comprehensive income in the period in which they arise. The actuarial gains and losses are not subsequently reclassified to profit or loss in subsequent periods.

BANK PERTANIAN MALAYSIA BERHAD

(Incorporated in Malaysia)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(h) Impairment of non-financial assets

The carrying amount of property, plant and equipment is reviewed to determine whether there is any indication of impairment. An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessment of the time value of money and the risk specific to the asset for which the estimates of future cash flow have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation or depreciation, if no impairment loss had been recognised. A reversal of an impairment loss is recognised in profit or loss immediately.

(i) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Freehold land and work in progress are not depreciated.

Property, plant and equipment are depreciated on a straight-line method at rates calculated to write off the cost less residual value of the assets over their estimated useful lives. The annual depreciation rates used are as follows:

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BANK PERTANIAN MALAYSIA BERHAD

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(i) Property, plant and equipment (cont'd)

Buildings	2%
Motor vehicles	20%
Furniture and fixtures	20%
Equipment and office machines	10%
Computer hardware	20%

Where parts of items of property, plant and equipment have different useful lives, the cost of the items is allocated on a reasonable basis and is depreciated separately.

Leasehold land is depreciated over the period of its respective leases.

At each reporting period, the residual values and useful lives of the property, plant and equipment are reviewed, and the effect of any changes is recognised prospectively. Gain and loss arising from the disposal of an asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in profit or loss.

Costs of repair and maintenance are charged to profit or loss in the year in which the costs are incurred.

(j) Intangible assets

The intangible asset consists of computer software which are initially recorded at cost. Subsequent to the recognition, computer software are measured at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of computer software over their estimated useful lives of 3 years. Gain or loss arising from the disposal of the asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in the profit or loss.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(j) Intangible assets (cont'd)

Subsequent expenditure on an intangible asset after its purchase or completion is recognised as an expense when it is incurred, unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and the expenditure can be measured and attributed to the asset reliably.

(k) Leases

Leases are classified as finance lease or operating lease. Leases are classified as finance leases where the Bank assumes substantially all the risks and rewards of ownership of the assets. Assets under operating leases are not recognised in the statement of financial position as the risks and rewards rest with the lessor.

Lease rental is charged to profit or loss on the straight-line basis over the lease term. Benefit received or receivable as an incentive to enter into an operating lease are recognised on the straight-line basis over the lease term. However, contingent rentals arising from operating leases are recognised as an expense in a manner consistent with the basis on which they are determined.

(l) Foreclosed properties

Foreclosed properties are those acquired in order to settle the debts and are stated at the lower of cost and net realisable value.

BANK PERTANIAN MALAYSIA BERHAD

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(m) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation.

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

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

(n) Share capital

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

(o) Cash flow statement

The Bank adopts the indirect method in the preparation of cash flow statement.

(p) Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Changes in accounting policies

On 1 January 2013, the Bank adopted the following new and amended MFRS and IC Interpretations mandatory for financial periods beginning on or after 1 January 2013.

Effective for annual periods beginning on or after 1 July 2012

Amendments to MFRS 101: *Presentation of Items of Other Comprehensive Income*

Effective for annual periods beginning on or after 1 January 2013

MFRS 3 *Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)*

MFRS 127 *Consolidated and Separate Financial Statements (IAS 27 revised by IASB in December 2003)*

MFRS 10 *Consolidated Financial Statements*

MFRS 11 *Joint Arrangements*

MFRS 12 *Disclosure of Interests in Other Entities*

MFRS 13 *Fair Value Measurement*

MFRS 119 *Employee Benefits (IAS 19 as amended by IASB in June 2011)*

MFRS 127 *Separate Financial Statements (IAS 27 as amended by IASB in May 2011)*

MFRS 128 *Investments in Associates and Joint Ventures (IAS 28 as amended by IASB in May 2011)*

IC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*

Amendments to MFRS 7 *Disclosures: Offsetting Financial Assets and Financial*

Annual improvement 2009-2011 Cycle

Amendments to MFRS 1: *Government Loans*

Amendments to MFRS 10, 11 and 12 : *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transitional Guidance*

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Changes in accounting policies (cont'd)

Adoption of the above standards and interpretations did not have any effect material on the financial performance or position of the Bank except for those discussed below:

MFRS 13 Fair Value Measurement

MFRS 13 establishes a single source of guidance under MFRS for all fair value measurements. MFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under MFRS. MFRS 13 defines fair value as an exit price. As a result of the guidance in MFRS 13, the Bank re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. MFRS 13 also requires additional disclosures.

Application of MFRS 13 has not materiality impacted the fair value measurement of the Bank. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

Amendments to MFRS 101: Presentation of Items of Other Comprehensive Income

The amendments to MFRS 101 introduce a grouping of items presented in other comprehensive income. Items that will be reclassified (“recycled”) to profit or loss at a future point in time (eg. net loss or gain on available-for-sale financial assets) have to be presented separately from items that will not be reclassified (eg. revaluation of land and buildings). The amendments affect presentation only and have no impact on the Bank’s financial position or performance.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Standards issued but not yet effective

The following are standards and interpretations issued by the Malaysian Accounting Standards Board ("MASB"), but not yet effective, up to the date of issuance of the Bank's financial statements. The Bank intends to adopt these standards and interpretations, if applicable, when they become effective:

Effective for annual periods beginning on or after 1 January 2014

Amendments to MFRS 132: *Offsetting Financial Assets and Financial Liabilities*

Amendments to MFRS 10, MFRS 12 and MFRS 127: *Investment Entities*

Amendments to MFRS 136: *Recoverable Amount Disclosures for Non-Financial*

Amendments to MFRS 139: *Novation of Derivatives and Continuation of Hedge Accounting*

IC Interpretation 21 *Levies*

Effective for annual periods beginning on or after 1 July 2014

Amendments to MFRS 119: *Defined Benefit Plans: Employee Contributions*

Annual Improvements to MFRSs 2010–2012 Cycle

Annual Improvements to MFRSs 2011–2013 Cycle

Effective dates to be announced by MASB

MFRS 9 *Financial Instruments* (IFRS 9 issued by IASB in November 2009)

MFRS 9 *Financial Instruments* (IFRS 9 issued by IASB in October 2010)

MFRS 9 *Financial Instruments: Hedge Accounting and amendments to MFRS 9, MFRS 7, and MFRS 139*

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Standards issued but not yet effective (cont'd)

MFRS 9 Financial Instruments

MFRS 9 reflects the first phase of work on the replacement of MFRS 139 and applies to classification and measurement of financial assets and financial liabilities as defined in MFRS 139. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to MFRS 9: Mandatory Effective Date of MFRS 9 and Transition Disclosures, issued in March 2012, moved the mandatory effective date to 1 January 2015. Subsequently, on 14 February 2014, it was announced that the new effective date will be decided when the project is closer to completion. The adoption of the first phase of MFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will not have an impact on classification and measurements of the Bank's financial liabilities. The Bank will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENT

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of income, expense, assets and liabilities and the disclosure of contingent liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amount of the asset or liability affected in the future.

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

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4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENT (cont'd)

Key sources of estimation uncertainty

(a) Allowance for impairment on loans, financing and advances

The Bank reviews doubtful loans, advances and financing at each reporting date to assess whether allowances for impairment should be recorded in the financial statements. In particular, judgement is required in the identification of impaired loans, and the estimation of realisable amount from impaired loans when determining the level of allowance required (Note 10).

(b) Impairment assessment of AFS financial investments

The Bank records impairment charges on AFS financial investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of AFS financial investments is less than its cost (Note 11).

(c) Fair value estimation of AFS 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 reporting date, including reference to quoted market prices and independent dealer quotes for similar securities and discounted cash flow method (Note 16).

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5. INTEREST INCOME

	2013	2012
	RM'000	RM'000
Loans and advances	70,443	103,106
Investment securities:		
HTM	675	3,579
AFS	15,175	40,292
Deposits with financial institutions	31,491	34,295
	<u>117,784</u>	<u>181,272</u>
Of which:		
Interest income earned on impaired loans and advances	<u>12,153</u>	<u>15,006</u>

6. INTEREST EXPENSE

	2013	2012
	RM'000	RM'000
Savings deposits and Agro Perdana	23,053	54,245
Fixed/Special deposits	14,518	31,014
Loan scheme fund and OECF	(858)	2,149
	<u>36,713</u>	<u>87,408</u>

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7. NON-INTEREST INCOME

(a) Fee and other operating income

	2013	2012
	RM'000	RM'000
Fee income		
Service charges and fees	3,510	6,628
Loan processing fees	296	2,552
	<u>3,806</u>	<u>9,180</u>
Other income		
Reimbursement of gapping cost	661	1,994
Income from Project Ladang Sungai Tasan	659	833
Income from staff loans and financing	1,030	1,173
Rental	57	111
Non operational income	1,649	5,087
	<u>4,056</u>	<u>9,198</u>
	<u><u>7,862</u></u>	<u><u>18,378</u></u>

(b) Investment income

	2013	2012
	RM'000	RM'000
Net gain on disposal of AFS investment securities	174,192	230,722
Dividend income	10,940	10,908
	<u>185,132</u>	<u>241,630</u>

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8. OVERHEAD EXPENSES

	2013	2012
	RM'000	RM'000
Personnel cost		
Salary, allowances and bonus	186,556	169,876
EPF contributions	21,139	17,826
SOCSO contributions	1,712	1,700
Staff welfare	5,925	5,097
Staff training	4,240	4,281
Recruitment fees	217	461
Directors allowance	1,172	1,780
Medical insurance	4,922	4,592
Retirement benefits scheme	(10,035)	10,668
Others	2,397	594
	218,245	216,875
Maintenance cost		
Depreciation of property, plant and equipment (Note 19)	27,358	26,999
Amortisation of computer software (Note 20)	12,433	13,628
Insurance on property, plant and equipment	3,212	5,346
Rental of premises	8,639	7,912
Printing, stationery and office supplies	7,793	9,203
Water and electricity	8,010	7,990
Computer maintenance	14,215	9,854
Building maintenance	3,217	2,996
Office maintenance	3,452	3,072
Computer supply	980	1,544
Others	2,830	2,973
	92,139	91,517
Marketing expenses		
Advertising and promotions	4,139	2,577
Others	645	264
	4,784	2,841

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8. OVERHEAD EXPENSES (cont'd)

	2013	2012
	RM'000	RM'000
General administrative expenses		
Communication expenses	14,015	14,097
Government grants - Launching	986	1,102
Government grants - Operating	-	217
Legal fees	16,743	13,695
Auditor's remuneration		
- Statutory audit	380	380
- Other assurance related	80	180
- Other services - tax compliance	120	40
Security charges	9,980	7,761
Others	2,162	1,552
	44,466	39,024
	359,634	350,257

9. GOVERNMENT GRANTS

	2013	2012
	RM'000	RM'000
Launching Grant:		
Development expenditure	986	1,102
Amortisation of capital expenditure	3,343	3,316
Operating Grant:		
Development expenditure	-	217
Amortisation of capital expenditure	6,470	12,788
Government grants - Funds (recovered)/released:		
Entrepreneur Scheme for Graduates ("SUTKS") (note 27 (b))	(573)	(225)
Special Fund for Terengganu Fishery ("DKSP") (note 27 (c))	104	5
Fund for Ministry of Youth and Sports ("DKBS") (note 27 (d))	83	532
National Key Economic Area ("NKEA") (note 27 (f))	125	-
Micro Economic Stimulation Package ("Micro-ESP") (note 27 (g))	10,268	14,698
	20,806	32,433

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10. ALLOWANCE FOR IMPAIRMENT ON LOANS, FINANCING AND ADVANCES

	2013	2012
	RM'000	RM'000
Loans, financing and advances :		
Allowance for the year	(91,248)	(105,480)
Amount written back upon recoveries and reversal of allowance	55,431	85,051
Individual impairment allowance - net	(35,817)	(20,429)
Allowance for the year	(98,308)	(193,386)
Amount written back	17,390	41,070
Collective impairment allowance - net	(80,918)	(152,316)
Bad debts and financing :		
Written off	-	(261)
Recovered	80,900	85,716
	(35,835)	(87,290)

**11. (ALLOWANCE FOR)/ WRITEBACK OF IMPAIRMENT ON INVESTMENT
SECURITIES**

	2013	2012
	RM'000	RM'000
Allowance for impairment:		
Corporate bonds	(4,995)	-
Quoted shares	1,077	263
	(3,918)	263

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12. TAX EXPENSE

	2013	2012
	RM'000	RM'000
		Restated
Income tax:		
Malaysian income tax	79,152	75
(Over)/under provision in prior years	(1,097)	6
	<u>78,055</u>	<u>81</u>
Deferred tax:		
Relating to origination and reversal of temporary differences	(5,073)	7,268
Under provision in prior years	4,745	-
	<u>77,727</u>	<u>7,349</u>

Income tax is calculated at the Malaysian statutory tax rate of 25% (2012: 25%) of the estimated assessable profit for the year. The reconciliation between tax expense and accounting profit of the Bank multiplied by the applicable corporate tax rate are as follows:

	2013	2012
	RM'000	RM'000
		Restated
Profit before tax and zakat	<u>319,309</u>	<u>355,363</u>
Tax at the applicable statutory tax rate of 25% (2012: 25%)	79,827	88,841
Tax effects of:		
Income not subject to tax	(8,366)	(91,774)
Expenses not deductible for tax purposes	2,618	10,276
Under provision of deferred tax in prior years	4,745	-
(Over)/under provision of tax in prior years	(1,097)	6
	<u>77,727</u>	<u>7,349</u>

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12. TAX EXPENSE (cont'd)

The Ministry of Finance by notification in the Malaysian Gazette P.U.(A) 95/2008 issued an order on 1 April 2008 vesting all properties, rights and liabilities of Bank Pertanian Malaysia (prior corporatisation) to the Bank without any conveyance, assignment or transfer. Based on the order, the Ministry of Finance in a letter dated 25 June 2008 made the decision to extend the right for tax exemption on all income for years of assessment 2002 to 2012 except for tax on dividend income. In addition, the Bank is allowed to carry forward the unabsorbed capital allowances and unabsorbed tax losses for the said exempt period. The exemption was not extended and the Bank is subject to income tax from the current financial year ended 31 December 2013.

13. ZAKAT

	2013	2012
	RM'000	RM'000
Zakat for the year	<u>1,826</u>	<u>2,082</u>

This represents amount to be paid by the Bank in accordance with Shariah and approved by the Shariah Council. The Bank uses the asset growth method to compute zakat.

14. CASH AND SHORT TERM FUNDS

	31 December	31 December
	2013	2012
	RM'000	RM'000
Cash in hand	84,774	76,757
Cash at banks	78,882	79,730
Short term deposits maturing within three months:		
Licensed banks	628,343	936,050
Other financial institutions	481,398	734,475
	<u>1,273,397</u>	<u>1,827,012</u>

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15. DEPOSITS WITH FINANCIAL INSTITUTIONS

	31 December 2013 RM'000	31 December 2012 RM'000
Other financial institutions	60,000	-
Maturity structure of deposits with financial institutions is as follows:		
Six months to nine months	60,000	-

16. INVESTMENT SECURITIES

	31 December 2013 RM'000	31 December 2012 RM'000
<u>Debt securities</u>		
AFS - at fair value		
Corporate bonds	2,283,604	1,763,986
Malaysian Government Securities ("MGS") / Government Investment Issue ("GII")	998,293	1,212,144
	3,281,897	2,976,130
HTM - at amortised cost		
Corporate bonds	32,978	42,368
Commercial papers	19,901	9,955
Malaysian Government Securities ("MGS") / Government Investment Issue ("GII")	161,283	161,756
	214,162	214,079
	3,496,059	3,190,209

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16. INVESTMENT SECURITIES (cont'd)

	31 December 2013 RM'000	31 December 2012 RM'000
<u>Equity securities</u>		
AFS - at fair value		
Quoted shares in Malaysia	98,592	271,532
Total before allowances	<u>3,594,651</u>	<u>3,461,741</u>
Allowance for impairment		
Corporate bonds	<u>(6,354)</u>	<u>(1,359)</u>
Quoted shares in Malaysia	<u>(243)</u>	<u>(1,320)</u>
	<u>(6,597)</u>	<u>(2,679)</u>
Net	<u><u>3,588,054</u></u>	<u><u>3,459,062</u></u>
Maturity structure for HTM investments is as follows:		
Maturity within six months	44,926	19,955
Between six months to one year	-	-
Between one year to three years	119,205	25,119
Between three years to five years	50,031	169,005
More than five years	-	-
	<u><u>214,162</u></u>	<u><u>214,079</u></u>
Market values of HTM investments are as follows:		
Market Value		
Corporate bonds	33,038	42,627
Commercial papers	19,810	9,943
Malaysian Government Securities ("MGS") / Government Investment Issue ("GII")	<u>160,302</u>	<u>162,014</u>
	<u><u>213,150</u></u>	<u><u>214,584</u></u>

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16. INVESTMENT SECURITIES (cont'd)

	Corporate bonds RM'000	Quoted shares RM'000	Total RM'000
Movement in allowance for impairment			
At 1 January 2013	1,359	1,320	2,679
Allowance for/(reversal of allowance) during the year	4,995	(1,077)	3,918
At 31 December 2013	6,354	243	6,597

17. LOANS, FINANCING AND ADVANCES

	31 December 2013 RM'000	31 December 2012 RM'000 Restated	1 January 2012 RM'000 Restated
At amortised cost:			
Islamic financing and advances (Note 35(g))	5,766,570	5,491,789	4,753,457
Wawasan Tani Loans	115,126	269,100	443,756
Project and Equipment Loans	226,918	318,432	445,831
Capital Entrepreneur Tani ("MUST")	48,314	103,714	164,804
Agribusiness Loans	107,492	122,096	129,544
Fund For Food ("3F")	18,797	32,381	54,697
Insani Education Loans	37,819	55,302	66,879
Paddy Credit Scheme	1,192	17,110	19,265
MAP and MPPB Loans	1,175	4,716	5,258
Fund for Small and Medium Size Industries ("TIKS")	788	1,203	2,169

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17. LOANS, FINANCING AND ADVANCES (cont'd)

	31 December 2013 RM'000	31 December 2012 RM'000 Restated	1 January 2012 RM'000 Restated
At amortised cost: (cont'd)			
Contract Tani Loans	1,613	2,953	2,385
Agriculture Special Credit Scheme ("SPKP")	-	3	1,700
Special Advances on Fixed Deposit	156	521	522
Tobacco Scheme	333	609	591
Asean-Japan Development Fund ("AJDF")	55	154	534
Banking Facilities	2	19	79
Other Loans	1,885	2,031	2,214
	6,328,235	6,422,133	6,093,685
Loans, financing and advances to employees	65,098	70,990	72,690
	6,393,333	6,493,123	6,166,375
Less:			
Individual impairment allowance	(237,264)	(207,777)	(268,380)
Collective impairment allowance	(305,915)	(417,698)	(441,637)
Net	5,850,154	5,867,648	5,456,358

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17. LOANS, FINANCING AND ADVANCES (cont'd)

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

	31 December 2013 RM'000	31 December 2012 RM'000 Restated
Maturity within six months	583,805	819,291
Between six months to one year	91,590	89,898
Between one year to three years	526,081	542,565
Between three years to five years	818,220	777,486
More than five years	4,373,637	4,263,883
	<u>6,393,333</u>	<u>6,493,123</u>

(ii) Gross loans, financing and advances analysed by sectors are as follows:

	31 December 2013 RM'000	31 December 2012 RM'000 Restated
Sectors:		
Support	2,653,171	2,945,095
Crops	2,445,278	2,286,218
Livestock	700,814	687,978
Fishery	435,527	402,747
Forestry	34,547	38,120
Other agricultural based processing	123,996	132,965
	<u>6,393,333</u>	<u>6,493,123</u>

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17. LOANS, FINANCING AND ADVANCES (cont'd)

(ii) Gross loans, financing and advances analysed by regions are as follows:

	31 December 2013 RM'000	31 December 2012 RM'000 Restated
Regions:		
Kuala Lumpur	549,698	790,568
Selangor	756,453	681,730
Pahang	537,703	459,978
Perak	766,500	762,078
Negeri Sembilan/Melaka	465,618	456,204
Johor	525,394	539,256
Kelantan	364,439	364,667
Kedah/Perlis	583,327	536,643
Sarawak	655,559	685,403
Sabah	618,189	578,299
Pulau Pinang	248,087	328,973
Terengganu	322,366	309,324
	<u>6,393,333</u>	<u>6,493,123</u>

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

	31 December 2013 RM'000	31 December 2012 RM'000 Restated
Neither past due nor impaired	5,337,602	5,124,064
Past due but not impaired	418,876	562,041
Impaired	636,855	807,018
	<u>6,393,333</u>	<u>6,493,123</u>

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17. LOANS, FINANCING AND ADVANCES (cont'd)

(iii) Gross loans, financing and advances analysed by classifications are as follows: (cont'd)

Past due but not impaired loans are loans where the customer has failed to make a principal or interest payment when contractually due and includes loans which are due more than one day after the contractual due date but less than three (3) months.

(iv) Movement in impaired gross loans, financing and advances are as follows:

	31 December 2013 RM'000	31 December 2012 RM'000 Restated
At beginning of the year	807,018	907,175
Additions during the year	378,902	500,500
Reclassified as non impaired during the year	(90,134)	(121,588)
Recoveries during the year	(231,324)	(222,564)
Reclassified to off balance sheet during the year	(23,782)	-
Amount written off	(203,825)	(256,505)
	<u>636,855</u>	<u>807,018</u>
At end of the year		
Gross impaired loans as a percentage of gross loans, financing and advances	<u>9.96%</u>	<u>12.43%</u>

(v) Impaired gross loans, financing and advances analysed by sectors and regions are as follows:

	31 December 2013 RM'000	31 December 2012 RM'000 Restated
Sectors:		
Support	161,988	342,673
Crops	251,044	222,852
Livestock	103,728	112,381
Fishery	75,612	78,958
Forestry	31,044	33,220
Other agricultural based processing	13,439	16,934
	<u>636,855</u>	<u>807,018</u>

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17. LOANS, FINANCING AND ADVANCES (cont'd)

- (v) Impaired gross loans, financing and advances analysed by sectors and regions are as follows: (cont'd)

	31 December 2013 RM'000	31 December 2012 RM'000 Restated
Regions:		
Kuala Lumpur	139,635	197,477
Selangor	94,751	122,257
Pahang	66,906	73,536
Perak	72,318	88,644
Negeri Sembilan/Melaka	42,281	63,651
Johor	38,999	61,293
Kelantan	38,897	44,983
Kedah/Perlis	58,627	39,154
Sarawak	22,920	35,686
Sabah	31,354	29,695
Pulau Pinang	17,374	31,482
Terengganu	12,793	19,160
	636,855	807,018

- (vi) Movement in individual impairment allowance are as follows:

	31 December 2013 RM'000	31 December 2012 RM'000 Restated
Individual impairment allowance		
At beginning of the year	207,777	268,380
Allowance for the year	91,248	105,480
Amount written back upon recoveries and reversal of allowance	(55,431)	(85,051)
Net allowance for the year	35,817	20,429
Amount written off	(6,330)	(81,032)
At end of the year	237,264	207,777

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17. LOANS, FINANCING AND ADVANCES (cont'd)

	31 December 2013 RM'000	31 December 2012 RM'000 Restated
<p>(vii) Movement in collective impairment allowance are as follows:</p>		
Collective impairment allowance		
At beginning of the year	417,698	441,637
Allowance for the year	98,308	193,386
Amount written back	(17,390)	(41,070)
Net allowance for the year	80,918	152,316
Amount written off	(192,701)	(176,255)
At end of the year	305,915	417,698
Collective impairment allowance as a percentage of gross loans, financing and advances less individual impairment allowance	4.97%	6.65%

Included in net collective impairment allowance for the year are collective impairment allowance on loans, financing and advances funded by government grants which are as follows:

Entrepreneur Scheme for Graduates ("SUTKS") (note 27 (b))	(573)	(225)
Special Fund for Terengganu Fishery ("DKSP") (note 27 (c))	104	5
Fund for Ministry of Youth and Sports ("DKBS") (note 27 (d))	83	532
National Key Economic Area ("NKEA") (note 27 (f))	125	-
Micro Economic Stimulation Package ("Micro-ESP") (note 27 (g))	10,268	14,698

The total amount of collective impairment allowance includes collective allowances for non impaired loans of RM135,002,910 (2012: RM136,578,158).

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18. OTHER ASSETS

	31 December 2013 RM'000	31 December 2012 RM'000
Other receivables	39,380	31,730
Interest and income receivable	54,632	61,222
Foreclosed properties	5,752	7,836
Project Ladang BPM - Sg Tasan	3,377	3,377
	<u>103,141</u>	<u>104,165</u>
Less: impairment allowance	<u>(6,940)</u>	<u>(8,245)</u>
Net	<u>96,201</u>	<u>95,920</u>
Movement in impairment allowance		
At beginning of the year	8,245	11,956
Addition during the year	-	2,472
Reversal during the year	<u>(1,305)</u>	<u>(6,183)</u>
At end of the year	<u>6,940</u>	<u>8,245</u>

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19. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RM'000	Freehold building RM'000	Leasehold land RM'000	Leasehold buildings RM'000	Motor vehicles RM'000	Furniture and fixtures RM'000	Equipment and office machines RM'000	Computer hardware RM'000	Total RM'000
Cost									
At 1 January 2013	3,591	11,732	8,034	85,327	13,769	131,336	50,912	71,596	376,297
Additions	-	-	-	2,155	1,041	18,071	7,792	4,426	33,485
Write off/disposal	-	-	-	(335)	(1,036)	(3,340)	(1,493)	(2,372)	(8,576)
At 31 December 2013	3,591	11,732	8,034	87,147	13,774	146,067	57,211	73,650	401,206
Accumulated depreciation									
At 1 January 2013	-	3,389	1,712	20,220	11,282	68,544	23,998	56,296	185,441
Charge for the year	-	304	76	1,696	174	12,775	4,693	7,640	27,358
Write off/disposal	-	-	-	(140)	(1,036)	(2,164)	(1,285)	(2,362)	(6,987)
At 31 December 2013	-	3,693	1,788	21,776	10,420	79,155	27,406	61,574	205,812
Net book value									
At 31 December 2013	3,591	8,039	6,246	65,371	3,354	66,912	29,805	12,076	195,394
At 31 December 2012	3,591	8,343	6,322	65,107	2,487	62,792	26,914	15,300	190,856

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19. PROPERTY, PLANT AND EQUIPMENT (cont'd)

- (i) The property, plant and equipment acquired from government grants- launching with net book value amounting to RM8,103,729 (2012: RM10,002,184) are as follows:

	Motor vehicles RM'000	Furniture and fixtures RM'000	Equipment and office machines RM'000	Computer hardware RM'000	Total RM'000
At 31 December 2013					
Cost	696	14,023	1,867	1,547	18,133
Accumulated depreciation	(696)	(6,886)	(900)	(1,547)	(10,029)
Net book value	-	7,137	967	-	8,104
At 31 December 2012					
Cost	696	14,047	1,934	1,548	18,225
Accumulated depreciation	(673)	(5,450)	(714)	(1,386)	(8,223)
Net book value	23	8,597	1,220	162	10,002

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19. PROPERTY, PLANT AND EQUIPMENT (cont'd)

- (ii) The property, plant and equipment acquired from government grants- operating under the 9th Malaysian Plan (“RMK 9”) with net book value amounting to RM19,189,677 (2012: RM24,500,261) are as follows:

	Buildings RM'000	Motor vehicles RM'000	Furniture and fixtures RM'000	Equipment and office machines RM'000	Computer hardware RM'000	Total RM'000
At 31 December 2013						
Cost	13,600	1,709	28,188	4,000	23,975	71,472
Accumulated depreciation	(3,874)	(1,709)	(24,027)	(2,039)	(20,633)	(52,282)
Net book value	9,726	-	4,161	1,961	3,342	19,190
At 31 December 2012						
Cost	13,600	1,709	28,188	4,000	23,975	71,472
Accumulated depreciation	(3,733)	(1,709)	(23,139)	(1,638)	(16,752)	(46,971)
Net book value	9,867	-	5,049	2,362	7,223	24,501

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20. INTANGIBLE ASSETS

	Computer software RM'000
Cost	
At 1 January 2013	63,651
Additions	18,476
Write off	(49)
	<hr/>
At 31 December 2013	82,078
	<hr/>
Accumulated amortisation	
At 1 January 2013	42,753
Charge for the year	12,433
Write off	(49)
	<hr/>
At 31 December 2013	55,137
	<hr/>
Net book value	
At 31 December 2013	26,941
	<hr/> <hr/>
At 31 December 2012	20,898
	<hr/> <hr/>

Included in the above are computer software acquired from the following government grants:

a) Government Grant- Launching

	Cost RM'000	Accumulated amortisation RM'000	Net book value RM'000
2013	6,304	4,870	1,434
2012	6,304	3,333	2,971
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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20. INTANGIBLE ASSETS (cont'd)

b) Government Grant- Operating under the 9th Malaysian Plan ("RMK 9")

	Cost RM'000	Accumulated amortisation RM'000	Net book value RM'000
2013	24,079	22,554	1,525
2012	24,079	21,395	2,684

21. DEFERRED TAX ASSETS/(LIABILITIES)

	31 December 2013 RM'000	31 December 2012 RM'000 Restated
At 1 January, as previously stated	(32,322)	(80,390)
Prior year adjustments (note 34(iii))	18,534	19,310
At 1 January, as restated	(13,788)	(61,080)
Recognised in income statement	328	(7,268)
Recognised in equity	62,032	54,560
At 31 December	48,572	(13,788)
Presented after appropriate offsetting as follows:		
Deferred tax assets	61,657	54,159
Deferred tax liabilities	(13,085)	(67,947)
	48,572	(13,788)

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

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21. DEFERRED TAX ASSETS/(LIABILITIES) (cont'd)

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

	At 1 January 2012 RM'000 Restated	Recognised in income statement RM'000 Restated	Recognised directly in equity RM'000 Restated	At 31 December 2012 RM'000 Restated	Recognised in income statement RM'000	Recognised directly in equity RM'000	At 31 December 2013 RM'000
Deferred tax liabilities:							
Property, plant and equipment	(9,074)	3,876	-	(5,198)	(7,170)	-	(12,368)
Investment revaluation reserve	(117,309)	-	54,560	(62,749)	-	62,032	(717)
	(126,383)	3,876	54,560	(67,947)	(7,170)	62,032	(13,085)

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21. DEFERRED TAX ASSETS/(LIABILITIES) (cont'd)

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

	At 1 January 2012 RM'000 Restated	Recognised in income statement RM'000 Restated	Recognised directly in equity RM'000 Restated	At 31 December 2012 RM'000 Restated	Recognised in income statement RM'000	Recognised directly in equity RM'000	At 31 December 2013 RM'000
Deferred tax assets:							
Allowance for impairment on loans, financing and advances	31,964	(31,964)	-	-	-	-	-
Allowance for impairment on securities	2,408	(2,408)	-	-	-	-	-
Provision for undistributed profit	19,310	21,106	-	40,416	13,036	-	53,452
Other temporary differences	11,621	2,122	-	13,743	(5,538)	-	8,205
	65,303	(11,144)	-	54,159	7,498	-	61,657
Net deferred tax assets/(liabilities)	(61,080)	(7,268)	54,560	(13,788)	328	62,032	48,572

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22. DEPOSITS FROM CUSTOMERS

	31 December 2013 RM'000	31 December 2012 RM'000 Restated
At amortised cost:		
Fixed/money market deposits	3,514,693	3,779,419
Savings deposits	1,581,660	1,640,654
Agro Perdana	1,498,293	1,443,143
	<u>6,594,646</u>	<u>6,863,216</u>
Maturity structure of fixed/money market deposits from customers is as follows:		
Within six months	1,458,119	2,843,736
Between six months to one year	1,953,240	857,159
Between one year to three years	28,359	29,688
Between three years to five years	74,975	48,836
	<u>3,514,693</u>	<u>3,779,419</u>
The deposits are sourced from the following types of customers:		
Government	2,695,451	2,492,133
Individuals	2,619,842	2,760,759
Domestic business enterprises	436,464	601,653
Domestic other entities	814,321	965,618
Domestic non-banking institutions	28,568	43,053
	<u>6,594,646</u>	<u>6,863,216</u>

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23. OTHER LIABILITIES

(a) Other payables and accruals

	31 December 2013 RM'000	31 December 2012 RM'000 Restated
Accrued expenses	52,653	52,314
Sundry creditors	52,966	61,558
Donation/charity	11	155
Zakat payable	2,469	4,075
Provision for undistributed profit (i)	213,809	161,665
Provision for tax expense	2,682	1,191
Retirement benefits scheme (ii)	2,345	43,641
	<u>326,935</u>	<u>324,599</u>
(i) Provision for undistributed profit	31 December 2013 RM'000	31 December 2012 RM'000 Restated
At 1 January, as previously stated	-	-
Prior year adjustments (note 34(ii))	161,665	77,240
At 1 January, as restated	161,665	77,240
Provision for the year	52,144	84,425
At 31 December	<u>213,809</u>	<u>161,665</u>

Provision for undistributed profit relates to under accrual of profit payable on Mudharabah deposits in prior years as disclosed further in note 34(ii).

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23. OTHER LIABILITIES (cont'd)

(a) Other payables and accruals (cont'd)

(ii) Retirement benefits scheme

(a) The provision for retirement benefits scheme is as follows:

	RM'000
At 1 January 2013	43,641
Current service cost ¹	197
Benefits paid from plan	(31,261)
Accumulated overprovision	(10,232)
	<hr/>
At 31 December 2013	2,345
	<hr/> <hr/>

¹ Current service cost represents the increase in the retirement benefit at each reporting date resulting from an additional year of service rendered by the employee.

(b) The principal assumptions used to determine the estimated costs and obligations are as follows:

	31 December 2013
Turnover and early retirement rate	
Age brackets:	
Less than 20 years	8.12%
25 - 29 years	7.48%
30 - 34 years	6.22%
35 - 39 years	4.76%
40 - 44 years	3.36%
45 - 49 years	1.96%
50 years and over	0.81%
Salaries increase rate (per annum)	5.00%
Average remaining years of service of employees	16 years

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23. OTHER LIABILITIES (cont'd)

(a) Other payables and accruals (cont'd)

(ii) Retirement benefits scheme (cont'd)

(c) Sensitivity analysis for discount rate risk

A one percentage (1%) point decrease or increase in the assumed discount rate would have the following effects:

(i) Current service cost to increase by RM16,000 or decrease by RM14,000 respectively.

(ii) Provision for retirement benefit scheme to increase to RM2,718,000 or decrease to RM2,041,000 respectively.

(b) Paddy credit gratuity scheme

	31 December 2013 RM'000	31 December 2012 RM'000
At beginning of the year	2,185	2,249
Additions	134	170
Payment	(94)	(234)
	<hr/>	<hr/>
At the end of year	<u>2,225</u>	<u>2,185</u>

The Bank sets up this scheme to manage the gratuity to the paddy credit scheme loanees. The fund under this scheme is contributed through the withholding of an amount from the loans disbursed to the loanees for payment of future death benefits to the legal heir of the loanees upon their demise.

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24. LOAN SCHEME FUND

Summary of loan scheme fund is as follows:

		31 December 2013	31 December 2012
	Note	RM'000	RM'000
Loan from OECF	(a)	-	20,638
Fund for Food ("3F")	(b)	1,003,316	970,463
MPPB Funds	(c)	51,134	70,486
Oil Palm Replanting Scheme ("TASKS")	(d)	13,000	14,000
Paddy Credit Scheme	(e)	76,701	105,715
Food Production Credit Scheme ("SKPM")	(f)	74,923	100,744
Fishery Boat Financing Scheme ("SPBP")	(g)	140,000	140,000
Entrepreneur Scheme for Graduates ("SUTKS - Financing")	(h)	6,015	8,010
Loan for Small and Medium Size Industries ("PKS")	(i)	73,048	100,730
Non-Food Production Credit Scheme ("SKPBM")	(j)	22,594	25,073
Micro Enterprise Fund	(k)	94,616	83,767
		<u>1,555,347</u>	<u>1,639,626</u>

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24. LOAN SCHEME FUND (cont'd)

(a) Loan from OECF

	Principal RM'000	Interest RM'000	Total RM'000
At 1 January 2013	20,063	575	20,638
Addition	6,426	-	6,426
Interest charged	-	(84)	(84)
Repayment	(18,592)	(491)	(19,083)
Foreign exchange differences	(7,897)	-	(7,897)
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2013	<u> </u>	<u> </u>	<u> </u>
	31 December 2013 RM'000	31 December 2012 RM'000	

Maturity structure of loan from

OECF is as follows:

Within one year	<u> </u>	<u> </u>	<u> </u>
	-	20,638	

This loan was obtained from the Overseas Economic Cooperation Fund ("OECF") in 1988, at an interest rate of 3.5% per annum for 25 years. The repayment period commenced in 1995 and the loan was fully settled in 2013.

(b) Fund For Food ("3F")

	Principal RM'000	Profit RM'000	Total RM'000
At 1 January 2013	965,876	4,587	970,463
Additions	152,334	-	152,334
Profit charged	-	(1,466)	(1,466)
Repayments	(115,204)	(2,811)	(118,015)
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2013	<u> </u>	<u> </u>	<u> </u>
	1,003,006	310	1,003,316

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24. LOAN SCHEME FUND (cont'd)

(b) Fund For Food ("3F") (cont'd)

Under the 9th Malaysian Plan ("RMK 9"), the Government agreed to channel RM1,000.0 million for a tenure of 15 years (3 years grace period) at a profit rate of 0.25% per annum. The purpose of this fund is to enhance the food productions industry and to reduce dependency on imports.

(c) Bumiputera Commercial and Industrial Community Scheme ("MPPB")

	Principal RM'000	Profit RM'000	Total RM'000
At 1 January 2013	70,000	486	70,486
Profit charged	-	27	27
Repayments	(18,901)	(478)	(19,379)
	<u>51,099</u>	<u>35</u>	<u>51,134</u>
At 31 December 2013	51,099	35	51,134

Under the 9th Malaysian Plan ("RMK 9"), the Government agreed to channel RM100.0 million for a tenure of 15 years (3 years grace period) at a profit rate of 0.25% per annum. The objective of this scheme is to provide financing facilities to Bumiputera entrepreneurs, farmers, fisherman and other related institutions.

(d) Oil Palm Replanting Scheme ("TASKS")

	Principal RM'000	Profit RM'000	Total RM'000
At 1 January 2013	14,000	-	14,000
Repayments	(1,000)	-	(1,000)
	<u>13,000</u>	<u>-</u>	<u>13,000</u>
At 31 December 2013	13,000	-	13,000

This fund is channelled through the Ministry of Plantation Industries and Commodities to finance the replanting of oil palm plantations.

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24. LOAN SCHEME FUND (cont'd)

(e) Paddy Credit Scheme

	Principal RM'000	Profit RM'000	Total RM'000
At 1 January 2013	105,000	715	105,715
Profit charged	-	54	54
Repayments	(28,351)	(717)	(29,068)
At 31 December 2013	<u>76,649</u>	<u>52</u>	<u>76,701</u>

The Ministry of Agriculture provided RM105 million to the Bank to encourage the country's paddy industry. The loan tenure is 10 years (3 years grace period) at a profit rate of 0.25% per annum.

(f) Food Production Credit Scheme ("SKPM")

	Principal RM'000	Profit RM'000	Total RM'000
At 1 January 2013	100,000	744	100,744
Profit charged	-	243	243
Repayments	(25,421)	(643)	(26,064)
At 31 December 2013	<u>74,579</u>	<u>344</u>	<u>74,923</u>

Under the 9th Malaysian Plan ("RMK9"), the Government agreed to channel RM100.0 million for a tenure of 15 years (3 years grace period) at a profit rate of 0.25% per annum.

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24. LOAN SCHEME FUND (cont'd)

(g) Fishery Boat Financing Scheme ("SPBP")

	Principal RM'000
At 1 January 2013	140,000
Repayments	-
	<hr/>
At 31 December 2013	<u>140,000</u>

Under the 9th Malaysian Plan ("RMK9"), the Government agreed to channel RM140.0 million for a tenure of 15 years (10 years grace period i.e. commencement of profit rate payment in 2017) at profit rate of 0.25% per annum. The purpose of the fund is to modernise the facilities within the fishery industry, promote deep sea and high sea fishing industry.

(h) Entrepreneur Scheme for Graduates ("SUTKS-Financing")

	Principal RM'000	Profit RM'000	Total RM'000
At 1 January 2013	8,010	-	8,010
Profit charged	-	20	20
Repayments	(1,995)	(20)	(2,015)
	<hr/>	<hr/>	<hr/>
At 31 December 2013	<u>6,015</u>	<u>-</u>	<u>6,015</u>

The Government allocated RM10.0 million for a tenure of 10 years (5 years grace period) at a profit rate of 0.25% per annum. The purpose of this scheme is to encourage the involvement of graduates in the agriculture sector.

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24. LOAN SCHEME FUND (cont'd)

(i) Loan for Small and Medium Size Industries ("PKS")

	Principal RM'000	Profit RM'000	Total RM'000
At 1 January 2013	100,000	730	100,730
Profit charged	-	2	2
Repayments	(27,001)	(683)	(27,684)
	<hr/>	<hr/>	<hr/>
At 31 December 2013	72,999	49	73,048

Under the 9th Malaysian Plan ("RMK9"), the Government agreed to channel RM100.0 million. The purpose of this fund is to encourage investment in the agricultural industry. The tenure of this loan is 15 years (3 years grace period) at a profit rate of 0.25% per annum.

(j) Non-Food Production Credit Scheme ("SKPBM")

	Principal RM'000	Profit RM'000	Total RM'000
At 1 January 2013	25,062	11	25,073
Profit charged	-	62	62
Repayments	(2,478)	(63)	(2,541)
	<hr/>	<hr/>	<hr/>
At 31 December 2013	22,584	10	22,594

Under the 9th Malaysian Plan ("RMK9"), the Government agreed to channel RM30.0 million for a tenure of 15 years (3 years grace period) at profit rate of 0.25% per annum. The purpose of this fund is to enhance the primary and tertiary agricultural activities.

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24. LOAN SCHEME FUND (cont'd)

(k) Micro Enterprise Fund

	Principal RM'000	Profit RM'000	Total RM'000
At 1 January 2013	83,770	(3)	83,767
Additions	15,759	-	15,759
Profit charged	-	1,357	1,357
Repayments	<u>(4,912)</u>	<u>(1,355)</u>	<u>(6,267)</u>
At 31 December 2013	<u>94,617</u>	<u>(1)</u>	<u>94,616</u>

The fund amounting to RM200.0 million was launched by Bank Negara Malaysia ("BNM") to increase the access to micro financing to selected eligible micro entrepreneurs. The profit rate of this fund is 1.5% per annum for a tenure of 5 years.

25. GOVERNMENT GRANTS - OPERATING

	Capital Expenditure RM'000	Development Expenditure RM'000	Total RM'000
At 1 January 2013	41,795	77	41,872
Amortisation during the year	<u>(6,470)</u>	<u>-</u>	<u>(6,470)</u>
At 31 December 2013	<u>35,325</u>	<u>77</u>	<u>35,402</u>

Since 2006, the Bank received operating grant amounting to RM82.0 million from the Ministry of Finance. The purpose of the grant is for capital expenditure to finance the acquisition of property, plant and equipment and development expenditure to finance the training courses given to entrepreneurs.

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26. GOVERNMENT GRANTS - LAUNCHING

	Capital Expenditure RM'000	Development Expenditure RM'000	Total RM'000
At 1 January 2013	14,301	7,297	21,598
Reclassification	(613)	613	-
Utilisation during the year	-	(986)	(986)
Amortisation during the year	(3,343)	-	(3,343)
	<u>10,345</u>	<u>6,924</u>	<u>17,269</u>
At 31 December 2013	<u>10,345</u>	<u>6,924</u>	<u>17,269</u>

In 2007, the Ministry of Finance approved an allocation of RM100.0 million to the Bank for the purpose of the Bank's corporatisation. The grant is to be used for branding, product development and office expansion.

27. GOVERNMENT GRANTS - FUNDS

Summary of government grant funds is as follows:

	Note	31 December 2013 RM'000	31 December 2012 RM'000 Restated	1 January 2012 RM'000 Restated
Development Programme for Hard-core Poor ("PPRT")	(a)	2,560	2,560	2,560
Entrepreneur Scheme for Graduates ("SUTKS")	(b)	1,358	785	560
Special Fund For Terengganu Fishery ("DKSP")	(c)	587	1,391	2,057
Fund for Ministry of Youth and Sports ("DKBS")	(d)	11,689	11,772	12,304
Bumiputera Commercial and Industrial Community Scheme HUB ("MPPB HUB")	(e)	40,000	-	-
National Key Economic Area ("NKEA")	(f)	53,832	55,000	55,000
Micro Economic Stimulation Package ("Micro - ESP")	(g)	147,474	157,742	172,532
		<u>257,500</u>	<u>229,250</u>	<u>245,013</u>

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27. GOVERNMENT GRANTS - FUNDS (cont'd)

(a) Development Programme for Hard-core Poor ("PPRT")

RM'000

At 31 December 2012 and 31 December 2013 2,560

This programme represents profit-free financing from the Government to hard-core poor.

(b) Entrepreneur Scheme for Graduates ("SUTKS")

	31 December 2013 RM'000	31 December 2012 RM'000
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At beginning of the year	785	560
Government Grants- Funds recovered (note 9)	<u>573</u>	<u>225</u>

At end of the year	<u><u>1,358</u></u>	<u><u>785</u></u>
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The objective of this programme is to reduce the unemployment rate among graduates by creating career opportunities in the agricultural sector. Financing is offered under *Al – Bai' Bithaman Ajil* which imposes a profit rate of 3% per annum.

(c) Special Fund for Terengganu Fishery ("DKSP")

	31 December 2013 RM'000	31 December 2012 RM'000
--	--	--

At beginning of the year	1,391	2,057
Amortisation for the year	(700)	(661)
Government Grants- Funds released (note 9)	<u>(104)</u>	<u>(5)</u>

At end of the year	<u><u>587</u></u>	<u><u>1,391</u></u>
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The objective of this fund is to raise the socio-economic status of fishermen, fish breeders and aquaculture entrepreneurs. The financing is offered under *Al – Bai' Bithaman Ajil* up to 100% of the total project cost and is profit free-rate. The financing terms would depend on the project with repayment terms not exceeding 10 years.

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27. GOVERNMENT GRANTS - FUNDS (cont'd)

(d) Fund for Ministry of Youth and Sports ("DKBS")

	31 December 2013 RM'000	31 December 2012 RM'000
At beginning of the year	11,772	12,304
Government Grants- Funds released (note 9)	<u>(83)</u>	<u>(532)</u>
At end of the year	<u>11,689</u>	<u>11,772</u>

The purpose of this fund is to encourage youth to be involved in the agricultural industry under *Skim Belia Tani*.

(e) Bumiputera Commercial and Industrial Community Scheme HUB ("MPPB HUB")

	31 December 2013 RM'000	31 December 2012 RM'000
At beginning of the year	-	-
Received during the year	<u>40,000</u>	<u>-</u>
At end of the year	<u>40,000</u>	<u>-</u>

The objective of this fund is to finance Bumiputera agricultural ventures with maximum financing available up to RM200,000.

(f) National Key Economic Area ("NKEA")

	31 December 2013 RM'000	31 December 2012 RM'000 Restated
At beginning of the year	55,000	55,000
Amortisation for the year	(1,043)	-
Government Grants- Funds released (note 9)	<u>(125)</u>	<u>-</u>
At end of the year	<u>53,832</u>	<u>55,000</u>

The purpose of this fund is to encourage entrepreneurs to participate in agro based industries by providing a maximum of RM20,000 per financing.

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27. GOVERNMENT GRANTS - FUNDS (cont'd)

(g) Micro Economic Stimulation Package ("Micro - ESP")

	31 December 2013 RM'000	31 December 2012 RM'000 Restated
At beginning of the year	157,742	172,532
Legal fees	-	(92)
Government Grants- Funds released (note 9)	(10,268)	(14,698)
	<hr/>	<hr/>
At end of the year	<u>147,474</u>	<u>157,742</u>

The purpose of this fund is to encourage entrepreneurs to participate in agricultural production activities by providing a maximum of RM20,000 per financing.

28. SHARE CAPITAL

	31 December 2013 RM'000	31 December 2012 RM'000
Authorised:		
Ordinary shares of RM1 each	<u>2,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
Ordinary shares of RM1 each	<u>1,000,000</u>	<u>1,000,000</u>

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29. RESERVES

	Note	31 December 2013 RM'000	31 December 2012 RM'000
Non-distributable reserve:			
Statutory reserves	(a)	487,109	487,109
Investment revaluation reserve	(b)	137,590	321,719
Distributable reserve:			
Retained earnings		724,690	516,434
		<u>1,349,389</u>	<u>1,325,262</u>

(a) Statutory reserves

Transfer of profit to reserve fund is only applicable when RWCR of the Bank is below the threshold of 16% as approved by BNM via letter to the Bank dated 22 February 2008.

(b) Investment revaluation reserve

The investment revaluation reserve is in respect of unrealised fair value gain and loss on financial investments AFS.

30. DIVIDENDS

	2013 RM'000	2012 RM'000
Interim dividend of 1.2 sen less 25% tax, on 1,000,000,000 ordinary shares in respect of the financial year ended 31 December 2013	9,000	-
Final dividend of 3 sen less 25% tax, on 1,000,000,000 ordinary shares in respect of the financial year ended 31 December 2012	22,500	-
Final dividend of 3 sen less 25% tax, on 1,000,000,000 ordinary shares in respect of the financial year ended 31 December 2011	-	22,500
	<u>31,500</u>	<u>22,500</u>

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30. DIVIDENDS (cont'd)

At the forthcoming Annual General Meeting, a final single tier dividend in respect of the current financial year ended 31 December 2013 of 0.8 sen on 1,000,000,000 ordinary shares of RM1.00 each, amounting to dividend payable of RM8,000,000 will be proposed for 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 appropriation of retained earnings in the next financial year ending 31 December 2014.

Prior to the year of assessment 2008, Malaysian companies adopted the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividends paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the section 108 balance of the Income Tax Act 1967 and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the section 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act 2007.

The Bank did not elect for the irrevocable option to disregard the section 108 balance. Accordingly, during the transitional period, the Bank may utilise the credit in the section 108 balance to distribute cash dividend payments to ordinary shareholders as defined under the Finance Act 2007. As at 31 December 2013, the Company has sufficient credit in the section 108 balance to pay franked dividends out of its entire retained earnings. Any section 108 balance which has not been utilised as at 31 December 2013 is disregarded. Thereafter, the Bank may distribute dividends out of its entire retained earnings under the single tier system.

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31. COMMITMENTS AND CONTINGENCIES

	31 December 2013 RM'000	31 December 2012 RM'000
Guarantee:		
Guarantee letters issued to the customers of the Bank	11,670	15,535
Capital commitment		
Approved and contracted for:		
Capital expenditure	6,212	5,205
Commitment on loans, financing and advances	246,510	396,520
	<u>252,722</u>	<u>401,725</u>
Approved but not contracted for:		
Capital expenditure	-	811
Commitment on loans, financing and advances	12,778	76,952
	<u>12,778</u>	<u>77,763</u>
	<u>265,500</u>	<u>479,488</u>
Contingent liabilities		
Certain legal actions taken against the Bank with compensation claims	383,105	363,932
	<u>660,275</u>	<u>858,955</u>

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31. COMMITMENTS AND CONTINGENCIES (cont'd)

A summary of the status of material legal actions against the Bank are as follows:

Case 1

The Bank filed a claim against a customer to recover outstanding financing provided to the customer of approximately RM5 million. The customer counter sued the Bank for RM162.4 million on the premise that the customer suffered losses due to the Bank's failure to release the funds to the customer's affiliated company when a letter of offer has already been provided by the Bank. The affiliated company was planning to use the funds from the Bank for its project which is integrated with the project planned by the customer. Due to the failure of the Bank to release the said funds, both projects were stalled and losses suffered by the customer and its affiliated company.

The affiliated company of the customer took civil action against the Bank which was subsequently dismissed by the High Court on 21 April 2011. The decision of the High Court was upheld by the Court of Appeal on 30 December 2011. The trial at the High Court will continue on 27 June 2014.

The Bank's solicitors are of the view that the Bank has an even chance of succeeding in establishing its defence to the counter claim.

Case 2

The borrower filed a legal action against the Bank seeking compensation for damages suffered resulting from the Bank rescinding the loan facility previously approved. The Bank filed a counterclaim against the borrower to recover outstanding loans of approximately RM15.9 million. On 26 September 2011 the High Court granted judgment in favour of the borrower for the sum of RM81.1 million and dismissed the Bank's counterclaim. However, on 13 September 2012, the Court of Appeal had set aside the damages granted against the Bank and ordered that the damages be reassessed by the Senior Assistance Register of the High Court. The Court of Appeal further allowed the Bank's counterclaim. The Bank's application for leave to appeal to the Federal Court on the issue of liability was allowed on 28 January 2014.

The Bank's solicitors are of the view that the Bank has an even chance of succeeding in the appeal at the Federal Court.

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31. COMMITMENTS AND CONTINGENCIES (cont'd)

A summary of the status of material legal actions against the Bank are as follows: (cont'd)

Case 3

The customer has filed a legal action against the Bank seeking damages in lieu of specific performance from the Bank on the grounds that the Bank has breached its promise to grant a term loan of RM85 million. The customer is claiming that a contract existed based on the Letter of Offer and Acceptance (“LOA”) issued by the Bank dated 17 July 2008. Subsequent to the LOA, the customer changed its intention for the utilisation of the loan i.e. to utilise the facility to redeem its debt obligations with other parties which the Bank deemed as material adverse change to the terms of the LOA, hence the refusal to disburse the funds.

The trial of the case will continue on 21 July 2014.

The Bank's solicitors are of the view that the Bank has an even chance of succeeding in defending the claim.

32. RELATED PARTY DISCLOSURES

a) Parent entity

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

b) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly including any director (whether executive or otherwise) of the bank. Remuneration paid to key management personnel of the Bank includes the following :

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32. RELATED PARTY DISCLOSURES (cont'd)

b) Key management personnel compensation (cont'd)

- i) Short term employee benefits include salaries and allowances.
- ii) Post employment benefits include Employee Provident Fund ("EPF") contributions.

Key management personnel	Short Term 2013 RM'000	Post Employment Benefit 2013 RM'000
Executive director	755	129
Non-executive directors	1,172	-
Senior management	2,840	345
	4,767	474
	2012 RM'000	2012 RM'000
Executive director	716	122
Non-executive directors	1,868	-
Senior management	2,831	294
	5,415	416

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32. RELATED PARTY DISCLOSURES (cont'd)

(c) Transactions with key management personnel

The following table provides the total amount of transactions, which have been entered into with key management personnel for the relevant financial year.

	31 December 2013 RM'000	31 December 2012 RM'000
Deposit	<u>10</u>	<u>9</u>

No loans have been granted to the directors of the Bank.

d) Transactions with related parties

	Notes	2013 RM'000	2012 RM'000 Restated
Income			
Gapping	(i)	23,562	35,059
Management fees	(ii)	14,193	18,623
Commission	(iii)	1,440	1,590
Interest/profit income on deposits placed with government linked entities		53,675	94,442
Expense			
Interest/profit expense on deposits placed by government linked entities		9,906	9,917
Interest/profit expense on loan scheme fund paid and payable to the Ministry of Finance and BNM		7,261	5,757
Employee Provident Fund ("EPF")		21,139	17,826
Social Security Organisation ("SOCSO")		1,712	1,700
Compensation paid to a state linked agency		<u>-</u>	<u>18,021</u>

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32. RELATED PARTY DISCLOSURES (cont'd)

d) Transactions with related parties (cont'd)

Description for income with related parties are as follows:

- (i) Income from Ministry of Finance Incorporated for the interest differential between market rate and subsidised rate on loans disbursed by the Bank at subsidised rate.
- (ii) Fees earned for managing of government funds for loan disbursement paid by Ministry of Agriculture and Ministry of Finance.
- (iii) Commission earned as bills collection agent from Government of Malaysia controlled entities.

e) Outstanding balances arising from transactions with related parties

	Amount owed to/by related parties	
	31 December 2013	31 December 2012
	RM'000	RM'000
		Restated
Government Grants - Operating	35,402	41,872
Government Grants - Launching	17,269	21,598
Government Grants - Funds	257,500	229,250
Loan scheme fund	1,555,347	1,639,626
Foreign exchange receivable from Ministry of Finance	3,058	12,472
Loan to related parties	12,359	14,951
Deposit/placement with related parties	954,685	3,278,966
Deposit from related entities	2,695,451	2,665,134

f) Terms and conditions

Transactions with related parties were made on terms equivalent to those that prevail in arm's length transactions.

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33. FINANCIAL INSTRUMENTS

A. FINANCIAL RISK MANAGEMENT

(a) General risk management

(i) Introduction and overview

The Bank embraces risk management as an integral component of its business, operations and decision making process to ensure that optimum returns are generated with high regard to uncertainties in the business and market environment. The risk management encompasses every aspect of the bank's business and operations as early as product development stage by providing independent inputs and relevant valuations, credit evaluation and review, treasury related portfolio assessment and review, simulation and review on business continuity and disaster recovery etc. The inputs provided enables product development team and other business units to assess the risk-return of their propositions and thus enables risks are properly priced, in relation to return. The Bank has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Shariah risk

(ii) Risk management objectives

The Bank's risk management activities have the following aims:

- Identify, quantify, mitigate, monitor and report various risk exposures;
- Ensure all risk taking activities are consistent and in-line with prescribed risk policies and regulatory frameworks;
- Create and enhance shareholders' value by prudent and robust methodologies and policies.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(a) General risk management (cont'd)

(iii) Risk management framework

The Board of Directors ("The Board") is responsible for the establishment an oversight of the Bank's risk management framework. The Board had established the Risk Management Committees at senior management and Board level to monitor, evaluate, strategise and deliberate risk management activities within respective areas.

The Bank has the broad risk management framework ("BRMF") that encompasses credit, market and liquidity, operational and Shariah risks as part of its risk governance. The objectives of the BRMF are as follows:

- Ensure that all risks faced by the Bank are identified, monitored and adequately managed;
- Provide the Management and the Board with a bank-wide view of the Bank's risks and their likely impact, enabling the Bank to take strategic actions to avoid or otherwise mitigate potential losses;
- Provide Management and the Board with bank-wide view of inter-relationships between risks and the manner in which reducing one risk exposure may increase /impact another;
- Provide an explicit link between risk and return through an integrated view of risk exposures and common measures to communicate and measure the magnitude of exposures of the varying risk types;
- Provide a means of prioritising the myriad of risks and the corresponding mitigating control initiatives.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(a) General risk management (cont'd)

(iv) Risk governance framework

The ultimate responsibility in managing risks lies with the Board. This shall include responsibility to ensure that risk management frameworks and policies are established for the various categories of risk. The Board carries out its duties by the establishment of appropriate committees as below for the oversight of risk management processes.

- Board Risk Management Committee ("BRMC")
- Board Credit Committee ("BCC")
- Board Investment Committee ("BIVC")
- Board IT Committee ("BITC")
- Board Audit Committee ("BAC")

At senior management level the following committees had been established to oversight risk management activities and risk exposures.

- Management Risk Committee ("MRC")
- Asset Liability Committee ("ALCO")
- Management Audit Committee ("MAC")

(b) Credit risk

(i) Nature of credit risk

The Bank's exposure to credit risk is primarily from lending/financing activities to retail consumers, micro, small and medium-sized enterprises ("SMEs") and corporate customers. Lending activities are guided by internal credit policies and guidelines. Evaluation templates have been introduced and continuous enhancement has been made to credit evaluation and approving processes for each customer types to ensure accountability and responsibility. Investment in equities, bonds and other marketable securities, financial instruments trading and other banking activities, whether it is classified as banking book or trading book, may also expose the Bank to credit risk and counterparty credit risk.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

(ii) Definition of credit risk

Credit risk is the risk of potential loss due to failure of or unwillingness of the customers or counterparties to fulfil their contractual financial obligations as and when they arise.

(iii) Objective of credit risk management

The goal of credit risk management is to keep credit risk exposure to an acceptable level and to ensure the returns are commensurate with risk.

(iv) Management of credit risk

The management of credit risk is governed by the credit risk management framework which sets out the risk management governance and infrastructure, risk management processes and control responsibilities.

Credit risk assessment also forms part of the new product sign-off processes to ensure that new products comply with appropriate policies and guidelines and taking into consideration potential risk exposures, prior to the introduction of the product.

The Bank's credit risk management framework addresses the following areas:-

- Management and quality of loan/financing assets including the credit policies and guidelines, credit approval, credit risk measurement and competency of credit personnel.
- Loan preservation which covers credit review process, early detection and management of vulnerable credits and recovery.
- Credit concentration policy for effective portfolio management.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

(iv) Management of credit risk (cont'd)

Policies, procedures and guidelines for credit operations are documented and are made available through the Bank's intranet portal. These policies and procedures are subject to review and enhancement periodically to ensure to ensure its relevancy and in line with business directions and environment.

The Management Risk Committee ("MRC") supports the Board Risk Management Committee ("BRMC") in credit risk management oversight. The MRC reviews the Bank's credit risk management framework and policies, aligned credit risk management with business strategies and planning, monitoring credit profile and portfolios and recommend necessary actions to ensure that credit risks remain within tolerance level.

(v) Measurement of credit risk

Credit risk concentration in loans, financing and advances

Concentrations of credit risk are monitored by economic activities under the agriculture sub-sectors. The table below set out the breakdown of credit exposure by agriculture sub-sector as follows:

	2013	2012
	RM'000	RM'000
		Restated
Sector:		
Support	2,653,171	2,945,095
Crops	2,445,278	2,286,218
Livestock	700,814	687,978
Fishery	435,527	402,747
Forestry	34,547	38,120
Other agricultural based processing	123,996	132,965
	6,393,333	6,493,123

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

(v) Measurement of credit risk (cont'd)

Collateral position in loans, financing and advances

Credit facilities are granted on the basis of the customer's credit standing, project viability and repayment capacity as per the Bank's credit policy. However, due to the nature of its financing, the Bank generally requires collateral against loans, financing and advances to customers in the form of charges over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and is revalued once in two years or when a loan/financing is impaired.

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

- (i) Project Loans/financing – charges over land, buildings, plant and machinery, fishing vessels, ownership claim over vehicles, fixed deposits and pledges over shares and marketable securities.
- (ii) Retail loans – charges over land and fixed deposits for certain types of loan.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

(v) Measurement of credit risk (cont'd)

Collateral position in loans, financing and advances (cont'd)

The table below set out the collateral position of exposure by status of repayment:

	Secured RM'000	Unsecured RM'000	Total RM'000	Financial effect of collateral* %
2013				
Current	2,187,552	3,150,050	5,337,602	94.8
Past due but not impaired	295,747	123,129	418,876	133.7
Impaired	399,279	237,576	636,855	76.2
	<u>2,882,578</u>	<u>3,510,755</u>	<u>6,393,333</u>	<u>95.5</u>
2012 (restated)				
Current	2,390,526	2,733,538	5,124,064	65.6
Past due but not impaired	361,047	200,994	562,041	77.9
Impaired	653,930	153,088	807,018	66.8
	<u>3,405,503</u>	<u>3,087,620</u>	<u>6,493,123</u>	<u>67.1</u>

* Based on quantification of the extent to which collateral and other credit enhancements mitigate credit risk.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

Collateral position in loans, financing and advances (cont'd)

Credit quality of gross loans, financing and advances

Impaired loans

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

	Gross individually impaired loans RM'000	Individual impairment allowance RM'000	Financial effect of collateral* %
2013			
Sectors:			
Crops	155,401	85,379	45.1
Fishery	46,429	40,948	11.8
Value added	1,903	1,720	9.6
Forestry	29,588	29,588	-
Livestock	68,457	60,542	11.6
Support	19,860	19,087	33.7
	321,638	237,264	28.1

* Based on quantification of the extent to which collateral and other credit enhancements mitigate credit risk.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

Collateral position in loans, financing and advances (cont'd)

Credit quality of gross loans, financing and advances (cont'd)

Impaired loans (cont'd)

	Gross individually impaired loans RM'000	Individual impairment allowance RM'000	Financial effect of collateral* %
2012			
Sectors:			
Crops	129,606	60,277	53.5
Fishery	42,687	38,335	10.2
Value added	1,466	1,276	12.9
Forestry	39,885	27,580	30.9
Livestock	76,351	63,428	16.9
Support	23,326	16,881	53.1
	313,321	207,777	35.6

* Based on quantification of the extent to which collateral and other credit enhancements mitigate credit risk.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

Collateral position in loans, financing and advances (cont'd)

Credit quality of gross loans, financing and advances (cont'd)

Impaired loans (cont'd)

The breakdown of collective impairment allowance for loans, financing and advances by sectors are as follows:

	2013	2012
	RM'000	RM'000
Sectors:		
Crops	46,145	48,498
Fishery	26,133	26,187
Value added	1,178	695
Forestry	767	385
Livestock	30,909	42,780
Micro Credit - MUST	52,147	56,036
Support	70,187	59,459
Support - Ar-Rahnu	20,142	14,975
Support - Agrocash	44,086	68,225
Fund for Ministry of Youth and Sports ("DKBS")	3,186	3,103
Entrepreneur Scheme for Graduates ("SUTKS")	48	949
Special Fund for Terengganu Fishery ("DKSP")	76	312
NKEA	1,083	-
Micro-ESP	4,295	87,166
	300,382	408,770

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

Collateral position in loans, financing and advances (cont'd)

Credit quality of gross loans, financing and advances (cont'd)

Impaired loans (cont'd)

Collective impairment allowance for fully secured loans/financing:

	2013	2012
	RM'000	RM'000
Sectors:		
Crops	4,645	6,240
Fishery	147	27
Value added	-	87
Forestry	-	242
Livestock	429	1,984
Support	312	348
	<u>5,533</u>	<u>8,928</u>
Collective impairment allowance	<u><u>305,915</u></u>	<u><u>417,698</u></u>

Credit risk in investment activities

The credit risk management approach for investment activities is primarily deliberated at the Board Investment Committee ("BIVC"). In the case of investment portfolio, the setting of credit limits is done and regularly reviewed by Market Risk Management Department ("MRMD"), as the middle office for treasury operations. Various credit limits on investment exposures are proposed to the Management Risk Committee ("MRC") for endorsement and escalated to BRMC or Board for approval. Report on compliance of various investment exposure limits are done by MRMD which is presented and deliberated at Asset Liability Committee ("ALCO") on monthly basis.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

Credit risk in investment activities (cont'd)

The Bank's investment policy stipulates the minimum investment grade for debt securities, types of permissible transactions, exposure limits for single customer/counterparty, credit rating, industry/sector and risk level (high, medium, low). In addition, the Bank has also set interbank limits for placements which are reviewed on regular basis to mitigate concentration limits in its investment portfolio.

Investment portfolio concentration

The portfolio profile is as follows:

	RM'000	Composition (%)
Deposits with financial institutions	60,000	2
Corporate bonds	2,310,228	62
Commercial papers	19,901	1
MGS / GII	1,159,576	32
Equity securities	98,349	3
	<hr/>	<hr/>
Carrying amount at 31 December 2013	3,648,054	100
	<hr/> <hr/>	<hr/> <hr/>
Corporate bonds	1,804,995	51
Commercial papers	9,955	1
MGS / GII	1,373,900	40
Equity securities	270,212	8
	<hr/>	<hr/>
Carrying amount at 31 December 2012	3,459,062	100
	<hr/> <hr/>	<hr/> <hr/>

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

Credit risk in investment activities (cont'd)

Credit quality of investment securities

The following table presents the Bank's exposure to credit risk of financial instruments analysed by ratings from external credit rating agencies:

AFS securities

Ratings	2013	2012
	Non-money market instruments RM'000	Non-money market instruments RM'000
<u>Corporate bonds</u>		
Government-Guaranteed ("GG")	970,428	817,315
Quasi-Govt/AAAbg	263,675	277,252
AAA / AAAbg	683,997	510,636
AA / Abg	359,089	138,418
A	-	15,346
BBB	6,415	5,019
TOTAL	2,283,604	1,763,986

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

Credit risk in investment activities (cont'd)

Credit quality of investment securities (cont'd)

The following table presents the Bank's exposure to credit risk of financial instruments analysed by ratings from external credit rating agencies:

HTM securities

Ratings	2013			2012		
	Money market instruments	Non-money market instruments	Total	Money market instruments	Non-money market instruments	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Corporate bonds</u>						
GG	-	18,000	18,000	-	27,311	27,311
Quasi-Govt/AAAbg	-	14,978	14,978	-	15,057	15,057
AAA / AAAbg	-	-	-	-	-	-
AA / Abg	-	-	-	-	-	-
<u>Commercial papers</u>						
P1 / M1	19,901	-	19,901	9,955	-	9,955
TOTAL	19,901	32,978	52,879	9,955	42,368	52,323

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity risk

(i) Nature of liquidity risk

Liquidity risk relates to the ability to maintain sufficient liquid assets to meet current and future financial commitments and obligations (anticipated or unanticipated) when they fall due without incurring unacceptable losses.

Liquidity risk may arise when there is a mismatch between funding against lending within predetermined time buckets. The mismatches may lead to the inability for Bank to fulfil its contractual obligations when they fall due. As such, the Bank has to maintain a portion of liquid assets in term of cash, cash equivalents and marketable securities to match maturity buckets.

(ii) Definition of liquidity risk

Liquidity risk is defined as the inability of the Bank to meet timely payment on any of its financial obligations to customers or counterparties when they fall due. The liquidity risk is divided into two components as follows:

- **Funding liquidity risk**

Funding liquidity risk arises when the Bank is unable to meet its financial obligations that arise from withdrawals of deposits, repayments of purchased funds at maturity dates, extension of credit or working capital needs.

- **Market liquidity risk**

Market liquidity risk is the risk that the Bank is unable to or cannot easily unwind or offset a particular position at/or near the previous market price because of inadequate market depth or because of disruptions in the market place caused by the change in market sentiment or due to a specific event or series of events.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity risk (cont'd)

(iii) Management of liquidity risk

The Board shall approve all policies in relation to liquidity risk management which shall be reviewed at least on annual basis. The Board may delegate part of its authority and responsibility to its sub-committee, BRMC to oversee the effectiveness and compliance of those policies as well as approve new and revised policies.

Senior management is responsible to monitor and oversee liquidity risk exposures through the Asset Liability Committee ("ALCO") using primary tools such as maturity mismatch analysis, funding gap, maximum cumulative outflows and funding concentration using internal as well as market wide information to address possible liquidity problems. The Bank oversees its statement of financial position structure and places controls, within prudent limits and bucketing to manage risks arising from mismatches of maturities across the financial position structure, as well as from exposures of undrawn commitments and other contingent obligations.

The structure of statement of financial position is managed as such to maintain diversification and to minimise funding concentration as well as maintaining high quality of liquefiable assets. The mismatches in the financial position structure, particularly in the lending against funding portfolio or Loan/Financing Deposit Ratio ("LDR/FDR") is reported monthly to the ALCO. The ALCO formulates and determines strategies to minimise the mismatch between lending and funding activities between assets and liabilities, both for Conventional and Islamic books as well as Commercial and Concessionary books and the Bank as a whole.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity risk (cont'd)

(iii) Management of liquidity risk (cont'd)

Liquidity position are monitored by Market Risk Management Department ("MRMD") which report to Chief Risk Officer ("CRO"). The limit for each bucket is monitored daily and any significant shortfall or excess will be addressed within stipulated timeframe to mitigate liquidity risk exposure by the Bank. The Bank's liquidity position is reported to ALCO at least on monthly basis. Treasury Department ("TD") is responsible to manage the day to day liquidity requirements and funding strategy. TD is involved in mobilising funds from corporates through Money Market Desks and place out the fund as investment in money market as well as capital market instruments.

(iv) Measurement of liquidity risk

The liquidity risk management of the Bank is aligned with the New Liquidity Framework ("NLF") issued by BNM, and is measured and managed based on projected cash flows. In addition to ensuring compliance with the NLF, the Banks maintains a liquidity compliance buffer to meet any unexpected cash outflows. The measurement of liquidity risk is done through financial position profiling using predetermined time buckets. The exposure limits for each bucket, in particular within a one year band is closely monitored and analysed to ensure that the Bank has sufficient cash and liquefiable assets to meet contractual and behavioural maturities/commitments, and to determine the causes and ways to improve the gaps. The Bank maintains sufficient liquid assets (minimum 5% of total deposit) to meet contractual and behavioural maturities and commitments up to one week tenure. For up to one month bucket, the Bank maintains liquid assets of at least 7% of total deposit to meet contractual and behavioural maturities and commitments when they fall due.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity risk (cont'd)

(v) Contingency funding plan ("CFP")

The Bank has a Contingency Funding Plan ("CFP") in place to deal with liquidity crisis situation. The CFP enables Management to make timely and well-informed decision in managing any liquidity crisis caused by the Bank's specific risk adverse positions as well as unfavourable market developments. The Bank sets out early warning indicators through various triggers, crisis escalation process, crisis management team and funding strategies to mitigate liquidity crisis situations. The CFP is tested and reviewed regularly to update latest position and matters in relation to liquidity risk profiles of the Bank.

(vi) Stress testing on liquidity risk

As part of liquidity management, liquidity risk exposures are also measured through funding concentration, loan/financing deposit ratios, cash and liquid asset ratio stress testing is conducted to quantify the worst case scenario of liquidity position of the Bank based on deposit run-off, market crisis shock, capital erosion and negative publicity. The Bank emphasises on the importance of low cost stable and retail deposits as the primary source of funds to finance its lending activities in additions to corporate and other high cost deposit.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity Risk (cont'd)

Maturity analysis of financial assets and financial liabilities based on contracted discounted cash flows:

	<1 month	1-3 months	3 - 6 months	6 - 12 months	1 - 5 years	>5 years	Non-specific maturity	Total
2013	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial assets								
Cash and short term funds	755,416	517,981	-	-	-	-	-	1,273,397
Deposits with financial institution	-	-	-	60,000	-	-	-	60,000
Investment securities	-	50,197	35,078	116,013	939,913	2,348,504	98,349	3,588,054
Loan, financing and advances	767,850	351,695	286,634	196,261	1,569,960	2,677,754	-	5,850,154
Other assets	-	-	-	-	-	-	96,201	96,201
	1,523,266	919,873	321,712	372,274	2,509,873	5,026,258	194,550	10,867,806

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity Risk (cont'd)

Maturity analysis of financial assets and financial liabilities based on contracted discounted cash flows: (cont'd)

	<1 month	1-3 months	3 - 6 months	6 - 12 months	1 - 5 years	>5 years	Non-specific maturity	Total
2013	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial liabilities								
Deposit from customers								
Saving giro	3,079,953	-	-	-	-	-	-	3,079,953
Fixed deposits	300,348	762,345	395,426	1,953,240	103,334	-	-	3,514,693
Loan scheme fund								
Government	-	-	-	126,483	626,341	544,083	-	1,296,907
BNM	-	-	-	-	-	258,440	-	258,440
Other liabilities								
Other payables	23,620	6,039	(1,857)	5,149	293,495	489	-	326,935
Government grants	-	-	-	-	-	-	310,171	310,171
Paddy credit gratuity scheme	120	-	-	-	2,105	-	-	2,225
	3,404,041	768,384	393,569	2,084,872	1,025,275	803,012	310,171	8,789,324
Net maturity mismatch	(1,880,775)	151,489	(71,857)	(1,712,598)	1,484,598	4,223,246	(115,621)	2,078,482

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity Risk (cont'd)

Maturity analysis of financial assets and financial liabilities based on contracted discounted cash flows: (cont'd)

	<1 month	1-3 months	3 - 6 months	6 - 12 months	1 - 5 years	>5 years	Non-specific maturity	Total
2012	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial assets								
Cash and short term funds	1,400,093	426,919	-	-	-	-	-	1,827,012
Investment securities	-	-	19,955	160,000	539,790	2,469,105	270,212	3,459,062
Loan, financing and advances	758,291	344,366	353,060	446,761	1,276,903	2,688,267	-	5,867,648
Other assets	-	-	-	-	-	-	95,920	95,920
	2,158,384	771,285	373,015	606,761	1,816,693	5,157,372	366,132	11,249,642

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity Risk (cont'd)

Maturity analysis of financial assets and financial liabilities based on contracted discounted cash flows: (cont'd)

2012	<1 month RM'000	1-3 months RM'000	3 - 6 months RM'000	6 - 12 months RM'000	1 - 5 years RM'000	>5 years RM'000	Non-specific	Total RM'000
							maturity RM'000	
Financial liabilities								
Deposit from customers								
Saving giro	3,083,797	-	-	-	-	-	-	3,083,797
Fixed deposits	1,464,969	721,355	657,412	857,159	78,524	-	-	3,779,419
Loan scheme fund								
Government	-	-	-	-	-	1,506,691	-	1,506,691
BNM	-	-	-	-	-	112,297	-	112,297
Others	-	-	6,295	6,189	8,154	-	-	20,638
Other liabilities								
Other payables	285,862	19,730	14,866	4,141	-	-	-	324,599
Government grants	-	-	-	-	-	-	292,720	292,720
Paddy credit gratuity scheme	216	432	540	324	673	-	-	2,185
	4,834,844	741,517	679,113	867,813	87,351	1,618,988	292,720	9,122,346
Net maturity mismatch	(2,676,460)	29,768	(306,098)	(261,052)	1,729,342	3,538,384	73,412	2,127,296

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity Risk (cont'd)

Maturity analysis of financial liabilities based on contracted undiscounted cash flows:

	<1 month	1-3 months	3 - 6 months	6 - 12 months	1 - 5 years	>5 years	Non-specific maturity	Total
2013	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial liabilities								
Deposit from customers								
Saving giro	3,663,119	-	-	-	-	-	-	3,663,119
Fixed deposits	1,126,784	924,238	63,744	31,031	439,363	519,463	-	3,104,623
Loan scheme fund								
Government	-	-	-	-	-	1,308,596	-	1,308,596
BNM	-	-	-	-	-	163,824	-	163,824
Other liabilities								
Other payables	23,620	6,039	(1,857)	5,149	293,495	489	-	326,935
Government grants	-	-	-	-	-	-	310,171	310,171
Paddy credit gratuity scheme	120	-	-	-	2,105	-	-	2,225
	4,813,643	930,277	61,887	36,180	734,963	1,992,372	310,171	8,879,493

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Liquidity Risk (cont'd)

Maturity analysis of financial liabilities based on contracted undiscounted cash flows: (cont'd)

2012	<1 month RM'000	1-3 months RM'000	3 - 6 months RM'000	6 - 12 months RM'000	1 - 5 years RM'000	>5 years RM'000	Non-specific	Total RM'000
							maturity RM'000	
Financial liabilities								
Deposit from customers								
Saving giro	3,779,215	-	-	-	-	-	-	3,779,215
Fixed deposits	1,056,978	199,688	492,559	677,351	1,261,235	(268,760)	-	3,419,051
Loan scheme fund								
Government	-	-	-	-	-	1,518,462	-	1,518,462
BNM	-	-	-	-	-	28,529	-	28,529
Others	-	-	6,295	6,189	8,154	-	-	20,638
Other liabilities								
Other payables	285,862	19,730	14,866	4,141	-	-	-	324,599
Government grants	-	-	-	-	-	-	292,720	292,720
Paddy credit gratuity scheme	216	432	540	324	673	-	-	2,185
	5,122,271	219,850	514,260	688,005	1,270,062	1,278,231	292,720	9,385,399

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market risk

(i) Nature of market risk

Market risks arises from volatilities in interest rates, equity prices, commodity prices, credit spreads and foreign exchange rates which inherent in the investment portfolio. The market risk in the Bank shall relate to all financial assets and liabilities held by the Bank for investment as well as trading purposes in the banking book. As the Bank's investment portfolio, focus on interest/profit rate bearing asset and liability, interest rate may pose major and significant risk to investment portfolio of the Bank.

(ii) Definition of market risk

Market risk is defined as the risk of losses in On and Off Balance Sheet positions arising from unexpected movements in market prices due to volatility in interest rates, equity prices, commodity price, foreign exchange rates etc.

(iii) Management of market risk

The board shall approve all policies related to market risk management which shall be reviewed at least on annual basis. The Board may delegate part of its authority and responsibility to its sub-committee, BRMC as well as BIVC to oversee the effectiveness and compliance of those policies as well as approve new and revised policies. At senior management level, ALCO deliberates market risk management by executing decisions, business strategies and action plan within the policies and guidelines approved by BRMC or Board.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market risk (cont'd)

(iii) Management of market risk (cont'd)

The daily management of investment portfolio is executed by the TD. On the other hand, MRMD acts as the middle office for investment and treasury related activities which are executed through risk governance and risk assessment practices. MRMD also provides independent assessment on market risk in relation to investment activities, including recommendation for new acquisitions and evaluation on mark-to-market prices and yield curves on investment return, in particular for AFS portfolio. MRMD provides monthly report to ALCO and BIVC for investment portfolio governance.

For bank-wide market risk management, MRMD monitors the profit/interest rate risk sensitivity through Profit/Interest Rate Sensitivity Gap ("PIRG"), Earning at Risk ("EAR") and Duration Weighted Gap ("DWG") which are presented to ALCO every month. MRMD also reviews new product proposal papers and signing off documents (together with other risk management units) by incorporating relevant assessments and advice on market and liquidity risks prior to escalation to higher levels for Bank Negara Malaysia ("BNM") approval.

(iv) Measurement of profit/interest rate risk

The measurement of the Bank's exposures to profit/interest rate risk is done through the following techniques;

- **Stress test analysis/Scenario analysis**

Stress testing/scenario analysis are based on macro economic variables particularly "interest rates on bond values" and "beta measure on equity". The stress tests employ a range of simulated scenarios on the Bank's investment portfolio to assess the impact on investment values, profitability and capital of the Bank.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market risk (cont'd)

(iv) Measurement of profit/interest rate risk (cont'd)

- **Sensitivity analysis**

Sensitivity analysis is a technique used to determine how different values of an independent variable will impact a particular dependent variable under a given set of assumptions. This technique is used within specific boundaries that will depend on one or more input variables, such as the effect of changes in interest rates on bonds' prices.

Sensitivity analysis is a mean to predict the outcome of a decision if a situation turns out to be different compared to the key prediction(s). Simulation analysis evaluates the effects of interest risk changes on the earnings or economic value by modelling the potential direction of interest rates and its effect on cash flows.

- **Profit/interest rate gap ("PIRG") analysis**

Gap analysis is conducted to determine the gap between the assets and liabilities that are sensitive to interest rates for any given period of time. Assets and liabilities lacking definite repricing intervals are assigned to buckets according to the judgment and past experience of the Bank. The Bank applies sensitivity analysis to gauge the impact of interest/profit rate movements on its bottom line and capital. The Bank establishes a limit on the sensitivity on interest/profit rate movements. The assets and liabilities are segregated between sensitive and non sensitive assets or liabilities. The sensitive assets and liabilities are classified into pre determined buckets based on the respective sensitivity on any movement in interest/ profit rates in the market based on the respective tenure (original maturity). The gap between sensitive assets and sensitive liabilities for each bucket represented by amounts and percentages are considered as PIRG. For the measurement of IRG the Bank takes the position of all the buckets within one year and matches it against the determined limit to reflect sensitivity to any movement in interest/profit. The non sensitive assets or liabilities as well as shareholders fund are not subjected to bucketing analysis.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market risk (cont'd)

(iv) Measurement of profit/interest rate risk (cont'd)

- **Duration weighted gap ("DWG") analysis**

DWG analysis is the time-weighted average maturity of the present value of the cash flows from assets, liabilities and off-balance sheet items. It measures the relative sensitivity of the value of these instruments to changing interest rates (the average term to repricing), and therefore reflects how changes in interest rates will affect the Bank's economic value, that is, the present value of equity. The Bank applies DWG to measure its capital and balance sheet sensitivity to the interest/profit rate for all buckets as per PIRG with the incorporation of weights.

- **Earning at risk ("EaR") analysis**

EaR analysis is done to quantify the impact on the projection of net profit/interest income ("NPII") in the event of an adverse change in prevailing interest rates for a period of 1 year, depending on profit/interest rates sensitivity of the Bank, either it is experiencing an asset sensitive position or liability sensitive position. Currently, the Bank has yet to adopt the Value at Risk ("VaR") approach in measuring interest rate risk on its investment portfolio. VaR is a statistical measure of the potential losses that could occur as a result of movements in market rates and prices over a specified time horizon within a given confidence level.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market risk (cont'd)

(iv) Measurement of profit/interest rate risk (cont'd)

Profit/Interest rate sensitivity

	Current position			Scenario 1		Scenario 2		Scenario 3	
	Net book value	Market value	Difference	25bps increase in YTM		50bps increase in YTM		75bps increase in YTM	
				Market value	Potential loss provisions	Market value	Potential loss provisions	Market value	Potential loss provisions
2013	RM'mil	RM'mil	RM'mil	RM'mil	RM'mil	RM'mil	RM'mil	RM'mil	RM'mil
PDS	2,372	2,316	(56)	2,284	(88)	2,251	(121)	2,219	(153)
MGS / GII	1,188	1,160	(28)	1,143	(45)	1,127	(61)	1,110	(78)
	3,560	3,476	(84)	3,427	(133)	3,378	(182)	3,329	(231)

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market risk (cont'd)

(iv) Measurement of profit/interest rate risk (cont'd)

Profit/Interest rate sensitivity (cont'd)

	Current position			Scenario 1		Scenario 2		Scenario 3	
	Net book value	Market value	Difference	25bps increase in YTM		50bps increase in YTM		75bps increase in YTM	
				Market value	Potential loss provisions	Market value	Potential loss provisions	Market value	Potential loss provisions
2012	RM'mil	RM'mil	RM'mil	RM'mil	RM'mil	RM'mil	RM'mil	RM'mil	RM'mil
PDS	1,799	1,805	6	1,781	(18)	1,758	(41)	1,735	(64)
MGS / GII	1,207	1,212	5	1,193	(14)	1,174	(33)	1,155	(52)
	3,006	3,017	11	2,974	(32)	2,932	(74)	2,890	(116)

33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market risk (cont'd)

(v) Foreign exchange risk

The Bank is not subject to foreign exchange gain or loss on fluctuation of Japanese Yen (“JPY”) exchange rate in respect of the JPY denominated loan as the foreign exchange gain or loss on settlement of the JPY term loans is compensated by the Government of Malaysia.

The financial liability of the Bank that are not denominated in its functional currency and guaranteed by the Government of Malaysia is as follows:

	Financial liabilities held in non-functional currency	
	2013 RM'000	2012 RM'000
Functional currency of the Bank		
Term loans - JPY	<u>-</u>	<u>20,638</u>

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market Risk (cont'd)

(vi) Interest Rate Risk

The table below summarises the Bank's exposure to interest rate risk.

	<1 year RM '000	>1-2 years RM '000	>2-3 years RM '000	>3-5 years RM '000	>5 years RM '000	Non-interest /profit sensitive RM '000	Total RM '000	Effective Interest Rate
2013								
Financial assets								
Cash and short term funds	1,109,741	-	-	-	-	163,656	1,273,397	3.20%
Deposits with financial institutions	60,000	-	-	-	-	-	60,000	3.20%
Investment securities	19,901	-	125,241	521,023	2,913,576	8,313	3,588,054	3.85%
Loans, financing and advances	3,819,164	6,942	13,165	165,575	793,424	1,051,884	5,850,154	7.23%
Other assets	-	-	-	-	-	96,201	96,201	-
	5,008,806	6,942	138,406	686,598	3,707,000	1,320,054	10,867,806	4.37%

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market Risk (cont'd)

(vi) Interest Rate Risk (cont'd)

	<1 year RM '000	>1-2 years RM '000	>2-3 years RM '000	>3-5 years RM '000	>5 RM '000	Non-interest /profit sensitive RM '000	Total RM '000	Effective Interest Rate
2013 (cont'd)								
Financial liabilities								
Deposits from customers	3,549,298	7,781	7,980	15,717	17	3,013,853	6,594,646	2.34%
Loan scheme fund	-	-	-	-	-	1,555,347	1,555,347	0.32%
Government grants	-	-	-	-	-	310,171	310,171	-
Other liabilities	-	-	-	-	-	329,160	329,160	-
	3,549,298	7,781	7,980	15,717	17	5,208,531	8,789,324	1.33%
Equity								
Shareholder's fund	-	-	-	-	-	2,349,389	2,349,389	-
Total financial liabilities and equity	3,549,298	7,781	7,980	15,717	17	7,557,920	11,138,713	1.33%

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market Risk (cont'd)

(vi) Interest Rate Risk (cont'd)

The table below summarises the Bank's exposure to interest rate risk.

	<1 year RM '000	>1-2 years RM '000	>2-3 years RM '000	>3-5 years RM '000	>5 years RM '000	Non-interest /profit sensitive RM '000	Total RM '000	Effective Interest Rate
2012								
Financial assets								
Cash and short term funds	1,670,525	-	-	-	-	156,487	1,827,012	3.08%
Investment securities	9,955	-	100,136	537,219	2,530,979	280,773	3,459,062	3.79%
Loans, financing and advances	3,530,315	2,015	7,954	200,802	630,934	1,495,628	5,867,648	7.11%
Other assets	-	-	-	-	-	95,920	95,920	-
	5,210,795	2,015	108,090	738,021	3,161,913	2,028,808	11,249,642	4.66%

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market Risk (cont'd)

(vi) Interest Rate Risk (cont'd)

	<1 year RM '000	>1-2 years RM '000	>2-3 years RM '000	>3-5 years RM '000	>5 years RM '000	Non-interest /profit sensitive RM '000	Total RM '000	Effective Interest Rate
2012 (cont'd)								
Financial liabilities								
Deposits from customers	3,471,934	11,191	16,221	65,800	17	3,298,053	6,863,216	2.19%
Loan from OECF	-	-	-	-	-	20,638	20,638	3.50%
Loan scheme fund	-	-	-	-	-	1,618,988	1,618,988	0.37%
Government grants	-	-	-	-	-	292,720	292,720	-
Other liabilities	-	-	-	-	-	340,572	340,572	-
	3,471,934	11,191	16,221	65,800	17	5,570,971	9,136,134	2.02%
Equity								
Shareholder's fund	-	-	-	-	-	2,325,262	2,325,262	-
Total financial liabilities and equity	3,471,934	11,191	16,221	65,800	17	7,896,233	11,461,396	2.02%

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(e) Operational risk

The Bank's Operational Risk Management Framework ("ORMF") provides a structured and disciplined process defined by the regulatory guidelines set by the Bank of International Settlements ("BIS") Basel Accords and BNM.

The Bank is laying the foundations in compliance to the Basel requirements within a period of five years. This is in line with the Bank's vision to achieve The Standardised Approach ("TSA") within five years. However, as a start, the Bank shall apply the Basic Indicator Approach (BIA) in its capital allocation computation for Operational Risk.

Approach to operational risk management

The Bank adopts the five core components as the guiding principles for an effective and efficient management of its operational risks as follows:

- **Governance**

The Board of Directors defines the key objectives for managing the Bank's operational risk and oversees progress towards achieving its objectives. The Board defines the overall operational risk culture and sets the tone as to how the Bank implements and executes its operational risk management strategy.

Management takes the responsibility of managing the business risks, the ultimate responsibility for establishing and maintaining appropriate risk management processes, making risk management an integral part of the Bank's operations, aligning risk management to internal policies and procedures as well as ensuring that all risk based-limits are adhered to by the business divisions, departments and units.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(e) Operational risk (cont'd)

Approach to operational risk management (cont'd)

• **Oversight structure and lines of defence**

The interplay between the risk owners at the business level, Risk Management Division ("RMD") and Internal Audit forms the framework for the Bank's "three lines of defence" in the management of risks.

The first line of defence is the Business risk owners, who are responsible for the day-to-day operational risk management where Key Performance Indicators ("KPIs"), Key Risk Indicators ("KRIs") and Key Control Indicators ("KCIIs"), Risk Maps, Key Risk Control Self-Assessment ("RCSA") and Incident Management and Data Collection ("IMDC") are to be in place in relation to the business objectives.

The second line of defence is the RMD, which is responsible for operational risk management oversight.

The third line of defence is Internal Audit, which is being entrusted to perform independent assurance over the effectiveness of the operational risk management initiatives by RMD and the Business Units.

• **Risk management process**

Operational risk management ("ORM") refers to the end-to-end process that ensures operational risks are effectively managed from the time they are identified to the time the risks are mitigated within the risk appetite of the Bank. It is the responsibility of everyone in the Bank. This generic process is used to manage operational risks at all levels from units to Head office. The operational risk management process comprises 4 steps namely:

- (i) Risk identification
- (ii) Risk assessment
- (iii) Managing and controlling risk
- (iv) Monitoring and reporting risk

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(e) Operational risk (cont'd)

Approach to operational risk management (cont'd)

- **Reporting and communication guidelines**

In establishing a sound ORM at the Bank, the reporting and communication lines are extremely important. As operational risk is pervasive across the organisation and the range and type of incidents is broad, from fraud to product and system failures and from errors in the front office to the back office, it is important to share information at all levels.

Information sharing should be through both formal reporting lines and face-to-face communication.

- **Culture**

Operational risk culture encompasses general awareness, attitude, behaviour of employees to the key operational risk causes such as people, process, systems external events.

Adequate awareness and training in operational risk is to be given to the staff and their roles and responsibilities clearly defined. In addition, the performance management process encourages staff to perform and behave in a manner consistent with the Bank's operational risk management objectives. Adequate training is to be provided to the staff to ensure that they have acquired adequate level of knowledge and skill sets to perform their roles and responsibilities in operational risk management.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(f) Capital management

Regulatory capital

BNM sets and monitors capital requirements for The Bank as a whole.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative tier 1 securities), retained earnings, translation reserve and non-controlling interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, government grants and collective impairment allowances for non-impaired loans.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the period. Management uses regulatory capital ratios in order to monitor its capital base, and these capital ratios remain the international standards for measuring capital adequacy. The Bank is in the process on developing Capital Management Plan ("CMP") to facilitate effective management of capital and address potential impact from loan deterioration as well as to provide adequate buffer to support business expansion.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(f) Capital management (cont'd)

Capital allocation

Capital allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be varied to reflect differing risk profile, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is subject to review by the ALCO as appropriate.

Capital Adequacy

The capital adequacy ratio of the Bank as at the end of the reporting period is as follows:

	31 December 2013 %	31 December 2012 % Restated
Before deducting proposed dividend:		
Core capital ratio	28.17	26.27
Risk-weighted capital ratio	<u>33.97</u>	<u>31.90</u>
After deducting proposed dividend:		
Core capital ratio	28.07	25.98
Risk-weighted capital ratio	<u>33.87</u>	<u>31.61</u>

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(f) Capital management (cont'd)

The capital adequacy ratio of the Bank as at 31 December 2013 has incorporated the market risk pursuant to BNM Market Risk Capital Adequacy Framework which became effective on 1 April 2005.

	31 December 2013 RM'000	31 December 2012 RM'000 Restated
Components of Tier I and Tier II capital		
Tier I capital		
Share capital	1,000,000	1,000,000
Statutory reserves	487,109	487,109
Retained earnings	724,690	516,434
Less: Deferred tax assets	(48,572)	-
Total Tier I capital	2,163,227	2,003,543
Tier II capital		
Collective impairment allowance ¹	135,003	136,579
Government Grants - Operating	35,402	41,872
Government Grants - Launching	17,269	21,598
Government Grants - Funds	257,500	229,250
Total Tier II capital	445,174	429,299
Total capital base	2,608,401	2,432,842

¹ The eligible amount for Tier II capital is limited to only collective impairment allowance on non-impaired loans, financing and advances.

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33. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(f) Capital management (cont'd)

The breakdown of risk-weighted assets in the various categories of risk-weights is as follows:

	Notional RM'000	Risk- weighted RM'000
0%	2,311,660	-
10%	-	-
20%	1,553,679	310,736
50%	50,502	25,251
100%	7,174,300	7,174,300
Off balance sheet risk-weighted assets	-	167,670
	<hr/>	<hr/>
Total risk-weighted assets at 31 December 2013	<u>11,090,141</u>	<u>7,677,957</u>
0%	2,410,682	-
10%	-	-
20%	1,970,173	394,035
50%	54,449	27,224
100%	7,026,092	7,026,092
Off balance sheet risk-weighted assets	-	178,604
	<hr/>	<hr/>
Total risk-weighted assets at 31 December 2012	<u>11,461,396</u>	<u>7,625,955</u>

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33. FINANCIAL INSTRUMENTS (cont'd)

B. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Fair value is the amount at which the financial assets could be exchanged or financial liabilities could be settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the best estimates of fair values as of the reporting period.

Set out below, is a comparison by class of the carrying amounts and fair value of the Bank's financial instruments, other than those with carrying amounts that are reasonable approximation of their fair values:

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
	RM'000	RM'000	RM'000	RM'000	RM'000
2013					
Financial assets					
Investment securities-HTM	-	213,150	-	213,150	214,162
Investment securities-AFS	1,096,885	2,283,604	-	3,380,489	3,380,489
Loans, financing and advances	-	2,984,627	2,827,718	5,812,345	5,850,154
Financial liabilities					
Deposits from customers	-	6,510,886	-	6,510,886	6,594,646
Loan scheme fund	-	1,520,112	-	1,520,112	1,555,347
2012 (restated)					
Financial assets					
Investment securities-HTM	-	214,584	-	214,584	214,079
Investment securities-AFS	1,483,676	1,763,986	-	3,247,662	3,247,662
Loans, financing and advances	-	3,194,481	2,754,601	5,949,082	5,867,648
Financial liabilities					
Deposits from customers	-	6,897,583	-	6,897,583	6,863,216
Loan scheme fund	-	1,539,658	-	1,539,658	1,639,626

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

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33. FINANCIAL INSTRUMENTS (cont'd)

B. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (cont'd)

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

(i) Investment securities - HTM

The fair values of instrument of investments are estimated based on the market value at the end of the reporting period.

As for commercial papers which are generally short-term funds, the fair values approximate the respective carrying values.

(ii) Investment securities - AFS

AFS financial assets valued using valuation techniques or pricing models primarily consists of unquoted equities and debt securities.

These assets are valued using models that use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

(iii) Loans, financing and advances

For fixed-rate loans with maturities within a year, and loans, financing and advances at variable rates, the estimated fair values approximate their respective carrying values.

For fixed-rate loans with maturities more than a year, the fair values are estimated based on expected future cash flows of contractual instalments and discounted at prevailing rate at the end of the reporting period offered for similar loans to new borrowers with similar credit profiles, where applicable.

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33. FINANCIAL INSTRUMENTS (cont'd)

B. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (cont'd)

The methods and assumptions used in estimating the fair values of financial instruments are as follows: (cont'd)

(iv) Deposits from customers

The fair values of deposits from customers with remaining maturity of less than one year are estimated to approximate their carrying amounts. The fair values of deposits with remaining maturities of more than one year are estimated using discounted cash flows based on market rates for similar deposits from customers. The fair values of Islamic deposits are deemed to approximate their carrying amounts as profit rates are determined at the end of their holding periods based on the profit generated from the assets invested.

(v) Loan scheme fund

The estimated fair values of loan scheme fund are based on future cash flows discounted at the current rate as of the end of the reporting period.

Fair value hierarchy

Determination of fair value and fair value hierarchy

The Bank uses 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 assets 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;

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

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33. FINANCIAL INSTRUMENTS (cont'd)

C. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS

	HTM securities RM'000	Loans and receivables RM'000	AFS securities RM'000	Financial assets and liabilities at amortised cost RM'000	Total RM'000
2013					
Financial assets					
Cash and short term funds	-	1,273,397	-	-	1,273,397
Deposits with financial institutions	-	60,000	-	-	60,000
Investment securities	214,162	-	3,373,892	-	3,588,054
Loans, financing and advances	-	5,850,154	-	-	5,850,154
	214,162	7,183,551	3,373,892	-	10,771,605
Financial liabilities					
Deposits from customers		-	-	6,594,646	6,594,646
Loan scheme fund	-	-	-	1,555,347	1,555,347
	-	-	-	8,149,993	8,149,993

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33. FINANCIAL INSTRUMENTS (cont'd)

C. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS (cont'd)

	HTM securities RM'000	Loans and receivables RM'000	AFS securities RM'000	Financial assets and liabilities at amortised cost RM'000	Total RM'000
2012					
Financial assets					
Cash and short term funds	-	1,827,012	-	-	1,827,012
Investment securities	214,079	-	3,244,983	-	3,459,062
Loans, financing and advances	-	5,867,648	-	-	5,867,648
	214,079	7,694,660	3,244,983	-	11,153,722
Financial liabilities					
Deposits from customers	-	-	-	6,863,216	6,863,216
Loans from OECF	-	-	-	20,638	20,638
Loan scheme fund	-	-	-	1,618,988	1,618,988
	-	-	-	8,502,842	8,502,842

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34. PRIOR YEAR ADJUSTMENTS

Details of prior year adjustments are as follows:

(i) Accounting for government grants

In 2009, the Bank received RM300.0 million as part of the second Economic Stimulus Package ("ESP"). The funds were allocated to the Ministry of Agriculture and Agro-based Industry ("MOA") under the mini-budget and channelled to the Bank to implement the 'Skim Kredit Mikro', which was subsequently renamed 'Skim Pembiayaan Mikro Pertanian'.

As there were no guidelines from the Government relating to the rights and obligations of the Bank in regards to these funds, disbursements from the fund were not included in the financial statements. During the year, clarification was received from the Government that the funds were given as a grant to the Bank to be disbursed to eligible customers.

This clarification has resulted in the funds and the loans disbursed being brought on to the balance sheet. The above change in the accounting treatment has been adjusted for retrospectively.

(ii) Undistributed profit on Mudharabah deposits

Under a Mudharabah contract, depositors are the capital providers while the Bank assumes the role of an entrepreneur who manages the depositors' funds. Profit arising from those investments are shared between the depositors and the Bank based on pre-agreed Profit Sharing Ratio ("PSR"). Losses, if any, will be borne by the depositors, except in cases where there is evidence of negligence by the Bank in managing the depositors' funds.

Consequent to a review of the Bank's existing Mudharabah contracts, it was noted that the liability for distributable income to the depositors had been under recognised. The adjustment to reflect the revised computation of distributable income has been effected retrospectively.

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34. PRIOR YEAR ADJUSTMENTS (cont'd)

Details of prior year adjustments are as follows: (cont'd)

(iii) Tax deductibility of collective impairment allowance on loans, advances and financing

Collective impairment allowance on loans, financing and advances were treated as non-deductible for tax purposes and a deferred tax asset was recognised. However, based on the Guidelines on Income Tax Treatment from Adopting FRS 139 issued by Ministry of Finance, the allowance should be deductible for tax purposes. Due to its tax exempt status in the prior year, the Bank has reversed the deferred tax arising from collective impairment allowance of 2012 retrospectively.

The effect of prior year adjustment to the Bank are as follows:

As at 1 January 2012				
As				
		previously stated RM'000	Prior year adjustment RM'000	As restated RM'000
Statement of financial position				
Asset				
Loans, financing and advances*	(i)	5,774,520	123,475	5,897,995
Collective impairment allowance	(i)	<u>(369,169)</u>	<u>(72,468)</u>	<u>(441,637)</u>
		<u>5,405,351</u>	<u>51,007</u>	<u>5,456,358</u>
Liabilities				
Government grants - Funds	(i)	17,481	227,532	245,013
Deposits from customers	(i)	7,723,069	(176,525)	7,546,544
Provision for undistributed profit	(ii)	-	77,240	77,240
Deferred tax liabilities	(ii)	80,390	(19,310)	61,080
Equity				
Retained earnings	(ii)	<u>250,932</u>	<u>(57,930)</u>	<u>193,002</u>
		<u>8,071,872</u>	<u>51,007</u>	<u>8,122,879</u>

*Gross loans, financing and advances less individual impairment allowance.

34. PRIOR YEAR ADJUSTMENTS (cont'd)

Details of prior year adjustments are as follows: (cont'd)

The effect of prior year adjustment to the Bank are as follows: (cont'd)

		As at 31 December 2012		
		As previously stated RM'000	Prior year adjustment RM'000	As restated RM'000
Statement of financial position				
Asset				
Loans, financing and advances*	(i)	6,158,439	126,907	6,285,346
Collective impairment allowance	(i)	<u>(330,532)</u>	<u>(87,166)</u>	<u>(417,698)</u>
		<u>5,827,907</u>	<u>39,741</u>	<u>5,867,648</u>
Liabilities				
Government grants - Funds	(i)	16,508	212,742	229,250
Deposits from customers	(i)	7,036,217	(173,001)	6,863,216
Provision for undistributed profit	(ii)	-	161,665	161,665
Deferred tax liabilities	(ii)	32,322	(40,416)	13,788
	(iii)		21,882	
Equity				
Retained earnings	(ii)	659,565	(121,249)	516,434
	(iii)		(21,882)	
		<u>7,744,612</u>	<u>39,741</u>	<u>7,784,353</u>

*Gross loans, financing and advances less individual impairment allowance.

34. PRIOR YEAR ADJUSTMENTS (cont'd)

Details of prior year adjustments are as follows: (cont'd)

The effect of prior year adjustment to the Bank are as follows: (cont'd)

For the financial year ended 31 December 2012			
	As		
	previously	Prior year	
	stated	adjustment	As restated
	RM'000	RM'000	RM'000
Statement of comprehensive income			
Allowance for impairment on loans, financing and advances	(i) (72,280)	(15,010)	(87,290)
Government grants - Funds released	(i) 17,423	15,010	32,433
Income from Islamic banking business	(ii) 508,788	(84,425)	424,363
Tax expense	(ii) (6,572)	(21,106)	(7,349)
	(iii)	20,329	

The effect of prior year adjustment to the Islamic banking notes are as follows:

As at 1 January 2012			
	As		
	previously	Prior year	
	stated	adjustment	As restated
	RM'000	RM'000	RM'000
Statement of financial position			
Asset			
Financing and advances*	(i) 4,487,847	123,475	4,611,322
Collective impairment allowance	(i) (223,988)	(72,468)	(296,456)
Deferred tax assets	(ii) -	19,310	19,310
	4,263,859	70,317	4,334,176

*Gross financing and advances less individual impairment allowance.

34. PRIOR YEAR ADJUSTMENTS (cont'd)

Details of prior year adjustments are as follows: (cont'd)

The effect of prior year adjustment to the Islamic banking notes are as follows: (cont'd)

As at 1 January 2012				
As				
		previously stated RM'000	Prior year adjustment RM'000	As restated RM'000
Statement of financial position (cont'd)				
Liabilities				
Government grants - Funds	(i)	14,921	227,532	242,453
Deposits from customers	(i)	5,020,901	(176,525)	4,844,376
Provision for undistributed profit	(ii)	-	77,240	77,240
Equity				
Islamic banking fund	(ii)	417,752	(57,930)	359,822
		<u>5,453,574</u>	<u>70,317</u>	<u>5,523,891</u>

As at 31 December 2012				
As				
		previously stated RM'000	Prior year adjustment RM'000	As restated RM'000
Statement of financial position				
Asset				
Financing and advances*	(i)	5,264,075	126,907	5,390,982
Collective impairment allowance	(i)	(226,612)	(87,166)	(313,778)
Deferred tax assets	(ii)	-	40,416	40,416
		<u>5,037,463</u>	<u>80,157</u>	<u>5,117,620</u>

*Gross financing and advances less individual impairment allowance.

34. PRIOR YEAR ADJUSTMENTS (cont'd)

Details of prior year adjustments are as follows: (cont'd)

The effect of prior year adjustment to the Islamic banking notes are as follows: (cont'd)

As at 31 December 2012				
As				
		previously stated RM'000	Prior year adjustment RM'000	As restated RM'000
Statement of financial position (cont'd)				
Liabilities				
Government grants - Funds	(i)	16,508	212,742	229,250
Deposits from customers	(i)	5,643,765	(173,001)	5,470,764
Provision for undistributed profit	(ii)	-	161,665	161,665
Equity				
Islamic banking fund	(ii)	<u>1,472,866</u>	<u>(121,249)</u>	<u>1,351,617</u>
		<u>7,133,139</u>	<u>80,157</u>	<u>7,213,296</u>

For the financial year ended 31 December 2012

As				
		previously stated RM'000	Prior year adjustment RM'000	As restated RM'000
Statement of comprehensive income				
Allowance for impairment on financing and advances	(i)	(138,572)	(15,010)	(153,582)
Government grants - Funds released	(i)	-	15,010	15,010
Income from Islamic banking business	(ii)	508,788	(84,425)	424,363
Tax credit	(ii)	-	21,106	21,106

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35. ISLAMIC BANKING

The state of affairs and the results of Islamic banking operations under the Islamic banking division included in the financial statements, are summarised as follows:

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

	Note	2013 RM'000	2012 RM'000 Restated
Income from Islamic banking business	a	423,825	424,363
Government grants released		10,007	15,010
Allowance for impairment on financing and advances	b	(81,161)	(153,582)
Net income		<u>352,671</u>	<u>285,791</u>
Overhead expenses	c	<u>(298,977)</u>	<u>(290,268)</u>
Profit/ (loss) before tax and zakat		53,694	(4,477)
Tax (expense)/ income		(19,896)	21,106
Zakat		<u>(1,826)</u>	<u>(2,082)</u>
Profit after tax and zakat		<u>31,972</u>	<u>14,547</u>
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods			
Unrealised (loss)/gain on fair value changes on AFS investment securities		(71,601)	10,380
Transfer to profit or loss on disposal of AFS investment securities		(12,301)	(11,436)
Income tax relating to components of other comprehensive income		<u>18,692</u>	<u>-</u>
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		<u>(65,210)</u>	<u>(1,056)</u>
Total comprehensive (loss)/ income for the year		<u>(33,238)</u>	<u>13,491</u>

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35. ISLAMIC BANKING (cont'd)**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013**

	Note	31 December 2013 RM'000	31 December 2012 RM'000 Restated	1 January 2012 RM'000 Restated
Assets				
Cash and short term funds	d	644,492	1,095,975	1,564,541
Deposits with financial institutions	e	60,000	-	20,000
Investment securities	f	2,862,495	2,562,041	1,102,164
Financing and advances	g	5,398,911	5,077,204	4,314,866
Property, plant and equipment		222,335	191,721	2,851
Other assets	h	63,756	51,355	45,950
Deferred tax assets		67,981	40,416	19,310
TOTAL ASSETS		9,319,970	9,018,712	7,069,682
LIABILITIES AND EQUITY				
Liabilities				
Deposits from customers	i	5,912,217	5,470,764	4,844,376
Profit payable and others	j	428,766	284,623	192,804
Financing scheme fund	k	1,555,347	1,618,988	1,430,227
Government grants		52,671	63,470	-
Government grants - Funds	l	257,500	229,250	242,453
Total Liabilities		8,206,501	7,667,095	6,709,860
Equity				
Islamic banking fund	m	1,113,469	1,351,617	359,822
Total Equity		1,113,469	1,351,617	359,822
TOTAL LIABILITIES AND EQUITY		9,319,970	9,018,712	7,069,682

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35. ISLAMIC BANKING (cont'd)

**STATEMENT OF CASH FLOW
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

	2013	2012
	RM'000	RM'000
		Restated
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(loss) before tax and zakat	53,694	(4,477)
Adjustments for:		
Allowance for impairment on financing and advances	102,493	166,113
Profit expense on financing scheme fund	299	4,435
Depreciation of property, plant and equipment	39,791	8,431
Write off of property, plant and equipment	1,589	170
Amortisation of :		
Special Fund for Terengganu Fishery ("DKSP")	(700)	(661)
Government Grants- Operating	(6,470)	-
Government Grants- Launching	(3,343)	-
	<hr/>	<hr/>
Operating profit before working capital changes	187,353	174,011
Change in financing and advances	(395,249)	(914,173)
Change in other assets	(12,401)	(5,405)
Change in deposits with financial institutions	(60,000)	20,000
Change in deposits from customers	441,453	622,864
Change in profit payables and others	57,872	77,578
Change in deferred tax assets	21,106	19,310
Reimbursement to conventional system	(176,600)	1,129,339
	<hr/>	<hr/>
Cash generated from operating activities	63,534	1,123,524
Zakat paid	(3,432)	(2,854)
	<hr/>	<hr/>
Net cash generated from operating activities	60,102	1,120,670

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35. ISLAMIC BANKING (cont'd)

**STATEMENT OF CASH FLOW
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (cont'd)**

	2013	2012
	RM'000	RM'000
		Restated
CASH FLOW FROM INVESTING ACTIVITIES		
Increase in investment securities	(365,665)	(1,460,341)
Purchase of property, plant and equipment	(71,994)	(25,938)
	<u>(437,659)</u>	<u>(1,486,279)</u>
Net cash used in investing activities	(437,659)	(1,486,279)
CASH FLOW FROM FINANCING ACTIVITIES		
Profit paid on financing scheme fund	(6,770)	(2,299)
Proceeds from:		
Fund For Food ("3F")	152,334	652
Food Production Credit Scheme ("SKPM")	-	250
Micro Enterprise Fund	15,759	14,493
Government grants- Launching utilised	(986)	
Repayments of financing scheme fund	(225,263)	(116,053)
Dividends paid	(9,000)	-
	<u>(73,926)</u>	<u>(102,957)</u>
Net cash used in financing activities	(73,926)	(102,957)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(451,483)	(468,566)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1,095,975	1,564,541
	<u>644,492</u>	<u>1,095,975</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	644,492	1,095,975
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash and short term funds	<u>644,492</u>	<u>1,095,975</u>

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35. ISLAMIC BANKING (cont'd)

(a) Income from Islamic banking business

	2013	2012
	RM'000	RM'000
Income from financing	337,048	280,489
Income from financial institutions		
Profits from deposits with financial institutions	22,184	60,148
Profits from investment securities:		
HTM	6,332	8,293
AFS	90,847	64,603
Gain on disposal of investment securities:		
AFS	13,622	13,345
Fee Income		
Financing processing fees	11,118	16,483
Banking service fees	20,855	20,206
Reimbursement of gapping cost	22,901	33,065
Ar-Rahnu fees	50,114	116,634
Special Fund for Terengganu Fishery ("DKSP")	700	661
Staff financing	1,105	1,085
Reimbursement of Special Relief Grant for Flood ("SRGF")	155	222
Other income	1,365	1,035
	578,346	616,269
Less : Profit attributable to customers		
Al-Mudharabah deposits	54,745	109,082
Al-Mudharabah savings	6,532	8,218
Agroprima	48	13
Fixed Return Investment Account - i	32,085	1,408
Agro Perdana-i	26,777	30,776
Agro-i deposits	27,476	32,631
Al-Wadiah savings	482	560
Agro Muda-i	3,875	3,724
Agro Tetangga-i	1,596	1,710
	153,616	188,122

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35. ISLAMIC BANKING (cont'd)

(a) Income from Islamic banking business (cont'd)

	2013	2012
	RM'000	RM'000
		Restated
Less : Profit paid on financing scheme fund		
Fund For Food ("3F")	(1,462)	2,618
Food Production Credit Scheme ("SKPM")	243	250
Loan for Small and Medium Size Industries ("PKS")	2	250
Fund For Small and Medium-Sized Industries ("TIKS")	-	16
Non-Food Production Credit Scheme ("SKPBM")	62	68
Micro Enterprise Fund	1,357	407
Others	703	175
	<u>905</u>	<u>3,784</u>
Income from Islamic banking business	<u>423,825</u>	<u>424,363</u>
Of which:		
Profit income earned on impaired financing and advances	<u>10,176</u>	<u>16,195</u>

(b) Allowance for impairment on financing

	2013	2012
	RM'000	RM'000
		Restated
Financing and advances :		
Allowance for the year	70,597	73,193
Amount written back upon recoveries and reversal of allowance	(40,305)	(59,535)
Individual impairment allowance - net	30,292	13,658
Collective impairment allowance - net	72,201	152,145
Bad debts and financing :		
Written off	-	311
Recovered	(21,332)	(12,532)
	<u>81,161</u>	<u>153,582</u>

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35. ISLAMIC BANKING (cont'd)

(c) Overhead expenses

	2013	2012
	RM'000	RM'000
Personnel costs		
Salary, allowance and bonus	162,525	163,271
EPF contributions	18,421	20,180
SOCSSO contributions	1,492	1,925
Staff welfare	5,160	5,011
Retirement benefits scheme	(8,745)	10,668
Others	8,599	7,102
	187,452	208,157
Maintenance costs		
Printing, stationery and office supplies	6,721	8,224
Insurance	2,794	688
Depreciation of property, plant and equipment	23,775	8,431
Water and electricity	6,979	7,420
Rental of premises	7,414	5,783
Amortisation of computer software	10,835	5,042
Building and office maintenance	5,796	5,640
Rental of computers	854	2,425
Computer maintenance	12,387	8,673
Others	2,315	1,915
	79,870	54,241
Marketing expenses		
Advertising and promotions	3,751	3,688
Others	562	313
	4,313	4,001

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35. ISLAMIC BANKING (cont'd)

(c) Overhead expenses (cont'd)

	2013	2012
	RM'000	RM'000
General administrative expenses		
Communication expenses	12,198	12,597
Security charges	8,285	6,144
Legal fees	3,895	3,694
Others	2,964	1,434
	<u>27,342</u>	<u>23,869</u>
	<u><u>298,977</u></u>	<u><u>290,268</u></u>

(d) Cash and short term funds

	31 December	31 December
	2013	2012
	RM'000	RM'000
Cash and bank balances	136,251	120,450
Short term deposits maturing within three months:		
Licensed banks	248,044	568,050
Other financial institutions	260,197	407,475
	<u>644,492</u>	<u>1,095,975</u>

(e) Deposits with financial institutions

	31 December	31 December
	2013	2012
	RM'000	RM'000
Other financial institutions	<u>60,000</u>	<u>-</u>

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35. ISLAMIC BANKING (cont'd)

(f) Investment securities

	31 December 2013 RM'000	31 December 2012 RM'000
<u>Debt Securities</u>		
AFS - at fair value		
Corporate bonds	1,785,079	1,341,087
Government Investment Issue	898,174	1,021,934
	<u>2,683,253</u>	<u>2,363,021</u>
HTM - at amortised cost		
Corporate bonds	17,959	27,311
Commercial papers	-	9,955
Government Investment Issue	161,283	161,754
	<u>179,242</u>	<u>199,020</u>
Net	<u><u>2,862,495</u></u>	<u><u>2,562,041</u></u>
Maturity structure for investments		
HTM is as follows:		
Maturity within six months	10,006	19,955
Between six months to one year	-	-
Between one year to three years	119,205	10,062
Between three years to five years	50,031	169,003
More than five years	-	-
	<u>179,242</u>	<u>199,020</u>

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35. ISLAMIC BANKING (cont'd)

(g) Financing and advances

	31 December 2013 RM'000	31 December 2012 RM'000 Restated	1 January 2012 RM'000 Restated
Agrocash	4,975,710	4,708,421	2,484,968
BBA Project and Vehicle	2,009,299	1,536,586	1,389,132
Fund For Food ("3F")	1,057,730	906,598	814,110
Ar-Rahnu	247,196	556,528	913,855
Fishery Boat Financing Scheme ("SPBP")	64,809	81,363	92,845
MUST-i	229,359	173,838	117,005
Oil Palm Replanting Scheme ("TASKS")	20,991	31,363	45,164
MAP and MPPB Financing	86,614	98,971	104,098
Financing for Small and Medium Size Industries ("PKS")	55,106	66,294	66,786
Non-Food Production Credit Scheme ("SKPBM")	77,182	92,664	107,041
Food Production Credit Scheme ("SKPM")	10,244	13,038	20,834
Belia Tani Scheme	9,326	11,018	12,892
Entrepreneur Scheme for Graduates ("SUTKS - Financing")	958	5,549	7,449
Special Fund For Terengganu Fishery ("DKSP")	664	1,352	1,879
Fund For Small and Medium Size Industries ("TIKS")	2,262	2,357	2,557
Modal Pusingan-i	100,958	41,907	4,412
Paddy Credit Scheme	53,248	3,806	-
Micro ESP	38,979	60,281	58,651
NKEA	43,091	66,626	64,824
Trade Finance	17,617	-	-
Insani	183	-	-
	9,101,526	8,458,560	6,308,502
Less: Unearned profit	(3,334,956)	(2,966,771)	(1,555,045)
	5,766,570	5,491,789	4,753,457
Staff financing and advances	43,426	38,089	37,355
Less:			
Individual impairment allowance	(172,019)	(138,896)	(179,490)
Collective impairment allowance	(239,066)	(313,778)	(296,456)
Net	5,398,911	5,077,204	4,314,866

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35. ISLAMIC BANKING (cont'd)

(g) Financing and advances (cont'd)

Movement in impaired gross financing and advances is as follows:

	31 December 2013 RM'000	31 December 2012 RM'000 Restated
At beginning of the year	578,495	630,944
Additions during the year	285,705	402,841
Reclassified as non impaired during the year	(69,818)	(181,343)
Recoveries during the year	(170,864)	(87,360)
Reclassified to off balance sheet during the year	(23,782)	-
Amount written off	(153,544)	(186,587)
At end of the year	<u>446,192</u>	<u>578,495</u>

Impaired gross financing and advances analysed by sectors are as follows:

Sectors:

Support	96,333	227,779
Crops	176,397	150,481
Livestock	95,795	101,919
Fishery	67,393	73,504
Forestry	904	12,925
Other agricultural based processing	9,370	11,887
	<u>446,192</u>	<u>578,495</u>

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35. ISLAMIC BANKING (cont'd)

(g) Financing and advances (cont'd)

Impaired gross financing and advances analysed by regions are as follows:

	31 December 2013 RM'000	31 December 2012 RM'000 Restated
Regions:		
Kuala Lumpur	84,257	136,906
Selangor	64,902	89,427
Pahang	63,957	67,657
Perak	30,988	46,174
Negeri Sembilan/Melaka	35,129	53,870
Johor	32,003	48,479
Kelantan	23,378	29,347
Kedah/Perlis	51,763	29,762
Sarawak	15,939	25,975
Sabah	23,320	20,470
Pulau Pinang	11,682	17,342
Terengganu	8,874	13,086
	446,192	578,495

Maturity structure for financing and advances is as follows:

Maturity within six months	417,194	629,176
Between six months to one year	73,587	50,395
Between one year to three years	443,127	423,088
Between three years to five years	725,970	677,519
More than five years	4,106,692	3,711,611
	5,766,570	5,491,789

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35. ISLAMIC BANKING (cont'd)

(g) Financing and advances (cont'd)

Financing by types and Shariah Contract

2013	BBA RM'000	Bai-Al-Inah RM'000	Qard RM'000
Term Financing	3,369,462	-	247,196
Revolving Financing	187,572	-	-
Cash Line	-	5,297,296	-
	3,557,034	5,297,296	247,196
2012 (restated)			
Term Financing	2,748,182	-	556,528
Revolving Financing	140,878	-	-
Cash Line	-	5,012,972	-
	2,889,060	5,012,972	556,528

(h) Other assets

	31 December 2013 RM'000	31 December 2012 RM'000
Profit receivable from investment securities	22,952	18,054
Profit receivable	7,893	-
Foreclosed properties	777	-
Project Ladang BPM - Sg Tasan	3,377	-
Income receivables from Ar-Rahnu	18,379	31,012
Refundable deposits and prepayments	10,378	2,289
	63,756	51,355

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35. ISLAMIC BANKING (cont'd)

(i) Deposits from customers

	31 December 2013 RM'000	31 December 2012 RM'000
<u>Mudharabah</u>		
Al-Mudharabah savings	249,235	277,100
Al-Mudharabah general deposits	1,026,102	2,068,485
Agro Perdana-i	1,498,293	1,443,143
Patriot savings	1,158,246	1,201,825
Deposit securities	106,329	89,814
Basic Saving Account	749	769
	4,038,954	5,081,136
<u>Non-Mudharabah</u>		
Fixed Return Investment Account- i (FRIA-i)	1,807,140	319,657
Al-Wadiah savings	66,123	69,971
	5,912,217	5,470,764
Maturity structure for Al-Mudharabah general deposits and FRIA-I is as follows:		
Within six months	1,296,003	1,629,070
Between six months to one year	1,463,515	676,748
Between one year to three years	13,696	16,317
Between three years to five years	60,028	66,007
	2,833,242	2,388,142

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35. ISLAMIC BANKING (cont'd)

(i) Deposits from customers (cont'd)

The deposits are sourced from the following types of customers:

	31 December 2013 RM'000	31 December 2012 RM'000
Government	2,632,069	2,440,509
Individuals	2,140,992	2,073,528
Domestic business enterprises	426,854	580,840
Domestic other entities	690,009	332,834
Domestic non-banking institutions	22,293	43,053
	<u>5,912,217</u>	<u>5,470,764</u>

(j) Profits payable and others

	31 December 2013 RM'000	31 December 2012 RM'000 Restated	1 January 2012 RM'000 Restated
Other liabilities	210,143	75,242	76,189
Provision for undistributed profit	213,809	161,665	77,240
Retirement benefits scheme	2,345	43,641	34,529
Zakat payable	2,469	4,075	4,846
	<u>428,766</u>	<u>284,623</u>	<u>192,804</u>

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35. ISLAMIC BANKING (cont'd)

(k) Financing scheme funds

	31 December 2013 RM'000	31 December 2012 RM'000
Fund For Food ("3F")	1,003,316	970,463
Oil Palm Replanting Scheme ("TASKS")	13,000	14,000
Food Production Credit Scheme ("SKPM")	74,923	100,744
Fishery Boat Financing Scheme ("SPBP")	140,000	140,000
Entrepreneur Scheme for Graduates ("SUTKS-Financing")	6,015	8,010
Non-Food Production Credit Scheme ("SKPBM")	22,594	25,073
Financing for Small and Medium Size Industries ("PKS")	73,048	100,730
MPPB Funds	51,134	70,486
Paddy Credit Scheme	76,701	105,715
Micro Enterprise Fund	94,616	83,767
	<u>1,555,347</u>	<u>1,618,988</u>

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35. ISLAMIC BANKING (cont'd)

(i) Government Grants - Funds

	31 December 2013 RM'000	31 December 2012 RM'000 Restated	1 January 2012 RM'000 Restated
Development Programme for Hardcore Poor ("PPRT")	2,560	2,560	-
Entrepreneur Scheme for Graduates ("SUTKS")	1,358	785	560
Special Fund for Terengganu Fishery ("DKSP")	587	1,391	2,057
Fund for Ministry Youth and Sports ("DKBS")	11,689	11,772	12,304
Bumiputera Commercial and Industrial Community Scheme HUB ("MPPB HUB")	40,000	-	-
National Key Economic Area ("NKEA")	53,832	55,000	55,000
Micro Economic Stimulation Package ("Micro - ESP")	147,474	157,742	172,532
	257,500	229,250	242,453

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35. ISLAMIC BANKING (cont'd)

(m) Islamic banking fund

	31 December 2013 RM'000	31 December 2012 RM'000 Restated	1 January 2012 RM'000 Restated
Retained earnings	569,578	546,606	532,059
General reserve	849,742	849,742	849,742
Reimbursement to conventional system	(250,370)	(54,460)	(1,032,171)
Investment revaluation reserve	(55,481)	9,729	10,192
	<u>1,113,469</u>	<u>1,351,617</u>	<u>359,822</u>
Retained earnings			
At beginning of the year	546,606	532,059	334,796
Profit after zakat	31,972	14,547	205,929
Dividends paid	(9,000)	-	(8,666)
At end of the year	<u>569,578</u>	<u>546,606</u>	<u>532,059</u>
Reimbursement to conventional system			
At beginning of the year	(54,460)	(1,032,171)	(10,821)
Net reimbursement	(195,910)	977,711	(1,021,350)
At end of the year	<u>(250,370)</u>	<u>(54,460)</u>	<u>(1,032,171)</u>
Investment revaluation reserve			
At beginning of the year	9,729	10,192	2,888
Retained profit AFS	-	593	-
Other comprehensive loss	(65,210)	(1,056)	7,304
At end of the year	<u>(55,481)</u>	<u>9,729</u>	<u>10,192</u>

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BANK PERTANIAN MALAYSIA BERHAD

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35. ISLAMIC BANKING (cont'd)

(n) Capital adequacy

	31 December 2013 %	31 December 2012 % Restated
Before deducting proposed dividend:		
Core capital ratio	16.44	21.26
Risk-weighted capital ratio	<u>22.84</u>	<u>27.07</u>
After deducting proposed dividend:		
Core capital ratio	16.32	20.90
Risk-weighted capital ratio	<u>22.72</u>	<u>26.70</u>
	31 December 2013 RM'000	31 December 2012 RM'000 Restated
Components of Tier I and Tier II capital		
<u>Tier I capital</u>		
General reserve	849,742	849,742
Reimbursement to conventional system	(250,370)	(54,460)
Retained earnings	569,578	546,606
Less: Deferred tax assets	<u>(67,981)</u>	<u>(40,416)</u>
<u>Total Tier I capital</u>	<u>1,100,969</u>	<u>1,301,472</u>
Tier II capital		
Collective impairment allowance ¹	117,813	62,389
Government grants	52,671	63,470
Government grant - funds	<u>257,500</u>	<u>229,250</u>
Total Tier II capital	<u>427,984</u>	<u>355,109</u>
Total capital base	<u>1,528,953</u>	<u>1,656,581</u>

¹ The eligible amount for Tier II capital is limited to only collective impairment allowance on non-impaired loans, advances and financing.

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35. ISLAMIC BANKING (cont'd)

(n) Capital adequacy (cont'd)

The breakdown of risk-weighted assets in the various categories of risk-weights is as follows:

	Notional RM'000	Risk- weighted RM'000
0%	2,002,352	-
10%	-	-
20%	828,041	165,608
50%	29,296	14,648
100%	6,392,300	6,392,300
Off balance sheet risk-weighted assets	-	122,803
Total risk-weighted assets at 31 December 2013	9,251,989	6,695,359
0%	2,074,056	-
10%	-	-
20%	1,149,237	229,847
50%	27,308	13,654
100%	5,727,695	5,727,695
Off balance sheet risk-weighted assets	-	149,152
Total risk-weighted assets at 31 December 2012	8,978,296	6,120,348