

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

Directors' Report and Audited Financial Statements  
31 December 2016

Company No: 811810-U

**BANK PERTANIAN MALAYSIA BERHAD**  
(Incorporated in Malaysia)

**FINANCIAL STATEMENTS**

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**BANK PERTANIAN MALAYSIA BERHAD**

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**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 2016.

**PRINCIPAL ACTIVITIES**

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

On 1 July 2015, the Bank became a Full Fledged Islamic Bank whereby all its activities are now conducted in compliance with Shariah principles.

**RESULTS**

	<b>RM'000</b>
Profit before tax and zakat	197,891
Tax	(59,633)
Zakat	<u>(2,223)</u>
Net profit for the year	<u><b>136,035</b></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:

	<b>RM'000</b>
In respect of the financial year ended 31 December 2015, a final dividend of 1.19 sen on 1,000,000,000 ordinary shares declared on 30 June 2016 and paid on 20 July 2016.	<u>11,900</u>

At the forthcoming Annual General Meeting, a final single tier dividend in respect of the current financial year ended 31 December 2016 of 2.00 sen on 1,000,000,000 ordinary shares of RM1.00 each, amounting to dividend payable of RM20,000,000 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 2017.

**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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**BANK PERTANIAN MALAYSIA BERHAD**

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**DIRECTORS**

The following directors served on the Board of the Bank since the end of the previous financial year and at the date of this report:

Y. Bhg Tan Sri Mohamad Zabidi Bin Zainal (Chairman)  
(appointed on 29 July 2016)

Encik Ng Chih Kaye

Y. Bhg Dato' Dr Mohamad Hashim bin Ahmad Tajudin

Y. Bhg Datin Setia Shahariah binti Hashim  
(appointed on 1 July 2016)

Puan Azizah binti Abdul Rahman  
(appointed on 1 July 2016)

Y. Bhg Datuk Seri Dr. Ismail bin Haji Bakar  
(appointed on 1 July 2016)

Y. Bhg Dato' Dr. Yusof bin Ismail  
(appointed on 14 December 2016)

Tuan Haji Ibrahim Bin Hassan  
(appointed on 1 March 2017)

YH. Dato' Wan Mohd Fadzmi bin Che Wan Othman Fadzilah  
(President/Chief Executive Officer)

Y. Bhg Datuk Johar bin Che Mat  
(retired on 1 July 2016)

Y. Bhg Datin Rashidah binti Mohd Sies  
(retired on 1 July 2016)

Y. Bhg Dato' Mohd Arif bin Ab Rahman  
(resigned on 1 July 2016)

Y. Bhg Datin Seri Hajah Ruzaina binti Wan Haniff  
(resigned on 31 August 2016)

**BANK PERTANIAN MALAYSIA BERHAD**

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**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.

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 to receive any 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 34 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.

**BANK PERTANIAN MALAYSIA BERHAD**

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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 other than the claim made by borrowers as disclosed in Notes 25(a)(iv) and 33 to the financial statements. Risk on contingent liability disclosed in Note 33 is not to be borne by the Bank; 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.

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**BANK PERTANIAN MALAYSIA BERHAD**  
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**SIGNIFICANT EVENTS**

Details of significant events are disclosed in Note 12 to the financial statements.

**SUBSEQUENT EVENT**

Details of subsequent event is disclosed in Note 38 to the financial statements.

**HOLDING COMPANY**


Bank Pertanian Malaysia Berhad (the "Bank") is wholly-owned by the Minister of Finance (Incorporated) on behalf of the Government of Malaysia.

**AUDITORS**

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

Auditors' remunerations are disclosed in Note 10 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 29 March 2017.



**TAN SRI MOHAMAD ZABIDI BIN ZAINAL**



**DATO' WAN MOHD FADZMI BIN CHE  
WAN OTHMAN FADZILAH**



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**BANK PERTANIAN MALAYSIA BERHAD**  
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**STATEMENT BY DIRECTORS**

**Pursuant to Section 251(2) of the Companies Act, 2016**

We, **TAN SRI MOHAMAD ZABIDI BIN ZAINAL** and **DATO' WAN MOHD FADZMI BIN CHE WAN OTHMAN FADZILAH** 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 14 to 152 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 2016 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 29 March 2017.



**TAN SRI MOHAMAD ZABIDI BIN ZAINAL**



**DATO' WAN MOHD FADZMI BIN  
CHE WAN OTHMAN FADZILAH**

**STATUTORY DECLARATION**

**Pursuant to Section 251(1)(b) of the Companies Act, 2016**

We, **MASAAT BINTI AWADZ** and **DATO' WAN MOHD FADZMI BIN CHE WAN OTHMAN FADZILAH**, being the Chief Finance Officer and Chief Executive Officer, respectively, of the Bank who are 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 14 to 152 are in our opinion, correct and we make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.



**MASAAT BINTI AWADZ**



**DATO' WAN MOHD FADZMI BIN  
CHE WAN OTHMAN FADZILAH**

Subscribed and solemnly declared by the above named  
**MASAAT BINTI AWADZ AND DATO' WAN MOHD FADZMI BIN CHE WAN  
OTHMAN FADZILAH** at **KUALA LUMPUR** in the Federal Territory on 29 March 2017.

Before me,

**COMMISSIONER FOR OATHS**



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**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 (the "Bank"):

In compliance with the letter of appointment, we are required to submit the following report in relation to the operations of the Bank.

We have reviewed the Shariah principles and the contracts relating to the transactions and applications introduced by the Bank during the financial year ended 31 December 2016. We have also conducted our review to form an opinion as to whether the operations of the Bank have 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.

With regard to the above, the management of the Bank is responsible for ensuring that the Bank conducts its operations in accordance with Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia and the Shariah Committee of the Bank. It is our responsibility to form an independent opinion in respect of the operations of the Bank, based on our review of the operations of the Bank 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 documentations and procedures adopted by the Bank.

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 the Bank has not violated the Shariah principles.

**BANK PERTANIAN MALAYSIA BERHAD**  
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**SHARIAH COMMITTEE'S REPORT (cont'd)**

In our opinion:

- (a) The contracts, transactions and dealings entered by the Bank during the financial year ended 31 December 2016 that we have reviewed are in compliance with Shariah. For cases which have been identified as not fulfilling certain requirement under Shariah principles and rulings, 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) The main sources and investments of the Bank disclosed to us conform to the basis that had been approved by us in accordance with Shariah rules and principles.
- (c) The allocation of profit and charging of losses relating to the Bank's assets and liabilities conform to the basis that had been approved by us in accordance with Shariah principles.
- (d) All earnings that have been realised from sources or by means prohibited under Shariah will be channelled for charitable purposes.
- (e) The calculation of zakat is in compliance with Shariah principles.

We, **DR. MOHAMED FAIROOZ BIN ABDUL KHIR** and **DR. MOHAMAD SABRI BIN ZAKARIA**, being two of the members of the Shariah Committee of the Bank, to the best of our knowledge, do hereby confirm on behalf of the members of the Shariah Committee, that the operations of the Bank for the financial year ended 31 December 2016 have been conducted in conformity with Shariah.



**DR. MOHAMED FAIROOZ BIN ABDUL KHIR**  
Chairman of the Committee



**DR. MOHAMAD SABRI BIN ZAKARIA**  
Member of the Committee

Kuala Lumpur, Malaysia  
29 March 2017

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**Independent auditors' report to the members of  
Bank Pertanian Malaysia Berhad  
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**Report on the audit of the financial statements**

*Opinion*

We have audited the financial statements of Bank Pertanian Malaysia Berhad, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 14 to 152.

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

*Basis for opinion*

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

*Emphasis of matter*

Without qualifying our opinion, we draw attention to Note 33 to the financial statements which describes the uncertainty relating to the contingent liabilities arising from legal suits against the Bank. Our opinion is not modified in respect of this matter.

*Independence and other ethical responsibilities*

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

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**Independent auditors' report to the members of  
Bank Pertanian Malaysia Berhad (cont'd)  
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*Information other than the financial statements and auditors' report thereon*

The directors of the Bank are responsible for the other information. The other information comprises the Directors' Report, but does not include the financial statements of the Bank and our auditors' report thereon.

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

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

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

*Responsibilities of directors for the financial statements*

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

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



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**Independent auditors' report to the members of  
Bank Pertanian Malaysia Berhad (cont'd)  
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*Auditors' responsibilities for the audit of the financial statements*

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

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

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

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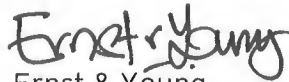
**Independent auditors' report to the members of  
Bank Pertanian Malaysia Berhad (cont'd)  
(Incorporated in Malaysia)**

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

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

**Other matters**

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



Ernst & Young  
AF: 0039  
Chartered Accountants

Kuala Lumpur, Malaysia  
29 March 2017



Muhammad Syarizal Bin Abdul Rahim  
No. 03157/01/2019 J  
Chartered Accountant

**BANK PERTANIAN MALAYSIA BERHAD**  
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**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	Note	2016 RM'000	2015 RM'000
Income derived from investment of depositors' funds and others	5(a)	593,550	563,930
Income derived from investment of shareholder's funds	5(b)	228,565	231,712
Allowance for impairment	6	(18,797)	(39,846)
Allowance for impairment on investment securities	7	-	(39)
<b>Total distributable income</b>		<b>803,318</b>	<b>755,757</b>
Income attributable to depositors	8	(158,532)	(168,903)
<b>Total net income</b>		<b>644,786</b>	<b>586,854</b>
Personnel expenses	9	(245,286)	(239,573)
Other overheads and expenditures	10	(147,708)	(139,821)
Finance cost	11	(9,848)	(9,704)
Compensation claim	12	(44,053)	(32,711)
<b>Profit before tax and zakat</b>		<b>197,891</b>	<b>165,045</b>
Tax expense	13	(59,633)	(43,559)
Zakat	14	(2,223)	(2,072)
<b>Net profit for the year</b>		<b>136,035</b>	<b>119,414</b>
<b>Other comprehensive income/(loss):</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Financial investments available-for-sale			
Unrealised net gain on fair value changes		22,185	858
Transfer to profit or loss on disposal		(4,407)	(47,196)
Income tax relating to components of other comprehensive income		(4,255)	11,121
Other comprehensive income/(loss) for the year, net of tax		<b>13,523</b>	<b>(35,217)</b>
<b>Total comprehensive income for the year</b>		<b>149,558</b>	<b>84,197</b>

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



**BANK PERTANIAN MALAYSIA BERHAD**  
(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2016**

	Note	31.12.2016 RM'000	31.12.2015 RM'000 (Restated)	1.1.2015 RM'000 (Restated)
<b>ASSETS</b>				
Cash and short term funds	15	1,187,627	771,732	1,302,849
Deposits and placements with financial institutions	16	-	12,376	-
Investment securities	17	4,115,191	4,104,689	4,056,444
Financing and advances	18	8,270,863	6,986,692	6,129,653
Other advances	19	52,054	74,465	163,669
Other assets	20	97,439	97,436	89,926
Property, plant and equipment	21	152,596	163,382	179,287
Intangible assets	22	20,617	21,365	25,713
Deferred tax assets	23	41,187	60,602	60,280
<b>TOTAL ASSETS</b>		<b>13,937,574</b>	<b>12,292,739</b>	<b>12,007,821</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Deposits from customers	24 (a)	7,044,906	5,904,953	6,169,033
Deposit and placement of banks and other financial institutions	24 (b)	1,623,265	1,135,697	685,249
Other liabilities				
Other payables and accruals	25 (a)	203,409	280,333	338,658
Paddy credit gratuity scheme	25 (b)	2,275	2,330	2,262
Financing Scheme Funds	26	1,616,601	1,611,407	1,482,949
Government Grants				
Operating	27	26,044	27,584	29,948
Launching	28	6,046	8,471	11,967
Funds	29	792,997	837,591	837,579
<b>Total Liabilities</b>		<b>11,315,543</b>	<b>9,808,366</b>	<b>9,557,645</b>
<b>Equity</b>				
Share capital	30	1,000,000	1,000,000	1,000,000
Reserves	31	1,622,031	1,484,373	1,450,176
<b>Total Equity</b>		<b>2,622,031</b>	<b>2,484,373</b>	<b>2,450,176</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>13,937,574</b>	<b>12,292,739</b>	<b>12,007,821</b>
<b>Commitments and Contingencies</b>	33	<b>6,732,481</b>	<b>6,646,904</b>	<b>572,718</b>

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 2016**

	Non-distributable reserves			Distributable reserves	Total RM'000
	Share capital RM'000	Statutory reserves RM'000	Investment revaluation deficit RM'000	Retained earnings RM'000	
<b>As at 1 January 2016</b>	1,000,000	487,109	(63,059)	1,060,323	2,484,373
Net profit for the year	-	-	-	136,035	136,035
Other comprehensive income for the year	-	-	13,523	-	13,523
Total comprehensive income for the year	-	-	13,523	136,035	149,558
Dividends paid (Note 32)	-	-	-	(11,900)	(11,900)
<b>At 31 December 2016</b>	<b>1,000,000</b>	<b>487,109</b>	<b>(49,536)</b>	<b>1,184,458</b>	<b>2,622,031</b>

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**BANK PERTANIAN MALAYSIA BERHAD**

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**STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (cont'd)**

	Non-distributable reserves			Distributable reserves	Total RM'000
	Share capital RM'000	Statutory reserves RM'000	Investment revaluation deficit RM'000	Retained earnings RM'000	
<b>As at 1 January 2015</b>	1,000,000	487,109	(27,842)	990,909	2,450,176
Net profit for the year	-	-	-	119,414	119,414
Other comprehensive loss for the year	-	-	(35,217)	-	(35,217)
Total comprehensive (loss)/income for the year	-	-	(35,217)	119,414	84,197
Dividends paid (Note 32)	-	-	-	(50,000)	(50,000)
<b>At 31 December 2015</b>	<b>1,000,000</b>	<b>487,109</b>	<b>(63,059)</b>	<b>1,060,323</b>	<b>2,484,373</b>

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

**BANK PERTANIAN MALAYSIA BERHAD**

(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax and zakat	197,891	165,045
<b>Adjustments for:</b>		
Net allowance for impairment on financing and advances	69,721	53,155
Net allowance for impairment on other advances	(1,402)	10,381
Allowance for impairment on investment securities	-	39
Depreciation of property, plant and equipment	22,796	23,694
Amortisation of prepaid lease payment	75	75
Amortisation of computer software	14,894	16,610
Finance cost	9,848	9,704
Write off of property, plant and equipment	664	268
Write off of intangible assets	520	228
Gain on disposal of investment securities	(12,275)	(46,520)
Dividends from investment securities	(37)	(307)
Government funds recovered	1,056	744
Amortisation of:		
Special Fund for Terengganu Fishery ("DKSP")	-	(160)
Government Grant - Operating	(1,540)	(2,364)
Government Grant - Launching	(1,705)	(1,736)
<b>Operating profit before working capital changes</b>	<b>300,506</b>	<b>228,856</b>
Change in financing and advances	(1,353,892)	(835,836)
Change in other assets	12,017	(7,510)
Change in deposits with financial institutions	12,376	(12,376)
Change in deposits from customers	1,139,953	(264,080)
Change in deposit and placement of banks and other financial institutions	487,568	450,448
Change in other payables and accruals	(79,147)	(58,325)
Change in paddy credit gratuity scheme	(55)	68
<b>Cash generated from/(used in) operating activities</b>	<b>519,326</b>	<b>(498,755)</b>
Tax paid	(32,680)	(43,396)
Zakat paid	-	(798)
<b>Net cash generated from/(used in) operating activities</b>	<b>486,646</b>	<b>(542,949)</b>

**BANK PERTANIAN MALAYSIA BERHAD**

(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (cont'd)**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investment securities	(1,301,120)	(83,875)
Purchase of property, plant and equipment	(12,749)	(8,132)
Purchase of computer software	(14,666)	(12,490)
Proceeds from disposal of investment securities	1,320,671	49,600
Dividends received from investment securities	37	307
<b>Net cash used in investing activities</b>	<b>(7,827)</b>	<b>(54,590)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Profit paid on financing scheme funds	(9,682)	(9,773)
Additional fund received from financing scheme funds	32,619	201,011
Additional fund received from government grants funds	5,792	-
Repayments of financing scheme funds	(79,033)	(73,056)
Government grants- Launching utilised	(720)	(1,760)
Dividends paid	(11,900)	(50,000)
<b>Net cash (used in)/generated from financing activities</b>	<b>(62,924)</b>	<b>66,422</b>

Company No: 811810-U

**BANK PERTANIAN MALAYSIA BERHAD**

(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (cont'd)**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>415,895</b>	<b>(531,117)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u><b>771,732</b></u>	<u><b>1,302,849</b></u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u><u><b>1,187,627</b></u></u>	<u><u><b>771,732</b></u></u>
<b>CASH AND CASH EQUIVALENTS CONSIST OF:</b>		
Cash and short term funds (Note 15)	<u><u><b>1,187,627</b></u></u>	<u><u><b>771,732</b></u></u>

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

**BANK PERTANIAN MALAYSIA BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

**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.

On 1 July 2015, the Bank became a Full Fledged Islamic Bank whereby all its activities are now conducted in compliance with Shariah principles.

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 immediate and ultimate holding company of the Bank is the Ministry of Finance (Incorporated) on behalf of the Government of Malaysia.

The financial statements have been approved and authorised for issuance by the Board of Directors in accordance with a resolution dated 29 March 2017.

**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. The Bank presents the statement of financial position in order of liquidity.

**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 ("IFRSs") and the requirements of the Companies Act, 1965 in Malaysia.

**BANK PERTANIAN MALAYSIA BERHAD**

(Incorporated in Malaysia)

**2. BASIS OF PREPARATION (cont'd)**

**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.

**2.3 Change in presentation**

From 1 July 2015, the Bank became a Full Fledged Islamic Bank. Hence, the presentation of the financial statements complies with the guideline from BNM on Financial Reporting for Islamic Banking institutions.

The remaining conventional loans and non-shariah compliant assets are now shown as a separate line item on the face of the statement of financial position and are referred to as Other advances.

**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**

**(i) Profit income**

Profit income is recognised in the statement of comprehensive income for all profit-bearing financial instruments classified as Held-to-Maturity ("HTM"), Available-for-Sale ("AFS") or Financing and Advances using the effective profit method.



**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)**

**(i) Profit income (cont'd)**

The effective profit 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 profit income or profit expense over the relevant periods. The effective profit 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 receivable or expense payable on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating effective profit, 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 profit 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 profit is calculated by reference to the payments or receipts specified in the contract, and the full contractual term.

**(ii) Murabahah and Tawarruq**

Murabahah and Tawarruq income is recognised on an effective profit rate basis over the period of the contract based on the financing amounts disbursed.

**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)**

(iii) Bai-Al Inah and Bai-Bithaman Ajil

Bai-Al Inah and Bai-Bithaman Ajil income is recognised on an effective profit rate basis over the contract term of the financing amount.

(iv) Ujrah

Ujrah income is recognised on an effective profit rate based on residual value and contract term.

(v) Fees and commissions

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

(vi) Dividend income

Dividends are recognised when the right to receive payment is established, which is when the dividends are received or deemed received for unquoted shares and as for quoted shares, dividends are recognised once declared.

(vii) Rental income

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

**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**

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 27)**

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 28)**

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. Launching grants for development expenditure is deducted from the launching grants upon utilisation.

**(iii) Government grants - Funds (Note 29 (a) - (i))**

Government grant funds received to provide financing to eligible customers are recognised as deferred capital grant in the statement of financial position. The government grant is also utilised against credit losses and charges arising from these financing.

**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)**

(iv) Government grants - financing scheme funds (Note 29 (j) - (n))

The benefit of financing scheme funds at a below-market rate of profit is treated as a Government grant. The financing scheme funds are recognised as a financial liability, and measured in accordance with MFRS 139 "Financial Instruments: Recognition and Measurement". The Government grant for financing scheme funds are measured at inception as the difference between the initial carrying value of the Government financing determined in accordance with MFRS 139 and the proceeds received. Government grant for financing scheme funds are recognised in the statement of comprehensive income (Note 11) on a systematic basis over the periods in which the Bank recognise as expenses the related costs for which the grants are intended to compensate.

**(d) Financial assets and liabilities**

(1) Initial recognition and subsequent measurement

Financial instruments are classified into the following categories - financing and advances, financial investments HTM and financial investments AFS. Management determines the classification of financial instruments at initial recognition.

(i) Financing and advances

Financing and advances that consist of Murabahah, Qard, Bai-Al Inah, Bai-Bithaman Ajil and Tawarruq contracts 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 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 yield method less accumulated impairment loss and unearned profit. Profit income on financing and advances is recognised as "Profit Income" in profit or loss. Impairment losses on financing and advances are recognised in profit or loss as "Allowance for impairment on financing and advances".

**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)

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

Financial investments HTM are quoted 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 profit method. Profit on investments HTM is included in "Profit 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.

(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.

**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") (cont'd)

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 a financial 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 financial investments AFS, the cumulative fair value gain or loss recognised in equity is also transferred to profit or loss. Profit income on financial investments AFS is included as profit income in profit or loss. Dividends on AFS equity instruments are 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.

(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 and financing scheme funds.

(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 future 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.

**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**

The Bank measures financial investments AFS at fair value at each reporting 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 assets or liabilities, or
- (ii) In the absence of a principal market, in the most advantageous market for the assets or liabilities.

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 assets or liabilities, assuming that market participants act in their economic best interest.

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.

**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)**

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.

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 reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value 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.



**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

(i) Financing and advances

Financing and advances (“financing”) of the Bank are classified as impaired when they fulfill either of the following criteria:

- (1) principal or profit or both are past due for three (3) months or more;
- (2) where a financing is in arrears for less than three (3) months, but exhibits indications of credit weaknesses; or
- (3) where an impaired financing has been rescheduled or restructured, the financing 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 financing and three (3) months for retail financing.

For the determination of impairment on financing, the Bank conducts assessments at each reporting period whether there is any objective evidence that a financing or a group of financing is impaired. A financing or a group of financing 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 financing or group of financing that can be reliably estimated.

**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) Financing and advances (cont'd)**

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

- (1) any significant financial difficulty of the obligor;
- (2) a breach of contract, such as a default or delinquency in profit 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

The Bank first assesses individually whether objective evidence of impairment exists for financing which are individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financing, the financing 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 financing carrying amount and the present value of the estimated future cash flows. The carrying amount of the financing 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 financing reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

**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) Financing and advances (cont'd)**

For collective assessment, the non-impaired financing and impaired financing which are not individually significant are grouped on the basis of homogeneous risk characteristics that are indicative of the customers' 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 financing is uncollectible, it is written off against the related allowance for financing impairment. Such financing are only written off after the necessary procedures have been completed and the amount of the loss has been determined.

In addition, the Bank has commenced time triggered write off for uncollectible financing. The collection process for all time triggered write off financing remains on going until all legal recourse are exhausted.

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

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

**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**

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.

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 or 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.

**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**

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 at 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 assets 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 substantially enacted at the reporting period. Deferred tax is recognised in profit or loss, except when it arises from a transaction which is recognised directly in equity.

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.

**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**

**(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 have 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 an expense in profit or loss as incurred.

**(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 or losses and unrecognised past service cost reflecting only the number of years of service completed up to the reporting date.

**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 (cont'd)

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

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

(iv) Voluntary Separation Scheme

A Voluntary Separation Scheme ("VSS") for Bank staff was approved for implementation by the Board of Directors on 14 May 2015. Subsequent to the Board of Directors' approval, the Bank had sought the approval of Minister of Finance (Incorporated). The scheme was approved on 15 September 2015.

Through the implementation of the scheme, staff have been given the opportunity to consider voluntarily opting out from their contract of employment with the Bank in exchange for compensation package offered by the VSS.



**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 and intangible assets are 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.

**BANK PERTANIAN MALAYSIA BERHAD**

(Incorporated in Malaysia)

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**3.1 Summary of significant accounting policies (cont'd)**

**(i) Property, plant and equipment**

Property, plant and equipment are 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:

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 or loss arising from the disposal of an asset are 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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**3.1 Summary of significant accounting policies (cont'd)**

**(j) Intangible assets**

Intangible assets consist of computer software which are initially recorded at cost. Subsequent to the recognition, computer software are measured at cost less accumulated amortisation and accumulated impairment losses, if any. 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 profit or loss.

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. Benefits 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.

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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 flows statement**

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

**(p) Cash and cash equivalents**

For the purposes of the cash flows 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 2016, the Bank adopted the following amended MFRS and Interpretation of the Issues Committee ("IC Interpretations") mandatory for annual financial periods beginning on or after 1 January 2016:

Annual Improvements to MFRSs 2012–2014 Cycle

Amendments to MFRS 10, MFRS 12 and MFRS 128 Investment Entities:

Applying the Consolidation Exception

Amendments to MFRS 11 Accounting for Acquisitions of Interests in Joint Operations

MFRS 14 Regulatory Deferral Accounts

Amendments to MFRS 101 Disclosure Initiative

Amendments to MFRS 116 and MFRS 138 Clarification of Acceptable Methods of Depreciation and Amortisation

Amendments to MFRS 116 and MFRS 141 Agriculture: Bearer Plants

Amendments to MFRS 127 Equity Method in Separate Financial Statements

The adoption of the MFRS and amendments to MFRS above did not have any material impact on the financial statements of the Bank in the current financial year.

**3.3 Standards issued but not yet effective**

As at the date of authorisation of these financial statements, the following MFRS and amendments to MFRS have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective and have not been adopted by the Bank.

**Effective for financial periods beginning on or after 1 January 2017**

Annual Improvements to MFRS Standards 2014–2016 Cycle

Amendments to MFRS 107 Disclosure Initiative

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

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

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

**Effective for financial periods beginning on or after 1 January 2018**

MFRS 9 Financial Instruments (IFRS 9 as issued by IASB in July 2014)

MFRS 15 Revenue from Contracts with Customers

Annual Improvements to MFRS Standards 2014–2016 Cycle

Amendments to MFRS 2 Classification and Measurement of Share-based Payment Transactions

Clarifications to MFRS 15

Amendments to MFRS 140 Transfers of Investment Property

**Effective for financial periods beginning on or after 1 January 2019**

MFRS 16 Leases

**Effective for financial periods to be determined by the Malaysian Accounting Standards Board ("MASB")**

Amendments to MFRS 10 and MFRS 128 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Bank plans to adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are expected to have no significant impact to the financial statements of the Bank upon their initial application except as described below:

**MFRS 9 Financial Instruments**

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

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

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

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

**MFRS 9 Financial Instruments: Classification and measurement**

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

**MFRS 9 Financial Instruments: Impairment**

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

**MFRS 9 Financial Instruments: Hedge accounting**

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

The Bank is in the process of assessing the financial implication for adopting the MFRS 9.

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**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.

**Critical judgements made in the application of accounting policies**

The following judgments are made by the management in the process of applying the Bank's accounting policies that have the most significant impact on the financial statements.

(a) Accounting for government assistance

In carrying out its mandated role, the Bank receives various assistance from the Malaysian government either in the form of grant or financing. There are also arrangements where the Bank acts as an agent for the government in managing funds, and this arrangement is treated off-balance sheet. Judgment has been applied by management to determine the classification of government assistance whether as grants, financing or off-balance sheet.

(b) Impairment allowance of financing and advances

The Bank reviews doubtful financing and advances 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 financing, and the estimation of realisable amount from impaired financing when determining the level of allowance required (Note 6).

Under MFRS 139, collective impairment assessment is performed on financing and advances which are not individually significant based on the incurred loss approach. Financing and advances which are individually assessed and where there is no objective evidence of impairment are also included in the group of financing and advances that are pooled into groups with similar credit risk characteristics. Probability of default is computed based on historical loss experience for such assets while the Loss Given Default is computed based on samples of cash recovery of historical financing written off and paid off. Management's judgement is applied in selecting samples of the financing written off and paid off.



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

**Critical judgements made in the application of accounting policies (cont'd)**

(c) 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 7).

**Key sources of estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

(a) 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 35(B)).

(b) Provision for compensation claim

Provision for compensation claim is the amount that an entity would rationally pay to settle the obligation estimated at the end of the reporting period. The estimates of outcomes and financial effect are determined by the judgement of the management of the Bank and supplemented by opinions from legal counsels and reports from independent experts (Note 12).

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**5. INCOME DERIVED FROM INVESTMENT OF:**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>(a) Depositors' funds and others</b>		
(i) Term deposits	381,981	349,983
(ii) Other deposits	211,569	213,947
	<u>593,550</u>	<u>563,930</u>
<b>(i) Income derived from investment of term deposits</b>		
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Finance income and hibah</b>		
Profit from financing	249,488	189,310
Profits from investment securities:		
Deposits with banks and other financial institutions	17,875	10,995
Financial investments - HTM	1,205	2,703
Financial investments - AFS	70,717	64,626
Accretion of discount less amortisation of premium	5,244	4,211
Gain on disposal of investment securities:		
Net gain on disposal of AFS	6,063	2,269
Dividend income	18	20
<b>Fee Income</b>		
Financing processing fees	1,366	1,208
Banking service fees	16,334	11,705
Ar-Rahnu fees	13,671	9,254
<b>Conventional Income</b>	(I) -	53,682
<b>Total income derived from investment of term deposits</b>	<u>381,981</u>	<u>349,983</u>
Of which:		
Profit income earned on impaired financing and advances	<u>10,201</u>	<u>7,679</u>

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**5. INCOME DERIVED FROM INVESTMENT OF: (cont'd)**

(a) Depositors' funds and others (cont'd)

(i) Income derived from investment of term deposits (cont'd)

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>(I) Conventional Income*</b>		
Conventional income comprises of :		
<b>Interest Income</b>		
Loans	-	8,953
<b>Fee Income</b>		
Service charges and fees	-	191
<b>Investment Income</b>		
Net gain on disposal of AFS	-	44,251
Dividend income	-	287
<b>Total Conventional Income</b>	<b>-</b>	<b>53,682</b>

\* Income from conventional banking activities from 1 January 2015 to 30 June 2015 is accounted for as conventional income and such recognition has been approved by the Bank's Shariah Committee on 10 February 2014. Effective from 1 July 2015, income derived from Non-Shariah Assets are not recognised in the statement of comprehensive income but recorded as a liability as disclosed in Note 25(a) to the financial statements and are to be channelled to charity.

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**5. INCOME DERIVED FROM INVESTMENT OF: (cont'd)**

(a) Depositors' funds and others (cont'd)

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
(ii) Income derived from investment of other deposits		
<b>Finance income and hibah</b>		
Profit from financing	138,185	136,693
Profits from investment securities:		
Deposits with banks and other financial institutions	9,901	7,939
Financial investments - HTM	667	1,952
Financial investments - AFS	39,169	46,664
Accretion of discount less amortisation of premium	2,904	3,041
Gain on disposal of investment securities:		
Net gain on disposal of AFS	3,358	1,638
Dividend income	10	14
<b>Fee Income</b>		
Financing processing fees	756	872
Banking service fees	9,047	8,452
Ar-Rahnu fees	7,572	6,682
<b>Total income derived from investment of other deposits</b>	<b><u>211,569</u></b>	<b><u>213,947</u></b>
Of which:		
Profit income earned on impaired financing	<b><u>5,649</u></b>	<b><u>5,545</u></b>

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**5. INCOME DERIVED FROM INVESTMENT OF: (cont'd)**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>(b) Shareholder's funds</b>		
<b>Finance income and hibah</b>		
Profit from financing	117,466	116,215
Profits from investment securities:		
Deposits with banks and other financial institutions	8,416	6,749
Financial investments - HTM	567	1,659
Financial investments - AFS	33,296	39,673
Accretion of discount less amortisation of premium	2,469	2,585
Gain on disposal of investment securities:		
Net gain on disposal of AFS	2,854	1,393
Dividend income	9	12
<b>Fee Income</b>		
Financing processing fees	643	742
Government Link Companies ("GLC") service fees	10,870	10,079
Banking service fees	7,690	7,186
Reimbursement of gapping cost	29,042	30,164
Ar-Rahnu fees	6,437	5,681
<b>Other Operating Income</b>		
Special Fund for Terengganu Fishery ("DKSP")	-	160
Reimbursement of Special Relief Grant for Flood ("SRGF")	-	31
Staff financing	1,388	1,615
Ladang Sg Tasan	883	985
Amortisation and utilisation of launching grant	2,425	3,497
Amortisation of operating grant	1,540	2,364
Collective impairment allowance for government grant:		
Entrepreneur Scheme for Graduates (Note 29(a))	16	56
Special Fund for Terengganu Fishery (Note 29(b))	(12)	(26)
Fund for Ministry of Youth and Sports (Note 29(d))	(518)	85
Bumiputera Commercial and Industrial		
Community Scheme HUB (Note 29(e))	1,718	1,107
National Key Economic Area (Note 29(f))	868	1,952
Micro Economic Stimulation Package (Note 29(g))	(3,128)	(3,918)
Other income	3,626	1,666
	<b>228,565</b>	<b>231,712</b>

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**5. INCOME DERIVED FROM INVESTMENT OF: (cont'd)**

(b) Shareholder's funds (cont'd)

	2016 RM'000	2015 RM'000
Of which:		
Profit income earned on impaired financing and advances	<u>4,796</u>	<u>4,714</u>

**6. ALLOWANCE FOR IMPAIRMENT**

	2016 RM'000	2015 RM'000
Allowance for impaired financing and advances (a)	(58,816)	(41,421)
Writeback of other advances (b)	<u>40,019</u>	<u>1,575</u>
	<u>(18,797)</u>	<u>(39,846)</u>

(a) Allowance for impaired financing and advances

	2016 RM'000	2015 RM'000
Allowance for the year	(48,083)	(26,568)
Amount written back upon recoveries and reversal of allowance	18,692	44,829
Individual impairment allowance - net	<b>(29,391)</b>	<b>18,261</b>
Allowance for the year	(213,818)	(110,257)
Amount written back	173,488	39,585
Collective impairment allowance - net	<b>(40,330)</b>	<b>(70,672)</b>
Bad debts and financing recovered	<u>10,905</u>	<u>10,990</u>
	<u>(58,816)</u>	<u>(41,421)</u>

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**6. ALLOWANCE FOR IMPAIRMENT (cont'd)**

**(b) Writeback of other advances**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Allowance for the year	(3,427)	(7,339)
Amount written back upon recoveries and reversal of allowance	2,531	2,899
Individual impairment allowance - net	<b>(896)</b>	<b>(4,440)</b>
Allowance for the year	(7,524)	(11,479)
Amount written back	9,822	5,538
Collective impairment allowance - net	<b>2,298</b>	<b>(5,941)</b>
Bad debts and financing recovered	<b>38,617</b>	<b>11,956</b>
	<b>40,019</b>	<b>1,575</b>

**7. ALLOWANCE FOR IMPAIRMENT ON INVESTMENT SECURITIES**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Allowance for impairment:		
Quoted shares	-	(39)
	-	<b>(39)</b>

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**8. INCOME ATTRIBUTABLE TO DEPOSITORS**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Deposits from customers:</b>		
<b>Mudharabah Funds</b>		
Mudharabah general deposit	-	49
Reversal of provision of undistributed profit	(54,952)	(6,287)
	<u>(54,952)</u>	<u>(6,238)</u>
<b>Non-Mudharabah Funds</b>		
FRIA	113,360	95,643
FRIA 45 Plus	12,583	13,638
Agro Perdana-i	10,132	10,042
Agro-i Deposits	12,673	11,849
Al-Wadiah	7,760	7,241
Agro Muda-i	3,055	3,218
Agro Tetangga-i	233	214
Agro Prima	15	16
	<u>159,811</u>	<u>141,861</u>
<b>Deposits and placement of banks and other financial institutions:</b>		
<b>Non-Mudharabah Funds</b>		
Pelaburan Khas-i	53,673	33,280
	<u>158,532</u>	<u>168,903</u>

**9. PERSONNEL EXPENSES**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Salaries, allowances and bonuses	194,835	171,817
EPF contributions	26,360	22,950
SOCSO contributions	1,976	1,937
Medical insurances	7,941	6,179
Staff welfare	6,062	6,310
Directors allowances	1,271	1,057
Staff training	3,063	3,365
Recruitment fees	2,425	373
Voluntary Separation Scheme	-	23,275
Retirement benefits scheme	332	77
Others	1,021	2,233
	<u>245,286</u>	<u>239,573</u>



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**10. OTHER OVERHEADS AND EXPENDITURES**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Maintenance cost</b>		
Depreciation of property, plant and equipment	22,796	23,694
Amortisation of computer software	14,894	16,610
Write off of property, plant and equipment	664	268
Write off of intangible assets	520	228
Computer maintenance	16,875	16,872
Rental of premises	9,175	9,023
Water and electricity	10,266	9,632
Printing, stationery and office supplies	8,481	7,409
Office maintenance	3,268	3,556
Takaful on property, plant and equipment	1,917	2,712
Building maintenance	3,651	3,011
Quit rent and assessment	1,087	1,074
Vehicle maintenance	424	953
Amortisation of prepaid lease payments	75	75
Computer supply	412	449
Others	(596)	425
	<b>93,909</b>	<b>95,991</b>
<b>Marketing expenses</b>		
Advertising and promotions	5,150	2,733
Others	490	193
	<b>5,640</b>	<b>2,926</b>
<b>General administrative expenses</b>		
Communication expenses	13,231	12,774
Launching grants	720	1,760
Legal fees	17,867	11,303
Auditor's remuneration		
- Statutory audit	510	480
Goods and services tax	2,089	888
Security charges	10,780	10,078
Others	2,962	3,621
	<b>48,159</b>	<b>40,904</b>
	<b>147,708</b>	<b>139,821</b>

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**11. FINANCE COST**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Profit paid on financing scheme funds</b>		
Fund For Food ("3F") (Note 26 (a))	570	593
Micro Enterprise Fund (Note 26 (c))	556	1,064
Commercial Agriculture Fund ("DPK-GLC") (Note 26 (d))	7,937	7,592
Agriculture Entrepreneur Financing Scheme Fund 1 ("DPUP 1") (Note 26 (e))	42,506	45,215
Agriculture Entrepreneur Financing Scheme Fund 2 ("DPUP 2") (Note 26 (f))	4,819	5,147
Agriculture Entrepreneur Financing Scheme Fund 3 ("DPUP 3") (Note 26 (g))	4,499	810
Special Relief Facility (Note 26 (h))	403	-
	<u>61,290</u>	<u>60,421</u>
<b>Less : Income from fair value amortisation</b>		
Amortisation of DPK-GLC Grant (Note 29 (j))	7,187	6,842
Amortisation of DPUP 1 Grant (Note 29 (k))	36,089	38,799
Amortisation of DPUP 2 Grant (Note 29 (l))	4,015	4,397
Amortisation of DPUP 3 Grant (Note 29 (m))	3,748	679
Amortisation of Special Relief Facility (Note 29 (n))	403	-
	<u>9,848</u>	<u>9,704</u>

**12. COMPENSATION CLAIM**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Compensation claim	<u>44,053</u>	<u>32,711</u>

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**12. COMPENSATION CLAIM (cont'd)**

- (i) A borrower has filed a legal claim against the Bank seeking damages in 2009 by claiming that the Bank has breached its promise to grant a term loan of RM85.0 million. The borrower is claiming that a contract existed between the Bank based on the Letter of Offer dated 17 July 2008.

On 28 March 2016, the High Court has awarded damages to the borrower for the amount of RM25.5 million with interest. Based on the judgement, the Bank has made a provision of RM32.7 million in 2015.

Subsequently, the Bank has filed an appeal and stay on execution of judgement. On 19 October 2016, the Court of Appeal has allowed part of the Bank's appeal and awarded revised damages amounting to RM12.1 million with interest to the borrower.

The Bank has made a payment of RM15.9 million and accordingly, reversed the provision amounting to RM16.8 million in current year. The case was closed during the year.

- (ii) In 2010, a borrower filed a legal action against the Bank seeking compensation for damages suffered arising from the Bank rescinding the loan facility which had been previously approved. The Bank filed a counter claim against the borrower to recover the outstanding balance of approximately RM15.9 million.

On 26 September 2011, the High Court had granted judgment in favour of the borrower for a sum of RM81.1 million and dismissed the Bank's counterclaim. On 13 September 2012, the Court of Appeal dismissed the Bank's appeal and ordered the damages to be re-assessed by a Senior Assistant Registrar.

On 13 October 2016, the Senior Assistant Registrar of the High Court awarded the borrower damages for loss of profit of RM63.9 million with interest of 4% from 18 March 2010 until the date of realisation. The Senior Assistant Registrar of the High Court allowed the damages to be set off against RM15.9 million with interest. Accordingly, the Bank has made a provision amounting to RM60.8 million in the current year.

On 16 December 2016, the Bank has paid RM2.0 million as part of the damages. The appeals by both the Bank and the borrower have been fixed for hearing on 25 May 2017.

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**13. TAX EXPENSE**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Income tax:		
Malaysian income tax	43,612	29,547
Under provision in prior years	860	3,213
	<b>44,472</b>	<b>32,760</b>
Deferred tax:		
Relating to origination and reversal of temporary differences	12,363	10,799
Under provision in prior years	2,798	-
Tax expense for the year	<b>59,633</b>	<b>43,559</b>

Income tax is calculated at the Malaysian statutory tax rate of 24% (2015: 25%) of the estimated assessable profit for the year. The reconciliation between tax expense and accounting profit of the Bank multiplied by the applicable corporate tax rate are as follows:

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Profit before tax and zakat	<b>197,891</b>	<b>165,045</b>
Tax at the applicable statutory tax rate of 24% (2015: 25%)	47,494	41,261
Tax effects of:		
Income not subject to tax	(797)	(6,099)
Expenses not deductible for tax purposes	9,278	5,184
Under provision in prior years:		
Income tax	860	3,213
Deferred tax	2,798	-
Tax expense	<b>59,633</b>	<b>43,559</b>

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**14. ZAKAT**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Zakat for the year	<u>2,223</u>	<u>2,072</u>

This represents the amount to be paid by the Bank in accordance with Shariah principles and approved by the Shariah Committee. The Bank uses the capital growth method based on the rate of 2.5% to compute zakat. This method applies the rate on owner's equity, long term liability, net of fixed assets and non-current assets, and subjected to allowable adjustments.

**15. CASH AND SHORT TERM FUNDS**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Cash in hand	107,441	111,781
Cash at banks	113,048	114,755
Short term deposits maturing within three months:		
Licensed banks	409,812	453,146
Other financial institutions	<u>557,326</u>	<u>92,050</u>
	<b><u>1,187,627</u></b>	<b><u>771,732</u></b>

The details on the short term deposits as below:

Average maturities	42 days	64 days
Average profit rates (per annum)	<u>3.87%</u>	<u>4.21%</u>

**16. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Licensed bank	<u>-</u>	<u>12,376</u>
<b>Maturity structure of deposits with financial institutions is as follows:</b>		
Three months to six months	<u>-</u>	<u>12,376</u>

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**17. INVESTMENT SECURITIES**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b><u>Debt securities</u></b>		
<b>AFS - at fair value</b>		
Corporate bonds	2,926,901	2,880,419
Government Investment Issues ("GII")	1,168,234	1,053,993
Commercial papers	19,884	-
	<b><u>4,115,019</u></b>	<b><u>3,934,412</u></b>
<b>HTM - at amortised cost</b>		
Corporate bonds	-	19,327
Government Investment Issues ("GII")	-	150,402
	<b><u>-</u></b>	<b><u>169,729</u></b>
<b>Total debt securities</b>	<b>4,115,019</b>	<b>4,104,141</b>
<b><u>Equity securities</u></b>		
<b>AFS - at fair value</b>		
Quoted shares in Malaysia	465	841
Total before allowances	<b><u>4,115,484</u></b>	<b><u>4,104,982</u></b>
<b>Allowance for impairment</b>		
Quoted shares in Malaysia	<b><u>(293)</u></b>	<b><u>(293)</u></b>
<b>Net</b>	<b><u>4,115,191</u></b>	<b><u>4,104,689</u></b>

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**17. INVESTMENT SECURITIES (cont'd)**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Maturity structure for HTM investments is as follows:</b>		
Maturity within six months	-	-
Between six months to one year	-	119,715
Between one year to three years	-	50,014
	<u>-</u>	<u>169,729</u>

Market values of HTM investments are as follows:

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Market Value</b>		
Corporate bonds	-	19,374
Commercial papers	-	-
Government Investment Issues ("GII")	-	151,167
	<u>-</u>	<u>170,541</u>

	<b>Quoted shares</b>
	<b>RM'000</b>
<b>Movement in allowance for impairment on quoted shares</b>	

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of the year	293	254
Allowance for impairment	-	39
	<u>293</u>	<u>293</u>

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**18. FINANCING AND ADVANCES**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>By Product (at amortised cost)</b>		
Agrocash	5,912,523	5,048,681
Project Financing	3,906,775	3,514,108
Fund For Food ("3F")	955,726	1,068,935
Ar-Rahnu	222,827	157,578
Fishery Boat Financing Scheme ("SPBP")	78,021	68,641
MUST-i	220,492	266,845
Oil Palm Replanting Scheme ("TASKS")	7,687	10,250
MAP and MPPB Financing	100,020	117,828
Financing for Small and Medium Size Industries ("PKS")	66,826	48,800
Non-Food Production Credit Scheme ("SKPBM")	40,313	50,880
Food Production Credit Scheme ("SKPM")	72,038	28,824
Belia Tani Scheme	6,439	7,217
Fund For Small and Medium Size Industries ("TIKS")	2,391	2,391
Working Capital-i	128,695	127,774
Paddy Credit Scheme	73,266	75,412
Micro Economic Stimulus Package ("Micro-ESP-I")	614	2,625
National Key Economic Area ("NKEA")	26,859	40,613
Murabahah Working Capital Financing	526,380	285,286
Insani	7,240	10,085
Bai Al-Dayn Working Capital Financing	27,468	27,837
MPPB Hub	1,076	1,227
Agro Cash Line-i	297,402	210,942
Hartani-i	795,677	516,710
Agro Flood Relief	1,165	1,413
Special Relief Facility	13,523	16,128
DPK3	45,601	3,252
Others	9,874	2,235
	<b>13,546,918</b>	<b>11,712,515</b>



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**18. FINANCING AND ADVANCES (cont'd)**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Brought forward from previous page	<b>13,546,918</b>	<b>11,712,515</b>
Add : Staff financing and advances	76,625	77,777
	<b>13,623,543</b>	<b>11,790,292</b>
Less : Unearned profit	(4,892,602)	(4,306,532)
<b>Gross financing and advances</b>	<b>8,730,941</b>	<b>7,483,760</b>
Less : Individual impairment allowance	(155,055)	(154,118)
Collective impairment allowance	(305,023)	(342,950)
<b>Net financing and advances at amortised cost</b>	<b>8,270,863</b>	<b>6,986,692</b>
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
(i) By Maturity		
Maturity within six months	1,043,293	720,248
Between six months to one year	69,649	104,555
Between one year to three years	468,556	434,921
Between three years to five years	990,376	1,012,160
More than five years	6,159,067	5,211,876
	<b>8,730,941</b>	<b>7,483,760</b>
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
(ii) By Sectors		
Construction and Services	110,720	70,935
Fishery	434,659	428,488
Crops	3,442,570	2,898,498
Livestock	741,349	656,411
Manufacturing	706,675	527,291
Others-Primary Agriculture	53,365	36,772
Retail and Wholesale Trade	881,863	595,258
Household	2,150,127	1,442,714
Others	209,613	827,393
	<b>8,730,941</b>	<b>7,483,760</b>

**BANK PERTANIAN MALAYSIA BERHAD**  
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**18. FINANCING AND ADVANCES (cont'd)**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
(iii) By States		
Kuala Lumpur	858,871	556,001
Selangor	994,686	837,722
Pahang	729,747	681,686
Perak	956,084	825,609
Negeri Sembilan	303,384	297,968
Melaka	340,071	283,084
Johor	801,067	679,945
Kelantan	478,712	417,962
Kedah	599,080	521,004
Perlis	154,962	144,287
Sarawak	1,021,559	861,159
Sabah	779,026	733,932
Pulau Pinang	319,399	277,847
Terengganu	394,293	365,554
	<b><u>8,730,941</u></b>	<b><u>7,483,760</u></b>
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
(iv) By profit rate sensitivity		
<b>Fixed rate :</b>		
Fund For Food ("3F")	713,035	816,114
Project Financing	247,115	369,431
MUST-i	184,891	195,308
Agrocash	87,432	147,930
Others	367,767	1,175,815
<b>Variable rate :</b>		
Agrocash	3,390,781	2,330,004
Project Financing	2,171,279	1,635,148
Murabahah Working Capital Financing	526,426	285,287
Hartani-i	390,592	247,637
Others	651,623	281,086
	<b><u>8,730,941</u></b>	<b><u>7,483,760</u></b>

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**18. FINANCING AND ADVANCES (cont'd)**

(v) Financing by type and Shariah Contract

	<b>Term Financing RM'000</b>	<b>Revolving Financing RM'000</b>	<b>Total RM'000</b>
<b>2016</b>			
Qard	222,827	-	222,827
Bai-Al Inah	2,391,440	6,544	2,397,984
Tawarruq	2,761,729	875,945	3,637,674
Bai-Bithaman Ajil	2,445,035	-	2,445,035
Murabahah	27,421	-	27,421
	<b><u>7,848,452</u></b>	<b><u>882,489</u></b>	<b><u>8,730,941</u></b>
<b>2015</b>			
Qard	157,578	-	157,578
Bai-Al Inah	2,856,067	9,108	2,865,175
Tawarruq	1,662,838	579,457	2,242,295
Bai-Bithaman Ajil	2,190,901	-	2,190,901
Murabahah	27,811	-	27,811
	<b><u>6,895,195</u></b>	<b><u>588,565</u></b>	<b><u>7,483,760</u></b>

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**18. FINANCING AND ADVANCES (cont'd)**

(vi) Movements in gross impaired financing and advances are as follows:

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of the year	493,085	478,455
Additions during the year	256,192	245,660
Reclassified as non impaired during the year	(92,292)	(108,893)
Recoveries during the year	(89,970)	(93,676)
Amount written off	(109,593)	(28,461)
	<u><b>457,422</b></u>	<u><b>493,085</b></u>
<b><u>Excluding Non-Shariah Assets</u></b>		
Gross impaired	457,422	493,085
Gross impaired ratio	<u>5.24%</u>	<u>6.59%</u>
<b><u>Including Non-Shariah Assets</u></b>		
Gross impaired	508,058	584,202
Gross impaired ratio	<u>5.76%</u>	<u>7.69%</u>

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**18. FINANCING AND ADVANCES (cont'd)**

(vii) Impaired financing by sectors

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Sectors:</b>		
Construction and Services	5,759	5,022
Fishery	44,832	79,725
Crops	187,748	191,435
Livestock	87,388	86,454
Manufacturing	44,034	22,784
Others-Primary Agriculture	1,067	1,011
Retail and Wholesale Trade	53,156	50,419
Others	33,438	56,235
	<b>457,422</b>	<b>493,085</b>

(viii) Impaired financing by states

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>States:</b>		
Kuala Lumpur	70,219	71,111
Selangor	45,830	52,460
Pahang	49,799	73,449
Perak	48,335	32,797
Negeri Sembilan	16,232	24,776
Melaka	9,914	10,760
Johor	32,813	34,862
Kelantan	33,900	32,132
Kedah	51,152	52,993
Perlis	8,274	9,307
Sarawak	19,547	23,612
Sabah	42,465	47,180
Pulau Pinang	13,394	12,093
Terengganu	15,548	15,553
	<b>457,422</b>	<b>493,085</b>

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**18. FINANCING AND ADVANCES (cont'd)**

(ix) Individual and collective impairment allowance

Movement in impairment allowance are as follows:

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Individual impairment allowance</b>		
At beginning of the year	154,118	180,354
Allowance for the year	48,083	26,568
Amount written back upon recoveries and reversal of allowance	(18,692)	(44,829)
Net allowance for the year	<b>29,391</b>	<b>(18,261)</b>
Amount written off	(28,454)	(7,975)
At end of the year	<b>155,055</b>	<b>154,118</b>
<b>Collective impairment allowance</b>		
At beginning of the year	342,950	292,513
Allowance for the year	213,818	110,257
Amount written back	(173,488)	(39,585)
Net allowance for the year	<b>40,330</b>	<b>70,672</b>
Amount written off	(78,257)	(20,235)
At end of the year	<b>305,023</b>	<b>342,950</b>
Collective impairment allowance as a percentage of gross financing and advances less individual impairment allowance	<b>3.56%</b>	<b>4.68%</b>

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**18. FINANCING AND ADVANCES (cont'd)**

(ix) Individual and collective impairment allowance (cont'd)

Included in net collective impairment allowance for the year is collective impairment allowance on financing and advances transferred from/(to) government grants which are as follows:

	Note	2016 RM'000	2015 RM'000
Entrepreneur Scheme for Graduates	29(a)	16	56
Special Fund for Terengganu Fishery	29(b)	(12)	(26)
Fund for Ministry of Youth and Sports	29(d)	(518)	85
Bumiputera Commercial and Industrial Community Scheme HUB	29(e)	1,718	1,107
National Key Economic Area	29(f)	868	1,952
Micro Economic Stimulation Package	29(g)	(3,128)	(3,918)
		<u>(1,056)</u>	<u>(744)</u>

The total amount of collective impairment allowance includes collective allowances for impaired financing of RM127,475,337 (2015: RM162,174,361) for which no individual allowances have been made due to sufficient present value of estimated future cash flow.

**19. OTHER ADVANCES**

	2016 RM'000	2015 RM'000
(i) Non-Shariah Assets	84,934	116,269
Less : Individual impairment allowance	(23,919)	(23,023)
Collective impairment allowance	<u>(8,961)</u>	<u>(18,781)</u>
Non-Shariah Assets at amortised cost	<u><b>52,054</b></u>	<u><b>74,465</b></u>

Other advances relate to loans to customers that are not in compliance with Shariah principles. All income earned during the year from these loans amounting to RM2,186,177 (2015: RM437,930) has not been recognised in the statement of comprehensive income of the Bank and will be channelled to approved charities.

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**19. OTHER ADVANCES (cont'd)**

(ii) Movements in gross impaired Non-Shariah Assets are as follows:

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of the year	66,994	157,742
Additions during the year	10,840	27,465
Reclassified as non impaired during the year	(4,005)	(7,864)
Recoveries during the year	(14,328)	(33,037)
Amount written off	(8,865)	(77,312)
	<u>50,636</u>	<u>66,994</u>
At end of the year	<u>50,636</u>	<u>66,994</u>
Gross impaired Non-Shariah Assets as a percentage of gross Non-Shariah Assets	<u>59.62%</u>	<u>57.62%</u>

Ongoing efforts are made by Remedial and Recovery Department ("RRD") and Credit Recovery Centre ("CRC") to reduce the impaired Non-Shariah Assets ("NSA") accounts through rescheduling or restructuring and conversion to Islamic accounts for qualified cases. Where rehabilitative efforts failed, RRD and CRC will pursue recovery actions, including litigation, until all efforts are exhausted.

(iii) Individual and collective impairment allowance

Movement in individual impairment allowance are as follows:

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Individual impairment allowance</b>		
At beginning of the year	23,023	61,383
Allowance for the year	3,427	7,339
Amount written back upon recoveries and reversal of allowance	(2,531)	(2,899)
	<u>896</u>	<u>4,440</u>
Net allowance for the year	<u>896</u>	<u>4,440</u>
Amount written off	-	(42,800)
	<u>23,919</u>	<u>23,023</u>
At end of the year	<u>23,919</u>	<u>23,023</u>



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**19. OTHER ADVANCES (cont'd)**

(iii) Individual and collective impairment allowance (cont'd)

Movement in collective impairment allowance are as follows:

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Collective impairment allowance</b>		
At beginning of the year	18,781	45,796
Allowance for the year	7,524	11,479
Amount written back	(9,822)	(5,538)
Net allowance for the year	(2,298)	5,941
Amount written off	(7,522)	(32,956)
At end of the year	<b>8,961</b>	<b>18,781</b>
Collective impairment allowance as a percentage of gross Non-Shariah Assets less individual impairment allowance	<b>14.69%</b>	<b>20.14%</b>

**20. OTHER ASSETS**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Other receivables	28,635	23,565
Profit and income receivable	57,795	48,103
Foreclosed properties	2,720	5,733
Tax recoverable	10,637	22,430
Project Ladang BPM - Sg Tasan	3,377	3,377
	<b>103,164</b>	<b>103,208</b>
Less: Impairment allowance	(5,725)	(5,772)
Other assets, net of impairment	<b>97,439</b>	<b>97,436</b>
<b>Movement in impairment allowance</b>		
At beginning of the year	(5,772)	(6,184)
Reversal during the year	47	412
At end of the year	<b>(5,725)</b>	<b>(5,772)</b>

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**21. PROPERTY, PLANT AND EQUIPMENT**

	<b>Freehold land RM'000</b>	<b>Freehold building RM'000</b>	<b>Leasehold land RM'000</b>	<b>Leasehold buildings RM'000</b>	<b>Motor vehicles RM'000</b>	<b>Furniture and fixtures RM'000</b>	<b>Equipment and office machines RM'000</b>	<b>Computer hardware RM'000</b>	<b>Total RM'000</b>
<b>Cost</b>									
At 1 January 2016	3,591	11,732	8,034	87,830	12,728	150,206	62,177	76,134	412,432
Additions	-	-	-	-	940	4,952	2,052	4,805	12,749
Write off	(52)	-	-	-	(2,848)	(894)	(479)	(941)	(5,214)
At 31 December 2016	<b>3,539</b>	<b>11,732</b>	<b>8,034</b>	<b>87,830</b>	<b>10,820</b>	<b>154,264</b>	<b>63,750</b>	<b>79,998</b>	<b>419,967</b>
<b>Accumulated depreciation</b>									
At 1 January 2016	-	4,301	1,938	25,601	9,196	102,970	36,493	68,551	249,050
Charge for the year	-	304	75	2,154	385	11,730	5,066	3,157	22,871
Write off	-	-	-	-	(2,848)	(537)	(231)	(934)	(4,550)
At 31 December 2016	-	<b>4,605</b>	<b>2,013</b>	<b>27,755</b>	<b>6,733</b>	<b>114,163</b>	<b>41,328</b>	<b>70,774</b>	<b>267,371</b>
<b>Net book value</b>									
At 31 December 2016	<b>3,539</b>	<b>7,127</b>	<b>6,021</b>	<b>60,075</b>	<b>4,087</b>	<b>40,101</b>	<b>22,422</b>	<b>9,224</b>	<b>152,596</b>

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**21. PROPERTY, PLANT AND EQUIPMENT (cont'd)**

	<b>Freehold land RM'000</b>	<b>Freehold building RM'000</b>	<b>Leasehold land RM'000</b>	<b>Leasehold buildings RM'000</b>	<b>Motor vehicles RM'000</b>	<b>Furniture and fixtures RM'000</b>	<b>Equipment and office machines RM'000</b>	<b>Computer hardware RM'000</b>	<b>Total RM'000</b>
<b>Cost</b>									
At 1 January 2015	3,591	11,732	8,034	87,830	14,574	148,988	60,361	74,495	409,605
Additions	-	-	-	-	-	2,175	2,678	3,279	8,132
Write off/disposal	-	-	-	-	(1,846)	(957)	(862)	(1,640)	(5,305)
At 31 December 2015	<b>3,591</b>	<b>11,732</b>	<b>8,034</b>	<b>87,830</b>	<b>12,728</b>	<b>150,206</b>	<b>62,177</b>	<b>76,134</b>	<b>412,432</b>
<b>Accumulated depreciation</b>									
At 1 January 2015	-	3,997	1,863	23,469	10,672	91,356	32,008	66,953	230,318
Charge for the year	-	304	75	2,132	370	12,492	5,176	3,220	23,769
Write off/disposal	-	-	-	-	(1,846)	(878)	(691)	(1,622)	(5,037)
At 31 December 2015	-	<b>4,301</b>	<b>1,938</b>	<b>25,601</b>	<b>9,196</b>	<b>102,970</b>	<b>36,493</b>	<b>68,551</b>	<b>249,050</b>
<b>Net book value</b>									
At 31 December 2015	<b>3,591</b>	<b>7,431</b>	<b>6,096</b>	<b>62,229</b>	<b>3,532</b>	<b>47,236</b>	<b>25,684</b>	<b>7,583</b>	<b>163,382</b>

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**21. PROPERTY, PLANT AND EQUIPMENT (cont'd)**

Included in leasehold land are as below :

	2016			2015		
	<99 years RM'000	>99 years RM'000	Total RM'000	<99 years RM'000	>99 years RM'000	Total RM'000
At beginning of the year	5,402	694	6,096	5,477	694	6,171
Amortisation during the year	(75)	-	(75)	(75)	-	(75)
At end of the year	<b>5,327</b>	<b>694</b>	<b>6,021</b>	<b>5,402</b>	<b>694</b>	<b>6,096</b>

- (i) The property, plant and equipment acquired from government grants- launching with net book value amounting to RM3,618,851 (2015: RM4,848,551) 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
<b>At 31 December 2016</b>					
Cost	696	14,891	1,858	1,547	18,992
Accumulated depreciation	(696)	(11,658)	(1,472)	(1,547)	(15,373)
<b>Net book value</b>	<b>-</b>	<b>3,233</b>	<b>386</b>	<b>-</b>	<b>3,619</b>
<b>At 31 December 2015</b>					
Cost	696	14,023	1,858	1,547	18,124
Accumulated depreciation	(696)	(9,761)	(1,271)	(1,547)	(13,275)
<b>Net book value</b>	<b>-</b>	<b>4,262</b>	<b>587</b>	<b>-</b>	<b>4,849</b>

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**21. 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 RM16,841,215 (2015: RM18,382,214) are as follows:

	<b>Buildings</b>	<b>Motor</b>	<b>Furniture</b>	<b>Equipment</b>	<b>Computer</b>	<b>Total</b>
	<b>RM'000</b>	<b>vehicles</b>	<b>and</b>	<b>and office</b>	<b>hardware</b>	<b>RM'000</b>
		<b>RM'000</b>	<b>fixtures</b>	<b>machines</b>	<b>RM'000</b>	<b>RM'000</b>
			<b>RM'000</b>	<b>RM'000</b>		
<b>At 31 December 2016</b>						
Cost	19,100	1,709	28,188	4,000	23,975	76,972
Addition	-	-	-	-	-	-
Accumulated depreciation	(4,517)	(1,709)	(26,692)	(3,238)	(23,975)	(60,131)
<b>Net book value</b>	<b>14,583</b>	<b>-</b>	<b>1,496</b>	<b>762</b>	<b>-</b>	<b>16,841</b>
<b>At 31 December 2015</b>						
Cost	13,600	1,709	28,188	4,000	23,975	71,472
Addition	5,500	-	-	-	-	5,500
Accumulated depreciation	(4,265)	(1,709)	(25,803)	(2,838)	(23,975)	(58,590)
<b>Net book value</b>	<b>14,835</b>	<b>-</b>	<b>2,385</b>	<b>1,162</b>	<b>-</b>	<b>18,382</b>

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**22. INTANGIBLE ASSETS**

	<b>Computer software RM'000</b>
<b>Cost</b>	
At 1 January 2016	109,299
Additions	14,666
Write off	(536)
	<hr/>
At 31 December 2016	<b>123,429</b>
<b>Accumulated amortisation</b>	
At 1 January 2016	87,934
Charge for the year	14,894
Write off	(16)
	<hr/>
At 31 December 2016	<b>102,812</b>
<b>Net book value</b>	
At 31 December 2016	<b>20,617</b>
	<hr/> <hr/>
<b>Cost</b>	
At 1 January 2015	97,050
Additions	12,490
Write off	(241)
	<hr/>
At 31 December 2015	<b>109,299</b>
<b>Accumulated amortisation</b>	
At 1 January 2015	71,337
Charge for the year	16,610
Write off	(13)
	<hr/>
At 31 December 2015	<b>87,934</b>
<b>Net book value</b>	
At 31 December 2015	<b>21,365</b>
	<hr/> <hr/>

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**22. INTANGIBLE ASSETS (cont'd)**

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

**(a) Government Grant- Launching**

	<b>Cost RM'000</b>	<b>Accumulated amortisation RM'000</b>	<b>Net book value RM'000</b>
2016	6,304	6,304	-
2015	6,304	6,304	-

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

	<b>Cost RM'000</b>	<b>Accumulated amortisation RM'000</b>	<b>Net book value RM'000</b>
2016	24,079	24,079	-
2015	24,079	24,079	-

**23. DEFERRED TAX ASSETS**

	<b>2016 RM'000</b>	<b>2015 RM'000</b>
At 1 January	60,602	60,280
Recognised in income statement	(15,160)	(10,799)
Recognised in equity	(4,255)	11,121
At 31 December	<b>41,187</b>	<b>60,602</b>
Presented after appropriate offsetting as follows:		
Deferred tax assets	49,824	66,297
Deferred tax liabilities	(8,637)	(5,695)
	<b>41,187</b>	<b>60,602</b>

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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**23. DEFERRED TAX ASSETS (cont'd)**

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

**Deferred tax liabilities:**

	<b>Property, plant, equipment and intangible assets RM'000</b>
At 1 January 2016	(5,695)
Recognised in:	
- Income statement	(2,942)
At 31 December 2016	<u><b>(8,637)</b></u>
At 1 January 2015	(11,580)
Recognised in:	
- Income statement	5,885
At 31 December 2015	<u><b>(5,695)</b></u>

**Deferred tax assets:**

	<b>Provision for undistributed profit RM'000</b>	<b>Investment revaluation deficit RM'000</b>	<b>Other temporary differences RM'000</b>	<b>Total RM'000</b>
At 1 January 2016	23,186	19,914	23,197	66,297
Recognised in:				
- Income statement	(13,158)	-	940	(12,218)
- Other comprehensive income	-	(4,255)	-	(4,255)
At 31 December 2016	<u><b>10,028</b></u>	<u><b>15,659</b></u>	<u><b>24,137</b></u>	<u><b>49,824</b></u>
At 1 January 2015	55,622	8,793	7,445	71,860
Recognised in:				
- Income statement	(32,436)	-	15,752	(16,684)
- Other comprehensive income	-	11,121	-	11,121
At 31 December 2015	<u><b>23,186</b></u>	<u><b>19,914</b></u>	<u><b>23,197</b></u>	<u><b>66,297</b></u>



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**24. (a) DEPOSITS FROM CUSTOMERS**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
		<b>(Restated)</b>
<b><u>Tawarruq</u></b>		
Fixed Return Investment Account- i (FRIA-i)	3,948,260	2,951,474
AgroPrima	6,900	1,626
	<u>3,955,160</u>	<u>2,953,100</u>
<b><u>Wadiah Yad Dhamanah</u></b>		
Al-Wadiah savings	1,578,234	1,550,123
Agro Perdana-i	1,347,685	1,262,764
Deposit Securities	161,878	137,923
Basic Savings Accounts	1,949	1,043
	<u>3,089,746</u>	<u>2,951,853</u>
	<b><u>7,044,906</u></b>	<b><u>5,904,953</u></b>

Maturity structure for FRIA-i and AgroPrima are as follows:

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Within six months	2,822,874	1,564,554
Between six months to one year	1,032,084	1,302,867
Between one year to three years	83,578	29,803
Between three years to five years	16,624	55,876
	<u>3,955,160</u>	<u>2,953,100</u>

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**24. (a) DEPOSITS FROM CUSTOMERS (cont'd)**

The deposits are sourced from the following types of customers:

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Government	2,274,378	1,262,812
Individuals	2,792,154	3,271,212
Domestic business enterprises	1,477,876	64,250
Domestic other entities	471,100	1,297,628
Domestic non-banking institutions	29,398	9,051
	<b>7,044,906</b>	<b>5,904,953</b>

**24. (b) DEPOSIT AND PLACEMENT OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
		<b>(Restated)</b>
<b><u>Tawarruq</u></b>		
Pelaburan Khas-i	<b>1,623,265</b>	<b>1,135,697</b>

Maturity structure for Pelaburan Khas-i is as follows:

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Within six months	1,623,265	1,055,070
Between six months to one year	-	80,627
	<b>1,623,265</b>	<b>1,135,697</b>

The deposits are sourced from the following types of customers:

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Government	801,498	580,145
Domestic business enterprises	500,432	540,549
Domestic non-banking institutions	321,335	15,003
	<b>1,623,265</b>	<b>1,135,697</b>

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**25. OTHER LIABILITIES**

		<b>2016</b>	<b>2015</b>
		<b>RM'000</b>	<b>RM'000</b>
<b>(a) Other payables and accruals</b>			
	<b>Note</b>		
Accrued expenses		61,859	56,138
Sundry creditors		29,292	63,833
Donation/charity		2,624	438
Zakat payable		4,275	3,068
Provision for undistributed profit	(i)	41,787	96,610
Retirement benefits scheme	(ii)	2,087	1,831
Voluntary separation scheme	(iii)	671	23,275
Compensation claim	(iv)	60,814	35,140
		<u><b>203,409</b></u>	<u><b>280,333</b></u>
<b>(i) Provision for undistributed profit</b>			
		<b>2016</b>	<b>2015</b>
		<b>RM'000</b>	<b>RM'000</b>
<b>At 1 January</b>		<b>96,610</b>	<b>231,762</b>
Addition for the year		-	7
Distribution		(12,528)	(116,215)
Transfer from/(to) trustee account		12,657	(12,657)
Writeback		(54,952)	(6,287)
<b>At 31 December</b>		<u><b>41,787</b></u>	<u><b>96,610</b></u>

Provision for undistributed profit relates to the under accrual of profit payable on Mudharabah deposits in prior years.

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**25. OTHER LIABILITIES (cont'd)**

**(ii) Retirement benefits scheme**

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

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At 1 January</b>	<b>1,831</b>	<b>1,965</b>
Current service cost <sup>1</sup>	256	(134)
	<u>2,087</u>	<u>1,831</u>
<b>At 31 December</b>	<b>2,087</b>	<b>1,831</b>

<sup>1</sup> Current service cost in 2016 represents an increase in the retirement benefit resulting from an additional year of service rendered by the employees. While in 2015, the decrease in the retirement benefit resulting from retirement and resignation of eligible employees.

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

	<b>2016</b>	<b>2015</b>
<b>Turnover and early retirement rate</b>		
<b>Age brackets:</b>		
45 - 49 years	0.10%	0.12%
50 years and over	0.02%	0.32%
<b>Salaries increase rate (per annum)</b>	5.00%	5.00%
<b>Average remaining years of service of employees</b>	6 years	7 years
<b>Discount rate</b>	3.93%	3.93%

(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 RM7,880 (2015: RM8,380) or decrease by RM7,313 (2015: RM7,710) respectively.
- (ii) Provision for a retirement benefit scheme to increase to RM2,208,761 (2015: RM1,959,207) or decrease to RM1,974,315 (2015: RM1,712,815) respectively.

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**25. OTHER LIABILITIES (cont'd)**

**(iii) Voluntary separation scheme**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At 1 January</b>	<b>23,275</b>	<b>-</b>
(Payment)/addition	(22,604)	23,275
	<u>671</u>	<u>23,275</u>
<b>At 31 December</b>	<b>671</b>	<b>23,275</b>

Provision for voluntary separation scheme was accrued in 2015 and was mostly paid in 2016.

**(iv) Compensation claim**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At 1 January</b>	<b>35,140</b>	<b>2,429</b>
Addition- net	44,053	32,711
Payment	(18,379)	-
	<u>60,814</u>	<u>35,140</u>
<b>At 31 December</b>	<b>60,814</b>	<b>35,140</b>

Addition/(payment) made during the year include those in relation to the legal suits disclosed in Note 12.

**(b) Paddy credit gratuity scheme**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of the year	<b>2,330</b>	<b>2,262</b>
Additions	92	100
Payment	(147)	(32)
	<u>2,275</u>	<u>2,330</u>
At the end of year	<b>2,275</b>	<b>2,330</b>

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

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**26. FINANCING SCHEME FUNDS**

Summary of financing scheme funds is as follows:

	<b>Note</b>	<b>2016 RM'000</b>	<b>2015 RM'000</b>
Fund for Food ("3F")	(a)	209,065	232,280
Oil Palm Replanting Scheme ("TASKS")	(b)	10,000	11,000
Micro Enterprise Fund	(c)	30,098	51,178
Commercial Agriculture Fund ("DPK-GLC")	(d)	178,227	170,290
Agriculture Entrepreneur Financing Fund 1 ("DPUP 1")	(e)	961,609	925,519
Agriculture Entrepreneur Financing Fund 2 ("DPUP 2")	(f)	111,676	107,607
Agriculture Entrepreneur Financing Fund 3 ("DPUP 3")	(g)	105,331	101,713
Special Relief Facility	(h)	10,595	11,820
		<b>1,616,601</b>	<b>1,611,407</b>

**(a) Fund For Food ("3F")**

	<b>Principal RM'000</b>	<b>Profit RM'000</b>	<b>Total RM'000</b>
At 1 January 2016	232,275	5	232,280
Additions	25,578	-	25,578
Profit charged	-	570	570
Repayments	(49,067)	(296)	(49,363)
At 31 December 2016	<b>208,786</b>	<b>279</b>	<b>209,065</b>
At 1 January 2015	234,470	287	234,757
Additions	33,685	-	33,685
Profit charged	-	593	593
Repayments	(35,880)	(875)	(36,755)
At 31 December 2015	<b>232,275</b>	<b>5</b>	<b>232,280</b>

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**26. FINANCING SCHEME FUNDS (cont'd)**

**(a) Fund For Food ("3F") (cont'd)**

Under the 9th Malaysian Plan ("RMK 9"), the Government agreed to channel RM300 million every year 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 production industry and to reduce dependency on imports. As at 15 May 2014, financing scheme funds channelled through the Ministry of Finance and Ministry of Agriculture was merged into DPUP 1. The balance of the above Fund for Food financing scheme is from BNM at a profit rate of 0.25% per annum. This fund has benefited 7,221 customers (2015: 7,201 customers) with accumulated disbursement amounting to RM1.34 billion (2015: RM1.25 billion).

**(b) Oil Palm Replanting Scheme ("TASKS")**

	<b>Principal RM'000</b>
At 1 January 2016	11,000
Repayments	<u>(1,000)</u>
At 31 December 2016	<b><u>10,000</u></b>
At 1 January 2015	12,000
Repayments	<u>(1,000)</u>
At 31 December 2015	<b><u>11,000</u></b>

This fund is channelled through the Ministry of Plantation Industries and Commodities to finance the replanting of oil palm plantations. The financing tenure is 20 years (5 years grace period) without profit. This fund has benefited 199 customers (2015: 199 customers) with accumulated disbursement amounting to RM14.90 million (2015: RM14.90 million).

**(c) Micro Enterprise Fund**

	<b>Principal RM'000</b>	<b>Profit RM'000</b>	<b>Total RM'000</b>
At 1 January 2016	51,144	34	51,178
Additions	6,521	-	6,521
Profit charged	-	556	556
Repayments	<u>(27,818)</u>	<u>(339)</u>	<u>(28,157)</u>
At 31 December 2016	<b><u>29,847</u></b>	<b><u>251</u></b>	<b><u>30,098</u></b>

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**26. FINANCING SCHEME FUNDS (cont'd)**

**(c) Micro Enterprise Fund (cont'd)**

	<b>Principal RM'000</b>	<b>Profit RM'000</b>	<b>Total RM'000</b>
At 1 January 2015	82,862	632	83,494
Additions	4,458	-	4,458
Profit charged	-	1,064	1,064
Repayments	(36,176)	(1,662)	(37,838)
At 31 December 2015	<b>51,144</b>	<b>34</b>	<b>51,178</b>

The fund amounting to RM200.0 million was launched by 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. This fund has benefited 6,156 customers (2015: 5,731 customers) with accumulated disbursement amounting to RM145.13 million (2015: RM138.61 million).

**(d) Commercial Agriculture Fund ("DPK-GLC")**

	<b>Principal RM'000</b>	<b>Profit RM'000</b>	<b>Total RM'000</b>
At 1 January 2016	166,659	3,631	170,290
Profit charged	7,187	750	7,937
At 31 December 2016	<b>173,846</b>	<b>4,381</b>	<b>178,227</b>
At 1 January 2015	159,817	2,881	162,698
Profit charged	6,842	750	7,592
At 31 December 2015	<b>166,659</b>	<b>3,631</b>	<b>170,290</b>

The fund amounting RM300.0 million was channelled by the Government on 27 May 2014 with a bullet payment tenure of 15 years at a profit rate of 0.25% per annum. The fund was fair valued at inception using market profit rate. The difference between the proceeds received and the fair value of the financing is recognised as a government grant as disclosed in Note 29(j). The purpose of this fund is to finance the commercial agro-based industry. This fund has benefited 5 customers (2015: 1 customer) with accumulated disbursement amounting to RM30.3 million (2015: RM5.1 million).



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**26. FINANCING SCHEME FUNDS (cont'd)**

**(e) Agriculture Entrepreneur Financing Fund 1 ("DPUP 1")**

	<b>Principal RM'000</b>	<b>Profit RM'000</b>	<b>Total RM'000</b>
At 1 January 2016	908,942	16,577	925,519
Profit charged	36,090	6,416	42,506
Repayments	-	(6,416)	(6,416)
At 31 December 2016	<b>945,032</b>	<b>16,577</b>	<b>961,609</b>
At 1 January 2015	870,143	16,577	886,720
Profit charged	38,799	6,416	45,215
Repayments	-	(6,416)	(6,416)
At 31 December 2015	<b>908,942</b>	<b>16,577</b>	<b>925,519</b>

The financing scheme funds which was channelled by the Government through the Ministry of Finance and Ministry of Agriculture was merged into this scheme. The objective of the new scheme is as per previous schemes prior to the merger. The financing tenure is 15 years (5 years grace period) at a profit rate of 0.5% per annum. The fund was fair valued at inception using market profit rate. The difference between the proceeds received and the fair value of the financing is recognised as a government grant as disclosed in Note 29(k). This fund has benefited 83,438 customers (2015: 83,283 customers) with accumulated disbursement amounting to RM2.93 billion (2015: RM2.78 billion).

**(f) Agriculture Entrepreneur Financing Fund 2 ("DPUP 2")**

	<b>Principal RM'000</b>	<b>Profit RM'000</b>	<b>Total RM'000</b>
At 1 January 2016	107,577	30	107,607
Profit charged	4,015	804	4,819
Repayments	-	(750)	(750)
At 31 December 2016	<b>111,592</b>	<b>84</b>	<b>111,676</b>
At 1 January 2015	103,180	100	103,280
Profit charged	4,397	750	5,147
Repayments	-	(820)	(820)
At 31 December 2015	<b>107,577</b>	<b>30</b>	<b>107,607</b>

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**26. FINANCING SCHEME FUNDS (cont'd)****(f) Agriculture Entrepreneur Financing Fund 2 ("DPUP 2") (cont'd.)**

The fund amounting RM150.0 million was received from the Government on 23 December 2014. The tenure of this financing is 15 years (5 years grace period) at a profit rate of 0.5% per annum. The fund was fair valued at inception using market profit rate. The difference between the proceeds received and the fair value of the financing is recognised as a government grant as disclosed in Note 29(l). The purpose of this fund is to stimulate growth of farming activities involving upstream and downstream activities. This fund has benefited 4,623 customers (2015: 4,136 customers) with accumulated disbursement amounting to RM88.56 million (2015: RM57.06 million).

**(g) Agriculture Entrepreneur Financing Fund 3 ("DPUP 3")**

	<b>Principal RM'000</b>	<b>Profit RM'000</b>	<b>Total RM'000</b>
At 1 January 2016	101,582	131	101,713
Profit charged	3,749	750	4,499
Repayments	-	(881)	(881)
At 31 December 2016	<u><b>105,331</b></u>	<u><b>-</b></u>	<u><b>105,331</b></u>
At 1 January 2015	-	-	-
Fund received	100,903	-	100,903
Profit charged	679	131	810
At 31 December 2015	<u><b>101,582</b></u>	<u><b>131</b></u>	<u><b>101,713</b></u>

The fund amounting RM150.0 million was received from the Government on 28 October 2015. The tenure of this financing is 15 years (5 years grace period) at a profit rate of 0.5% per annum. The fund was fair valued at inception using market profit rate. The difference between the proceeds received and the fair value of the financing is recognised as a government grant as disclosed in Note 29(m). The purpose of this fund is to stimulate growth of farming activities involving upstream and downstream activities. This fund has benefited 3,131 customers (2015: nil) with accumulated disbursement amounting to RM70.5 million (2015: nil).

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**26. FINANCING SCHEME FUNDS (cont'd)**

**(h) Special Relief Facility**

	<b>Principal RM'000</b>	<b>Profit RM'000</b>	<b>Total RM'000</b>
At 1 January 2016	11,820	-	11,820
Fund received	520	-	520
Profit charged	-	403	403
Repayment	(2,148)	-	(2,148)
At 31 December 2016	<b>10,192</b>	<b>403</b>	<b>10,595</b>
At 1 January 2015	-	-	-
Fund received	11,820	-	11,820
At 31 December 2015	<b>11,820</b>	<b>-</b>	<b>11,820</b>

The fund is channelled by BNM in order to minimise loss borne by the farmers who are affected by the flood catastrophe in December 2014. Financing is offered up to 5 years with 6 months moratorium at a profit rate 2.25% per annum. The fund was fair valued at inception using market profit rate. The difference between the proceeds received and the fair value of the financing is recognised as a government grant as disclosed in Note 29(n). This fund has benefited 287 customers (2015: 287 customers) with accumulated disbursement amounting to RM12.87 million (2015: RM12.87 million).

**27. GOVERNMENT GRANT - OPERATING**

	<b>Capital Expenditure RM'000</b>	<b>Development Expenditure RM'000</b>	<b>Total RM'000</b>
At 1 January 2016	27,507	77	27,584
Amortisation during the year	(1,540)	-	(1,540)
At 31 December 2016	<b>25,967</b>	<b>77</b>	<b>26,044</b>
At 1 January 2015	29,871	77	29,948
Amortisation during the year	(2,364)	-	(2,364)
At 31 December 2015	<b>27,507</b>	<b>77</b>	<b>27,584</b>

Since 2006, the Bank has received operating grant amounting to RM82.0 million from the Ministry of Finance (Incorporated). 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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**28. GOVERNMENT GRANT - LAUNCHING**

	<b>Capital Expenditure RM'000</b>	<b>Development Expenditure RM'000</b>	<b>Total RM'000</b>
At 1 January 2016	5,347	3,124	8,471
Utilisation during the year	-	(720)	(720)
Amortisation during the year	(1,705)	-	(1,705)
At 31 December 2016	<b>3,642</b>	<b>2,404</b>	<b>6,046</b>
At 1 January 2015	7,083	4,884	11,967
Utilisation during the year	-	(1,760)	(1,760)
Amortisation during the year	(1,736)	-	(1,736)
At 31 December 2015	<b>5,347</b>	<b>3,124</b>	<b>8,471</b>

In 2007, the Ministry of Finance (Incorporated) 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.

**29. GOVERNMENT GRANTS - FUNDS**

Summary of government grant funds is as follows:

	<b>Note</b>	<b>2016 RM'000</b>	<b>2015 RM'000</b>
Entrepreneur Scheme for Graduates	(a)	1,154	1,170
Special Fund For Terengganu Fishery	(b)	33	21
Development Programme for Hard-core Poor	(c)	2,560	2,560
Fund for Ministry of Youth and Sports	(d)	8,143	7,625
Bumiputera Commercial and Industrial Community Scheme HUB	(e)	36,132	37,850
National Key Economic Area	(f)	54,304	55,172
Micro Economic Stimulation Package	(g)	153,768	150,640
Micro ESP Flood Relief	(h)	3,000	3,000
Agriculture Mechanism and Automation Scheme	(i)	5,792	-
Commercial Agriculture Fund	(j)	122,973	130,160
Agriculture Entrepreneur Financing Fund 1	(k)	321,499	357,588
Agriculture Entrepreneur Financing Fund 2	(l)	38,324	42,339
Agriculture Entrepreneur Financing Fund 3	(m)	44,670	48,418
Special Relief Facility	(n)	645	1,048
		<b>792,997</b>	<b>837,591</b>

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**29. GOVERNMENT GRANTS - FUNDS (cont'd)**

**(a) Entrepreneur Scheme for Graduates ("SUTKS")**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of the year	1,170	1,226
Transfer to collective impairment allowance (Note 18 (ix))	(16)	(56)
At end of the year	<u><b>1,154</b></u>	<u><b>1,170</b></u>

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. The grant has benefited 203 customers (2015: 203 customers) with accumulated disbursement amounting to RM8.35 million (2015: RM8.35 million).

**(b) Special Fund for Terengganu Fishery ("DKSP")**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of the year	21	155
Amortisation for the year	-	(160)
Transfer from collective impairment allowance (Note 18 (ix))	12	26
At end of the year	<u><b>33</b></u>	<u><b>21</b></u>

The objective of this fund is to raise the socioeconomic 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 at a profit free-rate. The financing terms would depend on the project with repayment terms not exceeding 10 years. The grant has benefited 877 customers (2015: 877 customers) with accumulated disbursement amounting to RM29.90 million (2015: RM29.90 million).

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**29. GOVERNMENT GRANTS - FUNDS (cont'd)**

**(c) Development Programme for Hard-core Poor ("PPRT")**

	<b>RM'000</b>
At 31 December 2015 and 31 December 2016	<u><u>2,560</u></u>

This program represents profit-free financing from the Government to the hard-core poor. The grant has benefited 86 customers (2015: 49 customers) with accumulated disbursement amounting to RM0.56 million (2015: RM0.30 million).

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

	<b>2016 RM'000</b>	<b>2015 RM'000</b>
At beginning of the year	7,625	7,710
Transfer from/(to) collective impairment allowance (Note 18 (ix))	<u>518</u>	<u>(85)</u>
At end of the year	<u><u>8,143</u></u>	<u><u>7,625</u></u>

The purpose of this fund is to encourage youth to be involved in the agricultural industry under *Skim Belia Tani*. The grant has benefited 524 customers (2015: 524 customers) with accumulated disbursement amounting to RM15.73 million (2015: RM15.73 million).

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

	<b>2016 RM'000</b>	<b>2015 RM'000</b>
At beginning of the year	<b>37,850</b>	<b>38,957</b>
Transfer to collective impairment allowance (Note 18 (ix))	<u>(1,718)</u>	<u>(1,107)</u>
At end of the year	<u><u>36,132</u></u>	<u><u>37,850</u></u>

The objective of this fund is to finance Bumiputera agricultural ventures with maximum financing available up to RM200,000 per financing. The grant has benefited 510 customers (2015: 471 customers) with accumulated disbursement amounting to RM41.48 million (2015: RM37.83 million).

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**29. GOVERNMENT GRANTS - FUNDS (cont'd)**

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

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of the year	55,172	57,124
Transfer to collective impairment allowance (Note 18 (ix))	(868)	(1,952)
At end of the year	<b><u>54,304</u></b>	<b><u>55,172</u></b>

The purpose of this fund is to encourage entrepreneurs to participate in agro based industries by providing a maximum of RM300,000 per financing. The grant has benefited 978 customers (2015: 978 customers) with accumulated disbursement amounting to RM121.71 million (2015: RM121.71 million).

**(g) Micro Economic Stimulation Package ("Micro - ESPi")**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of the year	150,640	149,722
Transfer to Micro-ESPi Flood Relief (Note (h))	-	(3,000)
Transfer from collective impairment allowance (Note 18 (ix))	3,128	3,918
At end of the year	<b><u>153,768</u></b>	<b><u>150,640</u></b>

The purpose of this fund is to encourage entrepreneurs to participate in agricultural production activities by providing a maximum of RM20,000 per financing. The grant has benefited 17,286 customers (2015: 17,286 customers) with accumulated disbursement amounting to RM334.73 million (2015: RM334.73 million).

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**29. GOVERNMENT GRANTS - FUNDS (cont'd)**

**(h) Micro ESP Flood Relief**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of the year	3,000	-
Transfer from Micro- ESPi (Note g)	-	3,000
	<u>3,000</u>	<u>3,000</u>
At end of the year	<u><b>3,000</b></u>	<u><b>3,000</b></u>

The objective of this program is to minimise loss borne by the farmers who are affected by the flood catastrophe in December 2014. Financing is offered up to 5 years with 6 months moratoriums at a profit rate 3.75% per annum.

**(i) Agriculture Mechanism and Automation Scheme ("MAP")**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of the year	-	-
Funds received	5,792	-
	<u>5,792</u>	<u>-</u>
At end of the year	<u><b>5,792</b></u>	<u><b>-</b></u>

**(j) Commercial Agriculture Fund ("DPK-GLC")**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of the year	130,160	137,002
Amortisation (Note 11)	(7,187)	(6,842)
	<u>122,973</u>	<u>130,160</u>
At end of the year	<u><b>122,973</b></u>	<u><b>130,160</b></u>

The benefit of this below market rate financing scheme fund amounting to RM300.0 million, channelled by the Government on 27 May 2014 at a profit rate of 0.25% per annum, is recognised as a Government Grant in Note 26 (d).



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**29. GOVERNMENT GRANTS - FUNDS (cont'd)****(k) Agriculture Entrepreneur Financing Fund 1 ("DPUP 1")**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of the year	357,588	396,387
Amortisation (Note 11)	<u>(36,089)</u>	<u>(38,799)</u>
At end of the year	<b><u>321,499</u></b>	<b><u>357,588</u></b>

The financing scheme funds which were channelled by the Government through the Ministry of Finance and Ministry of Agriculture and Agro-Based Industries was merged into this scheme. The benefit of this below market rate financing scheme fund amounting to RM1,283.10 million at a profit rate of 0.5% per annum, is recognised as a Government Grant in Note 26 (e).

**(l) Agriculture Entrepreneur Financing Fund 2 ("DPUP 2")**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of the year	42,339	46,736
Amortisation (Note 11)	<u>(4,015)</u>	<u>(4,397)</u>
At end of the year	<b><u>38,324</u></b>	<b><u>42,339</u></b>

The benefit of this below market rate financing scheme fund amounting to RM150.0 million, received from the Government on 23 December 2014 at a profit rate of 0.5% per annum, is recognised as a Government Grant in Note 26 (f).

**(m) Agriculture Entrepreneur Financing Fund 3 ("DPUP 3")**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of the year	48,418	49,097
Amortisation (Note 11)	<u>(3,748)</u>	<u>(679)</u>
At end of the year	<b><u>44,670</u></b>	<b><u>48,418</u></b>

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**29. GOVERNMENT GRANTS - FUNDS (cont'd)**

**(m) Agriculture Entrepreneur Financing Fund 3 ("DPUP 3") (cont'd)**

The benefit of this below market rate financing scheme fund amounting to RM150.0 million, received from the Government on 28 October 2015 at a profit rate of 0.5% per annum, is recognised as a Government Grant in Note 26 (g).

**(n) Special Relief Facility**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of the year	1,048	-
Funds received	-	1,048
Amortisation (Note 11)	(403)	-
At end of the year	<u><b>645</b></u>	<u><b>1,048</b></u>

The benefit of this below market rate financing scheme fund amounting to RM12.87 million, received from the BNM for year 2015, is recognised as a Government Grant in Note 26 (h).

**30. SHARE CAPITAL**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Authorised:</b>		
Ordinary shares of RM1 each	<u><b>2,000,000</b></u>	<u><b>2,000,000</b></u>
<b>Issued and fully paid:</b>		
Ordinary shares of RM1 each	<u><b>1,000,000</b></u>	<u><b>1,000,000</b></u>

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**31. RESERVES**

	Note	2016 RM'000	2015 RM'000
<b>Non-distributable reserve:</b>			
Statutory reserves	(a)	487,109	487,109
Investment revaluation deficit	(b)	(49,536)	(63,059)
<b>Distributable reserve:</b>			
Retained earnings		<u>1,184,458</u>	<u>1,060,323</u>
		<u><b>1,622,031</b></u>	<u><b>1,484,373</b></u>

**(a) Statutory reserves**

Transfer of profit to reserve fund is only applicable when Risk Weighted Capital Ratio ("RWCR") of the Bank is below the threshold of 16% as approved by BNM via a letter to the Bank dated 22 February 2008.

**(b) Investment revaluation deficit**

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

**32. DIVIDENDS**

	2016 RM'000	2015 RM'000
Final dividend of 1.19 sen net of tax, on 1,000,000,000 ordinary shares in respect of the financial year ended 31 December 2015	11,900	-
Final dividend of 5 sen net of tax, on 1,000,000,000 ordinary shares in respect of the financial year ended 31 December 2014	<u>-</u>	<u>50,000</u>
	<u><b>11,900</b></u>	<u><b>50,000</b></u>

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**32. DIVIDENDS (cont'd)**

At the forthcoming Annual General Meeting, a final single tier dividend in respect of the current financial year ended 31 December 2016 of 2.00 sen on 1,000,000,000 ordinary shares of RM1.00 each, amounting to dividend payable of RM20,000,000 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 2017.

**33. COMMITMENTS AND CONTINGENCIES**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Guarantee:</b>		
Guarantee letters issued to the customers of the Bank	<u>33,589</u>	<u>26,796</u>
<b>Capital commitment</b>		
Approved and contracted for:		
Capital expenditure	648	1,805
Commitment on financing and advances	<u>382,392</u>	<u>445,054</u>
	<b><u>383,040</u></b>	<b><u>446,859</u></b>
Approved but not contracted for:		
Commitment on financing and advances	<u>528,217</u>	<u>448,388</u>
	<b><u>528,217</u></b>	<b><u>448,388</u></b>
<b>Contingent liabilities</b>		
Certain legal actions taken against the Bank with compensation claims	<u>5,787,635</u>	<u>5,724,861</u>
<b>Total Commitments and Contingencies</b>	<b><u><u>6,732,481</u></u></b>	<b><u><u>6,646,904</u></u></b>

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**33. COMMITMENTS AND CONTINGENCIES (cont'd)**

A summary of the status of material litigations against the Bank is as follows:

**Case 1**

The Bank filed a claim against a customer on 13 August 2015 to recover outstanding financing provided to the customer of approximately RM22.0 million. The customer then filed a counterclaim for approximately RM18.3 million alleging inadequate assistance from certain government agencies which affected its operations. However, the customer has not provided any evidence to support the claim. The case is fixed for full trial on 24 - 28 April 2017. The Bank's solicitors are of the view that the Bank has a good chance of succeeding in its claim and has a fair chance of successfully defending the counter claim by the customer.

**Case 2**

A customer had initiated legal action against the Bank for approximately RM24.0 million on 4 June 2015 for the Bank's alleged failure to make further disbursements. However, the customer has not provided any evidence in the Statement of Claim to support the claim. The Bank then counterclaimed for approximately RM4.0 million on 30 July 2015 for the outstanding financing following the termination of the financing agreement by the customer. The main contention was a change in the operations of the business which impacted disbursement conditions. The Court on 7 December 2016 has dismissed the customer's claim with cost and entered judgement for the sum of RM4.1 million with ta'widh. The customer has filed an appeal at the Court of Appeal and pending leave to appeal. The Bank's solicitors are of the view that the Bank has a fair chance of succeeding in the appeal and a good case against the damages claim.

**Case 3**

The Bank filed a claim against a customer on 2 September 2015 to recover outstanding financing of approximately RM12.0 million. The customer filed a counterclaim against the Bank on 23 November 2015 for approximately RM5.6 billion relating to loss of profits. However, the customer has not provided any evidence to support the claim. On 29 March 2017, the Court has dismissed the customer's claim. The customer has filed an appeal at the Court of Appeal on 19 April 2017 and pending a case management to be fixed by the Court of Appeal.

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**33. COMMITMENTS AND CONTINGENCIES (cont'd)**

A summary status of the material litigations against the Bank is as follows: (cont'd)

**Case 4**

A customer had initiated a legal action against the Bank for approximately RM92.0 million on 24 February 2017 for the Bank's alleged failure to sell assets under the Debenture at a reasonable price. The sale was initiated by a Receiver and Manager (R & M). The Court has fixed 27 March 2017 for the Bank to file its defence and on 5 April 2017 for the customer to file its reply. The Court has also fixed for case management on 6 April 2017 and hearing of the Bank's application for striking out of the Writ of Summons on 18 May 2017. The Bank's solicitors are of the view that the Bank has a fair chance of successfully defending the case.

The banking facilities granted in Cases 1 to 3 which are treated as off balance sheet items were disbursed from a fund managed by the Bank for which the Bank earned management fees. All risks including credit risk on unpaid financing are not to be borne by the Bank.

**34. RELATED PARTY DISCLOSURES**

**(a) Parent entity**

The Bank is a Government Linked Corporation, with all shares held by the Minister 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 defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. The key management personnel of the Bank includes Executive Directors and Non-Executive Directors of the Bank and certain members of senior management of the Bank. Remuneration paid to key management personnel of the Bank includes the following :

- i) Salaries and bonuses.
- ii) Allowances paid to the Directors.
- ii) Other emoluments include Employee Provident Fund ("EPF") contributions and retirement compensation.

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**34. RELATED PARTY DISCLOSURES (cont'd)****Remuneration of directors and other members of key management are as follows:**

	<b>Salaries and Bonuses RM'000</b>	<b>Allowances RM'000</b>	<b>Other Emoluments RM'000</b>	<b>Total RM'000</b>
<b>2016</b>				
<b>Executive Director</b>				
YH. Dato' Wan Mohd Fadzmi bin Che Wan Othman Fadzilah	917	-	157	1,074
	<u>917</u>	<u>-</u>	<u>157</u>	<u>1,074</u>
<b>Non Executive Director</b>				
Y. Bhg Tan Sri Mohamad Zabidi bin Zainal	-	142	-	142
Y. Bhg Datin Rashidah binti Mohd Sies	-	89	-	89
Y. Bhg Datuk Johar bin Che Mat	-	105	-	105
Encik Ng Chih Kaye	-	247	-	247
Y. Bhg Dato' Dr. Mohamad Hashim bin Ahmad Tajudin	-	269	-	269
Y. Bhg Dato' Mohd Arif bin Ab Rahman	-	50	-	50
Y. Bhg Datin Seri Hajah Ruzaina binti Wan Haniff	-	105	-	105
Y. Bhg Datin Setia Shahariah binti Hashim	-	109	-	109
Puan Azizah binti Abdul Rahman	-	110	-	110
Y. Bhg Datuk Seri Dr. Ismail bin Haji Bakar	-	41	-	41
Y. Bhg Dato' Dr. Yusof bin Ismail	-	6	-	6
	<u>-</u>	<u>1,273</u>	<u>-</u>	<u>1,273</u>
<b>Senior Management</b>	<u>2,972</u>	<u>-</u>	<u>996</u>	<u>3,968</u>
	<b><u>3,889</u></b>	<b><u>1,273</u></b>	<b><u>1,153</u></b>	<b><u>6,315</u></b>

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**34. RELATED PARTY DISCLOSURES (cont'd)**

**Remuneration of directors and other members of key management are as follows:  
(cont'd)**

	<b>Salaries and Bonuses RM'000</b>	<b>Allowances RM'000</b>	<b>Other Emoluments RM'000</b>	<b>Total RM'000</b>
<b>2015</b>				
<b>Executive Director</b>				
YH. Dato' Wan Mohd Fadzmi bin Che Wan Othman Fadzilah	820	-	139	959
	<u>820</u>	<u>-</u>	<u>139</u>	<u>959</u>
<b>Non Executive Director</b>				
Y. Bhg Tan Sri Faizah Mohd Tahir	-	102	10	112
Y. Bhg Datin Rashidah binti Mohd Sies	-	136	-	136
Y. Bhg Datuk Johar bin Che Mat	-	156	-	156
Encik Ng Chih Kaye	-	162	5	167
Y. Bhg Dato' Dr. Mohamad Hashim bin Ahmad Tajudin	-	176	-	176
Y. Bhg Dato' Mohd Arif bin Ab Rahman	-	65	-	65
Y. Bhg Datin Seri Hajah Ruzaina binti Wan Haniff	-	95	-	95
Encik Md. Hilmi bin Datuk Haji Md. Noor	-	2	9	11
	<u>-</u>	<u>894</u>	<u>24</u>	<u>918</u>
<b>Senior Management</b>	2,230	-	1,133	3,363
	<u><b>3,050</b></u>	<u><b>894</b></u>	<u><b>1,296</b></u>	<u><b>5,240</b></u>



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**34. 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.

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Deposits	70	21
	<u>70</u>	<u>21</u>

No financing has been granted to the directors and senior management of the Bank.

**(d) Transactions with related parties**

	<b>Note</b>	<b>2016</b>	<b>2015</b>
		<b>RM'000</b>	<b>RM'000</b>
<b>Income</b>			
Gapping	(i)	29,042	30,164
Management fees	(ii)	10,870	10,079
Commission	(iii)	3,801	1,293
Profit income on deposits placed with government linked companies		12,974	2,339
<b>Expense</b>			
Profit expense on deposits placed by government linked entities		5,504	5,885
Profit expense on financing scheme funds paid and payable to the Ministry of Finance and BNM		8,682	9,773
Employee Provident Fund ("EPF")		26,360	22,950
Social Security Organisation ("SOCSO")		<u>1,976</u>	<u>1,937</u>

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**34. 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 for the profit differential between market rate and subsidised rate on financing disbursed by the Bank at subsidised rate.
- (ii) Fees earned for managing the government funds for financing disbursement paid by 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**

- (i) Included in Assets

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Financing to related parties	11,949	3,394
Deposit/placement with related parties	557,326	272,583
	<u>569,275</u>	<u>275,977</u>

- (ii) Included in Liabilities

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Government Grant - Operating	26,044	27,584
Government Grant - Launching	6,046	8,471
Government Grant - Funds	792,997	837,591
Financing scheme funds	1,616,601	1,611,407
Deposit from related entities	3,075,876	1,842,957
	<u>5,517,564</u>	<u>4,327,910</u>

**(f) Terms and conditions**

Transactions with related parties were made on terms equivalent to those that prevailed in negotiated transactions.

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**35. 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 Bank's business activities and operations involve the use of financial instruments that expose the Bank to a variety of financial and business risks as follows:

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

**(ii) Risk management framework**

The Board of Directors ("The Board") is ultimately responsible for the establishment and oversight of the Bank's risk management associated with the Bank's operations and activities. The Board empowers and delegates its authority to various committees to ensure execution of business strategies and operations are adhered to the approved policies and limits set by the Board/Board Risk Management Committee (BRMC). At senior management level, the Board empowers the Management Risk Committee (MRC) and Asset Liability Committee (ALCO) to monitor, evaluate, strategise and deliberate risk management activities within the respective areas.

The Bank has the Broad Risk Management Framework ("BRMF") that encompasses credit, market, liquidity, operational and Shariah risks as part of its risk governance. The Bank's risk management policies are established to identify and analyse the risks exposed to the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's current strategies, products and services.

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(a) General risk management (cont'd)**

**(ii) Risk management framework (cont'd)**

The Bank's risk management policies are established to identify and mitigate all risks faced by the Bank, to set appropriate risk appetite and risk limits as well as to control and monitor risk exposures and adherence to the approved limits.

**(iii) Risk governance framework**

The Board may empower the following committees for the oversight function of risk management matters and activities;

- Board Risk Management Committee ("BRMC")
- Board Credit and Investment Committee ("BCIVC")
- 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. Investment in equities, bonds and other marketable securities as well as other financial/banking instruments, whether they are classified under banking book or trading book, may also expose the Bank to credit risk and counterparty credit risk.

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**35. 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.

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

**(v) Measurement of credit risk**

**Collateral position in 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 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 financing and is revalued once in two years or when a financing is impaired.

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**35. 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 financing and advances (cont'd)**

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

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

	<b>Secured RM'000</b>	<b>Unsecured RM'000</b>	<b>Total RM'000</b>	<b>Financial effect of collateral* %</b>
<b>2016</b>				
Neither past due nor impaired	3,829,116	4,200,395	8,029,511	47.7
Past due but not impaired	181,787	62,221	244,008	74.5
Impaired	277,317	180,105	457,422	60.6
	<b>4,288,220</b>	<b>4,442,721</b>	<b>8,730,941</b>	<b>49.1</b>
<b>2015</b>				
Neither past due nor impaired	2,637,556	4,034,476	6,672,032	39.5
Past due but not impaired	214,083	104,560	318,643	67.2
Impaired	334,253	158,832	493,085	67.8
	<b>3,185,892</b>	<b>4,297,868</b>	<b>7,483,760</b>	<b>42.6</b>

\* Based on quantification of the extent to which collateral and other credit enhancements mitigate credit risk in respect of the amount that best represents the maximum exposure to credit risk.

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(b) Credit risk (cont'd)**

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

**Maximum exposure to credit risk**

The following analysis represents the Bank's maximum exposure to credit risk of on-balance sheet financial assets and off-balance sheet exposure, excluding any collateral held or other credit enhancements. For on-balance sheet financial assets, the exposure to credit risk equals their carrying amount. For off-balance sheet exposure, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the obligations of the instruments issued are called upon and/or the full amount of the undrawn credit facilities granted to customers.

	<b>Maximum Exposure</b>	
	<b>2016</b>	<b>2015</b>
<b>Credit exposure for on-balance sheet assets</b>		
Cash and short term funds	1,187,627	771,732
Deposits and placements with financial institutions	-	12,376
Investment securities	4,115,191	4,104,689
Financing and advances	8,270,863	6,986,692
	<u>13,573,681</u>	<u>11,875,489</u>
<b>Credit exposure for off-balance sheet assets items</b>		
Financial Guarantee	33,589	26,796
	<u>33,589</u>	<u>26,796</u>
Total maximum credit risk exposure	<u><u>13,607,270</u></u>	<u><u>11,902,285</u></u>

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(b) Credit risk (cont'd)**

**Collateral position in financing and advances (cont'd)**

**Impaired financing**

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

	<b>Gross individually impaired financing RM'000</b>	<b>Individual impairment allowance RM'000</b>	<b>Fair Value of Collaterals RM'000</b>
<b>Sectors:</b>			
<b>2016</b>			
Construction and Services	5,759	-	5,759
Fishery	44,832	11,991	32,841
Crops	187,748	57,994	129,754
Livestock	87,388	51,648	35,740
Manufacturing	44,034	14,309	29,725
Retail and Wholesale Trade	53,156	6,426	46,730
Others	34,505	12,687	21,818
	<b>457,422</b>	<b>155,055</b>	<b>302,367</b>
<b>2015</b>			
Construction and Services	5,022	-	5,022
Fishery	79,725	39,585	40,140
Crops	191,435	46,591	144,844
Livestock	86,454	46,427	40,027
Manufacturing	22,784	6,095	16,689
Retail and Wholesale Trade	50,419	324	50,095
Others	57,246	15,096	42,150
	<b>493,085</b>	<b>154,118</b>	<b>338,967</b>



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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(b) Credit risk (cont'd)**

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

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

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Sectors:</b>		
Construction and Service Sectors	6,136	4,236
Fishery	27,709	18,219
Crops	91,955	56,482
Livestock	22,550	33,009
Manufacturing	36,212	29,106
Retail and Wholesale Trade	63,091	21,806
Others	57,370	180,092
<b>Collective impairment allowance</b>	<b>305,023</b>	<b>342,950</b>

**Credit risk in investment activities**

The credit risk management approach for investment activities is primarily deliberated at the Board Credit and Investment Committee ("BCIVC"). 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 the Asset Liability Committee ("ALCO") on a monthly basis.

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**35. 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 of money in various financial institutions which are reviewed on a regular basis to mitigate concentration limits in its investment portfolio.

**Investment portfolio concentration**

The portfolio profile is as follows:

	<b>RM'000</b>	<b>Composition (%)</b>
Deposits with financial institutions	-	-
Corporate bonds	2,926,901	71
GII	1,168,234	28
Commercial papers	19,884	1
Equity securities	172	-
<b>Carrying amount at 31 December 2016</b>	<b>4,115,191</b>	<b>100</b>
Deposits with financial institutions	12,376	1
Corporate bonds	2,899,746	70
GII	1,204,395	29
Equity securities	548	-
<b>Carrying amount at 31 December 2015</b>	<b>4,117,065</b>	<b>100</b>

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**35. 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:

**Ratings**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b><u>Corporate bonds</u></b>		
<b><u>AFS securities</u></b>		
Government-Guaranteed ("GG")	1,283,580	1,231,591
Quasi-Govt/AAAbg	170,176	223,273
AAA/AAbg	742,793	792,747
AA/Abg	696,871	620,135
A	20,072	-
BBB	13,409	12,673
<b><u>HTM securities</u></b>		
GG	-	19,327
	<b><u>2,926,901</u></b>	<b><u>2,899,746</u></b>
<b><u>Commercial papers</u></b>		
P1/M1	19,884	-
<b>TOTAL</b>	<b><u><u>2,946,785</u></u></b>	<b><u><u>2,899,746</u></u></b>

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(b) Credit risk (cont'd)**

Credit quality of financial assets - financial investments portfolio and other financial assets.

	<b>Neither past due nor impaired RM'000</b>	<b>Past due but not impaired RM'000</b>	<b>Impaired RM'000</b>	<b>Total RM'000</b>
<b>2016</b>				
Cash and short term funds	1,187,627	-	-	1,187,627
Deposits and placements with financial institutions	-	-	-	-
Investment securities	4,115,191	-	-	4,115,191
Financing and advances	8,029,511	244,008	457,422	8,730,941
	<b>13,332,329</b>	<b>244,008</b>	<b>457,422</b>	<b>14,033,759</b>
As a percentage of gross balance	<b>95.00%</b>	<b>1.74%</b>	<b>3.26%</b>	<b>100%</b>
<b>2015</b>				
Cash and short term funds	771,732	-	-	771,732
Deposits and placements with financial institutions	12,376	-	-	12,376
Investment securities	4,104,689	-	-	4,104,689
Financing and advances	6,672,032	318,643	493,085	7,483,760
	<b>11,560,829</b>	<b>318,643</b>	<b>493,085</b>	<b>12,372,557</b>

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(b) Credit risk (cont'd)**

Credit quality of financial assets - financial investments portfolio and other financial assets. (cont'd)

	<b>Neither past due nor impaired RM'000</b>	<b>Past due but not impaired RM'000</b>	<b>Impaired RM'000</b>	<b>Total RM'000</b>
As a percentage of gross balance	<u>93.44%</u>	<u>2.58%</u>	<u>3.98%</u>	<u>100%</u>

Analysis of aging of financing and advances for past due but not impaired.

	<b>Due within 30 days RM'000</b>	<b>Past due but not impaired</b>		<b>Total RM'000</b>
		<b>Due within 31 to 60 days RM'000</b>	<b>Due within 61 to 90 days RM'000</b>	
<b>2016</b>				
Term Financing	106,503	78,821	44,963	230,287
Revolving Financing	6,305	3,008	4,408	13,721
	<u>112,808</u>	<u>81,829</u>	<u>49,371</u>	<u>244,008</u>
<b>2015</b>				
Term Financing	149,019	94,547	65,997	309,563
Revolving Financing	1,782	5,099	2,199	9,080
	<u>150,801</u>	<u>99,646</u>	<u>68,196</u>	<u>318,643</u>

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(c) Liquidity risk**

**(i) Nature of liquidity risk**

Liquidity risk relates to the ability of the Bank 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/financing within predetermined time buckets. The mismatches may lead to the inability for the Bank to fulfil its contractual obligations when they fall due. As such, the Bank has to maintain a portion of liquid assets in terms of cash, cash equivalents and marketable securities to match respective 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 or the Bank is unable 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.

**(iii) Management of liquidity risk**

The management of liquidity risk is governed by the Market and Liquidity Risk Management Framework (MLRF) which sets out the risk management governance and infrastructure, risk management processes and control responsibilities.

The Board through BRMC approves all policies in relation to liquidity risk management which are regularly reviewed by MRMD. BRMC also oversees the effectiveness and compliance of those policies on a regular basis.

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

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

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

Senior management is responsible to monitor and oversee liquidity risk exposures through the ALCO using primary tools such as maturity mismatch analysis, funding gaps, maximum cumulative outflows and funding concentration ratios using internal as well as market wide information to address possible liquidity issues. ALCO oversees the Bank's financial position structure with regard to liquidity risk exposures and executes controls, within prudent limits and bucketing to manage risks arising from mismatches of maturities across the financial position structure, as well as from undrawn commitments and other contingent obligations. The day-to-day liquidity requirements and position is managed by Treasury Department (TD) while MRMD, under Risk Management Division (RMD) acts as Middle Office in monitoring and reporting liquidity risks to ALCO.

**(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 Bank's 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 bond 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 deposits) 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 deposits to meet contractual and behavioural maturities and commitments when they fall due.

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**35. 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 situations. The CFP enables Management to make timely and well-informed decisions 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 processes, a crisis management team and funding strategies to mitigate liquidity crisis situations. The CFP is tested and reviewed regularly to update the latest position and matters in relation to liquidity risk profiles of the Bank.

**(vi) Stress testing on liquidity risk**

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

**(vii) Basel III requirements on liquidity risk**

The Bank has started to adopt and comply with certain liquidity risk requirements under the Basel III framework (Liquidity Coverage, Net Stable Funding) pending to the framework's targeted implementation by 2019.



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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(c) Liquidity Risk (cont'd)**

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

	<6 months RM'000	6 - 12 months RM'000	1 - 3 years RM'000	3 - 5 years RM'000	>5 years RM'000	Non-specific maturity RM'000	Total RM'000
<b>2016</b>							
<b>Financial assets</b>							
Cash and short term funds	1,187,627	-	-	-	-	-	1,187,627
Investment securities *	22,465	268,336	560,977	677,839	2,585,402	465	4,115,484
Financing and advances *	1,043,293	69,649	468,556	990,376	6,159,067	-	8,730,941
Other advances *	-	-	-	-	84,934	-	84,934
<b>Non-Financial assets</b>							
Other assets	-	-	-	-	-	97,439	97,439
<b>Total assets</b>	<b>2,253,385</b>	<b>337,985</b>	<b>1,029,533</b>	<b>1,668,215</b>	<b>8,829,403</b>	<b>97,904</b>	<b>14,216,425</b>

\* Gross before allowance for impairment

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(c) Liquidity Risk (cont'd)**

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

	<b>&lt;6 months</b>	<b>6 - 12 months</b>	<b>1 - 3 years</b>	<b>3 - 5 years</b>	<b>&gt;5 years</b>	<b>Non-specific maturity</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2016</b>							
<b>Financial liabilities</b>							
<b>Deposit from customers</b>							
Savings deposits	3,089,746	-	-	-	-	-	3,089,746
Term deposits	2,822,874	1,032,084	83,578	16,624	-	-	3,955,160
<b>Deposit and placement of banks and other financial institutions</b>	1,623,265	-	-	-	-	-	1,623,265
<b>Financing scheme funds</b>							
Government	-	-	-	-	1,366,843	-	1,366,843
BNM	-	-	-	-	249,758	-	249,758
<b>Other liabilities</b>							
Government grants	-	-	-	-	-	825,087	825,087
Paddy credit gratuity scheme	-	-	-	-	-	2,275	2,275
	<b>7,535,885</b>	<b>1,032,084</b>	<b>83,578</b>	<b>16,624</b>	<b>1,616,601</b>	<b>827,362</b>	<b>11,112,134</b>

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(c) Liquidity Risk (cont'd)**

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

	<b>&lt;6 months</b>	<b>6 - 12 months</b>	<b>1 - 3 years</b>	<b>3 - 5 years</b>	<b>&gt;5 years</b>	<b>Non-specific maturity</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2016</b>							
<b>Non-Financial liabilities</b>							
Other payables	-	-	-	-	-	203,409	203,409
<b>Total Liabilities</b>	<b>7,535,885</b>	<b>1,032,084</b>	<b>83,578</b>	<b>16,624</b>	<b>1,616,601</b>	<b>1,030,771</b>	<b>11,315,543</b>
<b>Net maturity mismatch</b>	<b>(5,282,500)</b>	<b>(694,099)</b>	<b>945,955</b>	<b>1,651,591</b>	<b>7,212,802</b>	<b>(932,867)</b>	<b>2,900,882</b>

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(c) Liquidity Risk (cont'd)**

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

	<6 months RM'000	6 - 12 months RM'000	1 - 3 years RM'000	3 - 5 years RM'000	>5 years RM'000	Non-specific maturity RM'000	Total RM'000
<b>2015</b>							
<b>Financial assets</b>							
Cash and short term funds	771,732	-	-	-	-	-	771,732
Deposits with financial institutor	12,376	-	-	-	-	-	12,376
Investment securities *	10,015	119,715	648,672	1,096,874	2,228,865	841	4,104,982
Financing and advances *	720,248	104,555	434,921	1,012,160	5,211,876	-	7,483,760
Other advances *	-	-	-	-	116,269	-	116,269
<b>Non-Financial assets</b>							
Other assets	-	-	-	-	-	97,436	97,436
<b>Total assets</b>	<b>1,514,371</b>	<b>224,270</b>	<b>1,083,593</b>	<b>2,109,034</b>	<b>7,557,010</b>	<b>98,277</b>	<b>12,586,555</b>

\* Gross before allowance for impairment

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(c) Liquidity Risk (cont'd)**

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

	<b>&lt;6 months</b>	<b>6 - 12 months</b>	<b>1 - 3 years</b>	<b>3 - 5 years</b>	<b>&gt;5 years</b>	<b>Non-specific maturity</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2015</b>							
<b>Financial liabilities</b>							
<b>Deposit from customers</b>							
Savings deposits	2,951,853	-	-	-	-	-	2,951,853
Term deposits	1,564,554	1,302,867	29,803	55,876	-	-	2,953,100
<b>Deposit and placement of banks and other financial institutions</b>	1,055,070	80,627	-	-	-	-	1,135,697
<b>Financing scheme funds</b>							
Government	-	-	-	-	1,316,129	-	1,316,129
BNM	-	-	-	-	295,278	-	295,278
<b>Other liabilities</b>							
Government grants	-	-	-	-	-	873,646	873,646
Paddy credit gratuity scheme	-	-	-	-	-	2,330	2,330
	<b>5,571,477</b>	<b>1,383,494</b>	<b>29,803</b>	<b>55,876</b>	<b>1,611,407</b>	<b>875,976</b>	<b>9,528,033</b>

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(c) Liquidity Risk (cont'd)**

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

	<b>&lt;6 months</b>	<b>6 - 12 months</b>	<b>1 - 3 years</b>	<b>3 - 5 years</b>	<b>&gt;5 years</b>	<b>Non-specific maturity</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2015</b>							
<b>Non-Financial liabilities</b>							
Other payables	-	-	-	-	-	280,333	280,333
<b>Total Liabilities</b>	<b>5,571,477</b>	<b>1,383,494</b>	<b>29,803</b>	<b>55,876</b>	<b>1,611,407</b>	<b>1,156,309</b>	<b>9,808,366</b>
<b>Net maturity mismatch</b>	<b>(4,057,106)</b>	<b>(1,159,224)</b>	<b>1,053,790</b>	<b>2,053,158</b>	<b>5,945,603</b>	<b>(1,058,032)</b>	<b>2,778,189</b>

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(c) Liquidity Risk (cont'd)**

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

	<b>&lt;6 months</b>	<b>6 - 12 months</b>	<b>1 - 3 years</b>	<b>3 - 5 years</b>	<b>&gt;5 years</b>	<b>Non-specific maturity</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2016</b>							
<b>Financial liabilities</b>							
<b>Deposit from customers</b>							
Savings deposits	3,089,746	-	-	-	-	-	3,089,746
Term deposits	2,897,116	1,059,228	90,347	18,928	-	-	4,065,619
<b>Deposit and placement of banks and other financial institutions</b>	1,686,572	-	-	-	-	-	1,686,572
<b>Financing scheme funds</b>							
Government	-	-	-	-	1,398,844	-	1,398,844
BNM	-	-	-	-	255,957	-	255,957
<b>Other liabilities</b>							
Government grants	-	-	-	-	-	825,087	825,087
Paddy credit gratuity scheme	-	-	-	-	-	2,275	2,275
	<b>7,673,434</b>	<b>1,059,228</b>	<b>90,347</b>	<b>18,928</b>	<b>1,654,801</b>	<b>827,362</b>	<b>11,324,100</b>

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(c) Liquidity Risk (cont'd)**

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

	<b>&lt;6 months</b>	<b>6 - 12 months</b>	<b>1 - 3 years</b>	<b>3 - 5 years</b>	<b>&gt;5 years</b>	<b>Non-specific maturity</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2016</b>							
<b>Financial liabilities</b>							
Other payables	-	-	-	-	-	203,409	203,409
<b>Total Liabilities</b>	<b>7,673,434</b>	<b>1,059,228</b>	<b>90,347</b>	<b>18,928</b>	<b>1,654,801</b>	<b>1,030,771</b>	<b>11,527,509</b>



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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(c) Liquidity Risk (cont'd)**

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

	<b>&lt;6 months</b>	<b>6 - 12 months</b>	<b>1 - 3 years</b>	<b>3 - 5 years</b>	<b>&gt;5 years</b>	<b>Non-specific maturity</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2015</b>							
<b>Financial liabilities</b>							
<b>Deposit from customers</b>							
Savings deposits	2,951,853	-	-	-	-	-	2,951,853
Term deposits	1,603,981	1,335,699	32,113	63,280	-	-	3,035,073
<b>Deposit and placement of banks and other financial institutions</b>							
	1,094,741	83,658	-	-	-	-	1,178,399
<b>Financing scheme funds</b>							
Government	-	-	-	-	1,592,823	-	1,592,823
BNM	-	-	-	-	358,623	-	358,623
<b>Other liabilities</b>							
Government grants	-	-	-	-	-	873,646	873,646
Paddy credit gratuity scheme	-	-	-	-	-	2,330	2,330
	<b>5,650,575</b>	<b>1,419,357</b>	<b>32,113</b>	<b>63,280</b>	<b>1,951,446</b>	<b>875,976</b>	<b>9,992,747</b>

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(c) Liquidity Risk (cont'd)**

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

	<b>&lt;6 months</b>	<b>6 - 12 months</b>	<b>1 - 3 years</b>	<b>3 - 5 years</b>	<b>&gt;5 years</b>	<b>Non-specific maturity</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2015</b>							
<b>Financial liabilities</b>							
Other payables	-	-	-	-	-	280,333	280,333
<b>Total Liabilities</b>	<b>5,650,575</b>	<b>1,419,357</b>	<b>32,113</b>	<b>63,280</b>	<b>1,951,446</b>	<b>1,156,309</b>	<b>10,273,080</b>

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(d) Market risk**

**(i) Nature of market risk**

Market risks arises from volatilities in profit rates, equity prices, commodity prices, credit spreads and foreign exchange rates which are inherent in the investment portfolio. The market risk exposure for the Bank relates to all financial assets and liabilities held for investment in the banking book as well as for trading purposes. As the Bank's investment portfolio focuses on profit rate bearing assets and liabilities, movements/changes in profit rates in the market may pose major and significant risk to the fair value of the 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 profit rates, equity prices, commodity prices, foreign exchange rates etc.

**(iii) Management of market risk**

The management of market risks, in particular the profit rate risk is governed by the MLRF which sets out the risk management governance and infrastructure, risk management processes and control responsibilities.

The Board through BRMC approves all policies in relation to market rate risks, in particular the profit rate risk management which are reviewed on a regular basis. BRMC also oversees the effectiveness and compliance of those policies as well as approve new and revised existing policies.

At senior management level, ALCO deliberates market risk management by executing decisions, business strategies and action plans within the policies and guidelines approved by BRMC or the Board.

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**35. 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 the investment portfolio is executed by the TD. MRMD acts as the middle office for investment and treasury related activities by executing risk governance and risk assessments on a regular basis. 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 returns, in particular for the AFS portfolio. MRMD provides monthly report to ALCO and BRMC for investment portfolio governance including the compliance of limits approved by BRMC/Board.

For bank-wide market risk management, MRMD monitors the profit rate risk sensitivity through the Profit Rate Sensitivity Gap ("PRG"), Earnings at Risk ("EAR") and Duration Weighted Gap ("DWG") regularly and presents reports to ALCO every month. MRMD also signs off new product proposal papers and documents (together with other risk management units) for new products by incorporating relevant assessments and advice on market (and liquidity risks) prior to escalation to higher levels for BNM approval.

**(iv) Measurement of profit rate risk**

The measurement of the Bank's exposures to profit rate risk is done through the following:

- **Sensitivity analysis**

Sensitivity analysis is 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 profit rates on bonds prices.

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(d) Market risk (cont'd)**

**(iv) Measurement of profit rate risk (cont'd)**

- **Profit rate gap ("PRG") analysis**

Gap analysis is conducted to determine the gap between the Risk Sensitive Assets (RSAs) and Risk Sensitive Liabilities (RSLs) in relation to their sensitivity to profit rate movements in the market for any given period of time. The RSAs and RSLs are classified into predetermined buckets based on respective repricing modes which are either contractual or behavioural in nature and in particular to the movements of the Overnight Policy Rate (OPR) announced by BNM. The gap between RSAs and RSLs for each bucket represents the amounts and percentages of the PRG. For the measurement of PRG, the Bank takes the position of all buckets within one year bond and matches it against the predetermined limit to reflect sensitivity to the movement in the Net Profit Income (NPI) and capital. The Bank establishes a limit of +/-10% on the PRG to effectively mitigate profit rate risk. The non sensitive assets or liabilities which lack definite repricing intervals are assigned to buckets according to relevant judgment and past experience of the Bank.

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

DWG analysis utilises 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 changes in profit rates (the average term to repricing), and therefore reflects how changes in profit 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 profit rate movements for all buckets as per PRG with the incorporation of predetermined weights.

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(d) Market risk (cont'd)**

**(iv) Measurement of profit rate risk (cont'd)**

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

EaR analysis aims to quantify the impact on the projection of net profit income ("NPI") in the event of an adverse change in prevailing profit rates for a period of 1 year, depending on profit rate sensitivity of the Bank (Asset Sensitive or Liability Sensitive). The Bank assumes a maximum 100 basis point rate movement as the worst case scenario.

- **Value at risk ("VaR") analysis**

The Bank has in place the Value at Risk ("VaR") model in measuring profit rate risk on its investment portfolio, despite not having a trading book 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. The Bank adopted the Historical Simulation Approach for 250 days with 99% confidence level and predetermined VaR limit.

- **Stress test analysis/Scenario analysis**

Stress testing/simulation analyses are done based on macro economic variables, particularly "yield rates on bond values ("Duration") and "beta ratio on equity" as well as possibility of bonds downgrading impact. The stress testing/simulation analysis employs 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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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(d) Market Risk (cont'd)**

**(v) Profit Rate Risk**

The table below summarises the Bank's exposure to profit 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- profit sensitive RM '000	Total RM '000	Effective Profit Rate
<b>2016</b>								
<b>Financial assets</b>								
Cash and short term funds	1,187,627	-	-	-	-	-	1,187,627	3.44%
Investment securities	290,801	269,813	291,164	677,839	2,585,402	465	4,115,484	4.27%
Financing and advances	6,770,351	58,358	74,545	173,513	53,934	1,600,240	8,730,941	6.58%
Other advances	-	-	-	-	-	84,934	84,934	
Other assets	-	-	-	-	-	57,795	57,795	
<b>Total assets</b>	<b>8,248,779</b>	<b>328,171</b>	<b>365,709</b>	<b>851,352</b>	<b>2,639,336</b>	<b>1,743,434</b>	<b>14,176,781</b>	

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(d) Market Risk (cont'd)**

**(v) Profit Rate Risk (cont'd)**

The table below summarises the Bank's exposure to profit 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- profit sensitive RM '000	Total RM '000	Effective Profit Rate
<b>2016 (cont'd)</b>								
<b>Financial liabilities</b>								
Deposits from customers	6,944,704	15,738	67,840	16,624	-	-	7,044,906	2.63%
Deposit and placement of banks and other financial institutions	1,623,265	-	-	-	-	-	1,623,265	3.90%
Financing scheme funds	-	-	-	-	-	1,616,601	1,616,601	0.45%
Other liabilities	-	-	-	-	-	827,362	827,362	
<b>Total financial liabilities</b>	<b>8,567,969</b>	<b>15,738</b>	<b>67,840</b>	<b>16,624</b>	<b>-</b>	<b>2,443,963</b>	<b>11,112,134</b>	



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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(d) Market Risk (cont'd)**

**(v) Profit Rate Risk (cont'd)**

The table below summarises the Bank's exposure to profit 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- profit sensitive RM '000	Total RM '000	Effective Profit Rate
<b>2015</b>								
<b>Financial assets</b>								
Cash and short term funds	771,732	-	-	-	-	-	771,732	3.94%
Deposits and placements with financial institutions	12,376	-	-	-	-	-	12,376	4.30%
Investment securities	129,730	355,524	293,148	1,096,874	2,228,865	841	4,104,982	3.93%
Financing and advances	824,803	174,880	256,041	1,016,160	2,507,278	2,704,598	7,483,760	7.20%
Other advances	-	-	-	-	-	116,269	116,269	
Other assets	-	-	-	-	-	48,103	48,103	
<b>Total assets</b>	<b>1,738,641</b>	<b>530,404</b>	<b>549,189</b>	<b>2,113,034</b>	<b>4,736,143</b>	<b>2,869,811</b>	<b>12,537,222</b>	

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(d) Market Risk (cont'd)**

**(v) Profit Rate Risk (cont'd)**

The table below summarises the Bank's exposure to profit 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- profit sensitive RM '000	Total RM '000	Effective Profit Rate
<b>2015 (cont'd)</b>								
<b>Financial liabilities</b>								
Deposits from customers	5,819,274	12,885	16,918	55,876	-	-	5,904,953	2.52%
Deposit and placement of banks and other financial institutions	1,135,697	-	-	-	-	-	1,135,697	3.76%
Financing scheme funds	-	-	-	-	-	1,611,407	1,611,407	3.98%
Other liabilities	-	-	-	-	-	875,976	875,976	
<b>Total financial liabilities</b>	<b>6,954,971</b>	<b>12,885</b>	<b>16,918</b>	<b>55,876</b>	<b>-</b>	<b>2,487,383</b>	<b>9,528,033</b>	

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(d) Market Risk (cont'd)**

**Profit rate sensitivity**

The table below shows the impact of the Bank's profit after tax and equity to an up and down 100 basis point parallel rate shock:

	2016		2015	
	+100bp RM '000	-100bp RM '000	+100bp RM '000	-100bp RM '000
Impact on profit before tax	84,556	(84,556)	82,708	(82,708)
Impact on equity	64,263	(64,263)	62,858	(62,858)
	<b>148,819</b>	<b>(148,819)</b>	<b>145,566</b>	<b>(145,566)</b>

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(e) Operational risk**

**(i) Nature of operational risk**

Operational risk is inherent in the Bank's business operations and associated with the Bank's involvement with financial instruments, other than credit, market and liquidity risks.

**(ii) Definition of operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems and from external events. This definition includes legal risk but excludes strategic and reputational risk.

**(iii) Management of operational risk**

The management of operational risk is governed by the Operational Risk Management Framework (ORMF) which sets out the risk management governance and infrastructure, risk management processes and control responsibilities which is in line with the regulatory guidelines set by the Bank of International Settlements ("BIS"), Basel Accords and BNM.

The Board through BRMC approves all policies in relation to operational risk management which are reviewed on a regular basis. BRMC also oversees the effectiveness and compliance of those policies as well as approve new and revised policies.

Senior 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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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(e) Operational risk (cont'd)**

**(iv) Measurement of operational risk**

• **Oversight structure and lines of defence**

The interplay between the risk owners at the business level, Risk Management Division ("RMD") and Internal Audit Department (IAD) forms the framework for the Bank's "three lines of defence" in the managing of operational 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 in place and aligned to the business objectives.

RMD as the second line of defence is responsible for operational risk management oversight while IAD as the third line of defence is 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 at 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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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(e) Operational risk (cont'd)**

**(iv) Measurement of operational risk (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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**35. 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 financing.

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 financing 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 has developed a Capital Management Plan ("CMP") to facilitate effective management of capital and address potential impact from financing deterioration as well as to provide an adequate buffer to support business expansion.

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**35. FINANCIAL INSTRUMENTS (cont'd)**

**A. FINANCIAL RISK MANAGEMENT (cont'd)**

**(f) Capital management (cont'd)**

**Capital allocation**

Capital allocation 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 profiles, 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:

	<b>2016</b>	<b>2015</b>
	%	%
Before deducting proposed dividend:		
Core capital ratio	<b>24.88</b>	<b>27.25</b>
Risk-weighted capital ratio	<b>29.37</b>	<b>32.49</b>
After deducting proposed dividend:		
Core capital ratio	<b>24.69</b>	<b>27.12</b>
Risk-weighted capital ratio	<b>29.18</b>	<b>32.36</b>



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**35. 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 2016 has incorporated the market risk pursuant to the BNM Market Risk Capital Adequacy Framework which became effective on 1 April 2005.

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Components of Tier I and Tier II capital		
<b>Tier I capital</b>		
Share capital	1,000,000	1,000,000
Statutory reserves	487,109	487,109
Retained earnings	1,184,458	1,060,323
Less: Deferred tax assets	<u>(41,187)</u>	<u>(60,602)</u>
<b>Total Tier I capital</b>	<b><u>2,630,380</u></b>	<b><u>2,486,830</u></b>
<b>Tier II capital</b>		
Collective impairment allowance <sup>1</sup>	177,322	183,911
Government Grants - Operating	26,044	27,584
Government Grants - Launching	6,046	8,471
Government Grants - Funds <sup>2</sup>	<u>264,886</u>	<u>258,035</u>
<b>Total Tier II capital</b>	<b><u>474,298</u></b>	<b><u>478,001</u></b>
<b>Total capital base</b>	<b><u>3,104,678</u></b>	<b><u>2,964,831</u></b>

<sup>1</sup> The eligible amount for Tier II capital is limited to only collective impairment allowance on non-impaired financing and advances.

<sup>2</sup> The Government Grants - Funds exclude those grants relating to the fair valuation of financing scheme funds at below market rate amounting to RM528.11 million (2015: RM579.55 million).

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**35. 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:

	<b>Notional RM'000</b>	<b>Risk- weighted RM'000</b>
0%	2,672,303	-
20%	1,425,701	285,140
50%	34,805	17,403
100%	9,805,295	9,805,295
Off balance sheet risk-weighted assets	-	462,941
<b>Total risk-weighted assets at 31 December 2016</b>	<b><u>13,938,104</u></b>	<b><u>10,570,779</u></b>
0%	2,681,850	-
20%	1,028,951	205,791
50%	36,506	18,253
100%	8,484,830	8,484,830
Off balance sheet risk-weighted assets	-	417,709
<b>Total risk-weighted assets at 31 December 2015</b>	<b><u>12,232,137</u></b>	<b><u>9,126,583</u></b>

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**35. 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.

**(i) Financial assets and financial liabilities carried at fair value**

Set out below, is a comparison by the class of the fair value of the Bank's financial instruments:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
<b>2016</b>				
<b>Financial assets</b>				
Investment securities-AFS	465	4,115,019	-	4,115,484
<b>2015</b>				
<b>Financial assets</b>				
Investment securities-AFS	841	3,934,412	-	3,935,253

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

**(ii) Financial assets and financial liabilities at carrying amount**

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Investment securities-HTM	-	-	169,729	170,541
Financing and advances	8,270,863	5,369,742	6,986,692	6,802,680
	<b>8,270,863</b>	<b>5,369,742</b>	<b>7,156,421</b>	<b>6,973,221</b>

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**35. FINANCIAL INSTRUMENTS (cont'd)**

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

**(ii) Financial assets and financial liabilities at carrying amount (cont'd)**

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial liabilities</b>				
Deposits from customers	7,044,906	6,858,655	5,904,953	5,753,230
Deposit and placement of banks and other financial institutions	1,623,265	1,562,334	1,135,697	1,094,543
	<b>8,668,171</b>	<b>8,420,989</b>	<b>7,040,650</b>	<b>6,847,773</b>

The fair value of investment securities-HTM, financing and advances, deposits from customers and deposit and placement of banks and other financial institutions are at Level 2 (2015: Level 2).

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 quoted equities and debt securities.

The fair values of private debt securities, Malaysian government investment issues are determined by reference to the market value of these instruments published by rating agency in Malaysia.

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**35. FINANCIAL INSTRUMENTS (cont'd)**

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

**(iii) Financing and advances**

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

For fixed-rate financing 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 financing to new customers with similar credit profiles, where applicable.

**(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.

**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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**35. FINANCIAL INSTRUMENTS (cont'd)**

**C. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS**

	AFS securities RM'000	Financial assets and liabilities at amortised cost RM'000	Total RM'000
<b>2016</b>			
<b>Financial assets</b>			
Cash and short term funds	-	1,187,627	1,187,627
Deposits with financial institutions	-	-	-
Investment securities	4,115,191	-	4,115,191
Financing and advances	-	8,270,863	8,270,863
	<b>4,115,191</b>	<b>9,458,490</b>	<b>13,573,681</b>
<b>Financial liabilities</b>			
Deposits from customers	-	7,044,906	7,044,906
Deposit and placement of banks and other financial institutions	-	1,623,265	1,623,265
Financing scheme funds	-	1,616,601	1,616,601
	<b>-</b>	<b>10,284,772</b>	<b>10,284,772</b>

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**35. FINANCIAL INSTRUMENTS (cont'd)**

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

	HTM securities RM'000	AFS securities RM'000	Financial assets and liabilities at amortised cost RM'000	Total RM'000
<b>2015</b>				
<b>Financial assets</b>				
Cash and short term funds	-	-	771,732	771,732
Deposits with financial institutions	-	-	12,376	12,376
Investment securities	169,729	3,934,960	-	4,104,689
Financing and advances	-	-	6,986,692	6,986,692
	<b>169,729</b>	<b>3,934,960</b>	<b>7,770,800</b>	<b>11,875,489</b>
<b>Financial liabilities</b>				
Deposits from customers	-	-	5,904,953	5,904,953
Deposit and placement of banks and other financial institutions	-	-	1,135,697	1,135,697
Financing scheme funds	-	-	1,611,407	1,611,407
	-	-	<b>8,652,057</b>	<b>8,652,057</b>

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**36. SHARIAH NON COMPLIANT EVENT**

**(1) Nature of Non-Compliant ("SNC") Events**

The Bank has put in place a sound Shariah governance framework to ensure strict adherence to Shariah requirements in its processes. A dedicated Shariah Committee ("SC") provides Shariah oversight on all material Shariah non-compliant risks across the Bank.

SNC event is a result of the Bank's failure to comply with the Shariah rules and principles determined by the relevant Shariah regulatory councils. Any transactions that are suspected to be Shariah non-compliant are reported to the SC for their deliberation and conclusion as to whether any Shariah requirements have been breached.

For the financial year ended 31 December 2016, the nature of Shariah non-compliance deliberated by the SC were as follows:

**Financing products**

- (i) Element of interconditionality in Asset Purchase Agreement ("APA") and Assets Sale Agreement ("ASA") (Bai' Al-Inah and BBA).
- (ii) Incorrect sequence of akad executions (Bai' Al-Inah and BBA).
- (iii) Absence of akad in Bai' Al-Inah and BBA.

**Deposit products**

- (i) Improper execution of agreement for Tawarruq products (FRIA-i and FRIA-i 45Plus).

**(2) Amount of Shariah non-compliant accounts and tainted income**

Throughout the year 2016, there were 21 accounts (2015: 359 accounts) identified as SNC events reported to BNM. Nevertheless, the rectification processes are still in progress.



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**37. COMPARATIVE**

Certain amounts in the comparative financial statements and note disclosures have been reclassified to conform with the current year's presentation. The reclassification is as follow:

	<b>Previously stated</b>	<b>Re- classification</b>	<b>Restated</b>
<b>Statement of financial position</b>			
<b>1.1.2015</b>			
Deposits from customers	6,854,282	(685,249)	6,169,033
Deposit and placement of banks and other financial institutions	-	685,249	685,249
<b>31.12.2015</b>			
Deposits from customers	7,040,650	(1,135,697)	5,904,953
Deposit and placement of banks and other financial institutions	-	1,135,697	1,135,697

**38. SUBSEQUENT EVENT**

On 15 September 2016, the Companies Act 2016 (“New Act”) was enacted and will replace the Companies Act, 1965 in Malaysia with the New Act to be effective on 31 January 2017.

The New Act was enacted to replace the Companies Act, 1965 in Malaysia with the objective of creating a legal and regulatory structure that will facilitate business and promote accountability as well as protection of corporate directors and shareholders, taking into consideration the interest of other stakeholders. The New Act was passed on 4 April 2016 by the Dewan Rakyat (House of Representative) and gazetted on 15 September 2016. On 26 January 2017, the Minister of Domestic Trade Co-operatives and Consumerism announced that the date on which the New Act comes into operation, except for Section 241 and Division 8 of Part III of the New Act, would be 31 January 2017.

Amongst the key changes introduced in the New Act which will affect the financial statements of the Bank upon the commencement of the New Act on 31 January 2017 are:

- i) the removal of the authorised share capital; and
- ii) the ordinary shares of the Bank will cease to have par or nominal value.

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**38. SUBSEQUENT EVENT (cont'd)**

The adoption of the New Act is not expected to have any financial impact on the Bank for the current financial year ended 31 December 2016 as any accounting implications will only be applied prospectively, if applicable, and the effect of adoption mainly will be on the disclosures to the annual report and financial statements of the Bank in the next financial year ending 31 December 2017.