

Company No: 811810-U



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

AUDITED FINANCIAL STATEMENTS
FOR FINANCIAL YEAR ENDED 31 DECEMBER 2017
(In Ringgit Malaysia)

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 hereby present their report together with the audited financial statements of the Bank for the financial year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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.

RESULTS

	RM'000
Profit before tax and zakat	230,602
Tax	(55,317)
Zakat	<u>(2,631)</u>
Net profit for the year	<u><u>172,654</u></u>

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

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

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DIVIDENDS

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

	RM'000
In respect of the financial year ended 31 December 2016, a final dividend of 2.00 sen on 1,000,000,000 ordinary shares declared on 2 June 2017 and paid on 6 June 2017.	<u>20,000</u>

At the forthcoming Annual General Meeting, a final single tier dividend in respect of the current financial year ended 31 December 2017 of 2.55 sen on 1,000,000,000 ordinary shares amounting to dividend payable of RM25,500,000 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 2018.

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.

BANK PERTANIAN MALAYSIA BERHAD

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DIRECTORS

The following directors served on the Board of the Bank since the beginning of the financial year to the date of this report:

Y. Bhg Tan Sri Mohamad Zabidi Bin Zainal (Chairman)

Y. Bhg Dato' Dr Mohamad Hashim bin Ahmad Tajudin

Y. Bhg Datin Setia Shahariah binti Hashim

Y. Bhg Datuk Seri Dr. Ismail bin Haji Bakar

Y. Bhg Dato' Dr. Yusof bin Ismail

Puan Azizah binti Abdul Rahman

Tuan Haji Ibrahim Bin Hassan

Puan Faizah binti Abdullah
(appointed on 18 April 2017)

Encik Abdul Rahim Abd Hadi
(appointed on 9 January 2018)

YH. Dato' Wan Mohd Fadzmi bin Che Wan Othman Fadzilah
(resigned on 31 August 2017)

Encik Ng Chih Kaye
(retired on 30 June 2017)

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 32 to the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

COMPLIANCE WITH BANK NEGARA MALAYSIA'S EXPECTATIONS ON FINANCIAL REPORTING

In the preparation of the financial statements, the directors have taken reasonable steps to ensure that Bank Negara Malaysia's expectations on financial reporting have been complied with, including those set out in the Guidelines on Financial Reporting for Development Financial Institutions.

OTHER STATUTORY INFORMATION

- (a) Before the financial statements 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 claims made by customers as disclosed in Notes 23(a)(iv) and 31 to the financial statements. The risk in respect of the contingent liabilities disclosed in Note 31 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.

INDEMNIFICATION OF DIRECTORS

The Bank maintained a Directors' and Officers' Liability Takaful up to an aggregate limit of RM50,000,000 against any legal liability incurred by the directors and officers in the discharge of their duties while holding office for the Bank. The amount of takaful contribution paid for the directors and officers for the current financial year was RM85,000.

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SIGNIFICANT EVENTS

Details of significant events which are all relating to compensation claims made by certain customers, are disclosed in Note 11 to the financial statements.

HOLDING COMPANY

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

AUDITORS

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

The auditors' remuneration is disclosed in Note 9 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 30 March 2018.



TAN SRI MOHAMAD ZABIDI BIN ZAINAL



AZIZAH BINTI ABDUL RAHMAN

Company No: 811810-U


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 **AZIZAH BINTI ABDUL RAHMAN** 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 150 are properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 December 2017 and of its financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 30 March 2018.



TAN SRI MOHAMAD ZABIDI BIN ZAINAL



AZIZAH BINTI ABDUL RAHMAN

STATUTORY DECLARATION

**Pursuant to Section 251(1)(b) of the Companies Act, 2016 and
Section 73(1)(e) of the Development Financial Institution Act, 2002**

We, **AZIZAH BINTI ABDUL RAHMAN** and **MASAAT BINTI AWADZ**, the Director and Covering Duties President/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 150 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.



AZIZAH BINTI ABDUL RAHMAN



MASAAT BINTI AWADZ

Subscribed and solemnly declared by the above named
AZIZAH BINTI ABDUL RAHMAN and **MASAAT BINTI AWADZ**
at KUALA LUMPUR in the Federal Territory on 30 March 2018.

Before me,

COMMISSIONER FOR OATHS



BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

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 2017. 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 2017 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, **ASSOC. PROF. 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 2017 have been conducted in conformity with Shariah.


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


DR. MOHAMAD SABRI BIN ZAKARIA
Member of the Committee

Kuala Lumpur, Malaysia
30 March 2018

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

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 2017, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 14 to 150.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for opinion

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

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 31 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 member of
Bank Pertanian Malaysia Berhad (cont'd)
(Incorporated in Malaysia)**

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 and Shariah Committee's report, but does not include the financial statements of the Bank and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the annual report, which is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements of the Bank does not cover the other information and we do not and will 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 identified above 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 on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Responsibilities of the 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 Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Bank 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 intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

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

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 with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements of the 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 the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 auditors' 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 member 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 member 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



Wan Daneena Liza Binti Wan Abdul Rahman
No. 02978/03/2020 J
Chartered Accountant

Kuala Lumpur, Malaysia
30 March 2018

BANK PERTANIAN MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	2017 RM'000	2016 RM'000
Income derived from investment of depositors' funds and others	5(a)	647,138	593,550
Income derived from investment of shareholder's funds	5(b)	239,046	228,565
Allowance for impairment	6	(4,298)	(18,797)
Total distributable income		881,886	803,318
Income attributable to depositors	7	(240,348)	(158,532)
Total net income		641,538	644,786
Personnel expenses	8	(281,954)	(245,286)
Other overheads and expenditures	9	(157,989)	(147,708)
Finance cost	10	(9,825)	(9,848)
Compensation claim	11	38,832	(44,053)
Profit before tax and zakat		230,602	197,891
Tax expense	12	(55,317)	(59,633)
Zakat	13	(2,631)	(2,223)
Net profit for the year		172,654	136,035
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Financial investments available-for-sale			
Unrealised net gain on fair value changes		29,159	22,185
Transfer to profit or loss on disposal		-	(4,407)
Income tax relating to components of other comprehensive income		(6,926)	(4,255)
Other comprehensive income for the year, net of tax		22,233	13,523
Total comprehensive income for the year		194,887	149,558

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 2017

	Note	2017 RM'000	2016 RM'000
ASSETS			
Cash and short term funds	14	1,308,683	1,187,627
Investment securities	15	4,403,960	4,115,191
Financing and advances	16	9,173,891	8,270,863
Other advances	17	34,067	52,054
Other assets	18	115,296	97,439
Property, plant and equipment	19	139,152	152,596
Intangible assets	20	19,348	20,617
Deferred tax assets	21	13,994	41,187
TOTAL ASSETS		15,208,391	13,937,574
LIABILITIES AND EQUITY			
Liabilities			
Deposits from customers	22(a)	7,589,377	7,044,906
Deposit and placement of banks and other financial institutions	22(b)	2,180,070	1,623,265
Other liabilities			
Other payables and accruals	23(a)	142,673	203,409
Paddy credit gratuity scheme	23(b)	2,265	2,275
Financing Scheme Funds	24	1,689,763	1,616,601
Government Grants			
Operating	25	24,505	26,044
Launching	26	4,144	6,046
Funds	27	778,676	792,997
Total Liabilities		12,411,473	11,315,543
Equity			
Share capital	28	1,000,000	1,000,000
Reserves	29	1,796,918	1,622,031
Total Equity		2,796,918	2,622,031
TOTAL LIABILITIES AND EQUITY		15,208,391	13,937,574
Commitments and Contingencies	31	6,656,472	6,732,481

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 2017**

	Non-distributable reserves			Distributable reserves	
	Share capital	Statutory reserves	Investment revaluation deficit	Retained earnings	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 January 2017	1,000,000	487,109	(49,536)	1,184,458	2,622,031
Net profit for the year	-	-	-	172,654	172,654
Other comprehensive income for the year	-	-	22,233	-	22,233
Total comprehensive income for the year	-	-	22,233	172,654	194,887
Dividends paid (Note 30)	-	-	-	(20,000)	(20,000)
At 31 December 2017	1,000,000	487,109	(27,303)	1,337,112	2,796,918

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BANK PERTANIAN MALAYSIA BERHAD

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STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (cont'd)

	Non-distributable reserves			Distributable reserves	
	Share capital	Statutory reserves	Investment revaluation deficit	Retained earnings	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 January 2016	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 30)	-	-	-	(11,900)	(11,900)
At 31 December 2016	1,000,000	487,109	(49,536)	1,184,458	2,622,031

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 2017

	2017	2016
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax and zakat	230,602	197,891
Adjustments for:		
Net allowance for impairment on financing and advances	32,552	69,721
Net write back of impairment on other advances	(2,259)	(1,402)
Depreciation of property, plant and equipment	24,867	22,796
Amortisation of prepaid lease payment	75	75
Amortisation of computer software	13,516	14,894
Finance cost	9,825	9,848
Write off of property, plant and equipment	590	664
Write off of intangible assets	316	520
Gain on disposal of investment securities	-	(12,275)
Dividends from investment securities	(4)	(37)
Government funds recovered	2,440	1,056
Amortisation of:		
Government Grant - Operating	(1,539)	(1,540)
Government Grant - Launching	(622)	(1,705)
Gain on disposal of property, plant and equipment	(1,466)	-
Operating profit before working capital changes	308,893	300,506
Change in financing and advances	(935,580)	(1,353,892)
Change in other assets	3,947	12,017
Change in deposits with financial institutions	-	12,376
Change in deposits from customers	544,471	1,139,953
Change in deposit and placement of banks and other financial institutions	556,805	487,568
Change in other payables and accruals	(60,911)	(78,131)
Change in paddy credit gratuity scheme	(10)	(55)
Cash generated from operating activities	417,615	520,342
Tax paid	(36,608)	(32,680)
Zakat paid	(2,456)	(1,016)
Net cash generated from operating activities	378,551	486,646

BANK PERTANIAN MALAYSIA BERHAD

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STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (cont'd)

	2017	2016
	RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(259,610)	(1,301,120)
Purchase of property, plant and equipment	(12,708)	(12,749)
Purchase of computer software	(12,563)	(14,666)
Proceeds from disposal of investment securities	-	1,320,671
Dividends received from investment securities	4	37
Proceeds from disposal of property, plant and equipment	2,086	-
Net cash used in investing activities	(282,791)	(7,827)
CASH FLOWS FROM FINANCING ACTIVITIES		
Profit paid on financing scheme funds	(9,108)	(9,682)
Additional fund received from financing scheme funds	86,019	32,619
Additional fund received from government grants funds	38,256	5,792
Payments of financing scheme funds	(68,591)	(79,033)
Government grants - Launching utilised	(1,280)	(720)
Dividends paid	(20,000)	(11,900)
Net cash generated from/(used in) financing activities	25,296	(62,924)
NET INCREASE IN CASH AND CASH EQUIVALENTS	121,056	415,895
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1,187,627	771,732
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1,308,683	1,187,627
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash and short term funds (Note 14)	1,308,683	1,187,627

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 2017**

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), held 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 30 March 2018.

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 ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 2016 in Malaysia.

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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 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
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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 payment.

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.

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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.

(vii) Rental income

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

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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 25)

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

(ii) Government grants - Launching (Note 26)

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

(iii) Government grants - Funds (Note 27 (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.

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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 27 (j) - (p))

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 10) 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 profit 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 statement of comprehensive income as "Allowance for impairment on financing and advances".

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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 statement of comprehensive income. Impairment losses, if any, are recognised in statement of comprehensive income 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.

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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 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.

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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.

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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.

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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 payments 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.

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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; and
- (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.

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.

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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 payments are made promptly for a continuous period. Where an impaired financing is renegotiated, the customer must adhere to the revised and/or restructured payment 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.

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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.

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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.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Summary of significant accounting policies (cont'd)

(f) Income tax (cont'd)

(ii) Deferred tax

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.

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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.

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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.

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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.

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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 and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalent comprise cash on hand, demand deposits and 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 2017, the Bank adopted the following amended MFRS mandatory for annual financial periods beginning on or after 1 January 2017:

Annual Improvements to MFRS Standards 2012–2014 Cycle
Amendments to MFRS 107 Disclosure Initiative
Amendments to MFRS 112 Recognition of Deferred Tax Assets for Unrealised
Losses

The adoption of the 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 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
Amendments to MFRS 140 Transfers of Investment Property
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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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 2019

Amendments to MFRS 9 Prepayment Features with Negative Compensation
MFRS 16 Leases
Amendments to MFRS 128 Long-term Interests in Associates and Joint Ventures
Annual Improvements to MFRS Standards 2015-2017 Cycle
IC Interpretation 23 Uncertainty over Income Tax Treatments

Effective for financial periods beginning on or after 1 January 2021

MFRS 17 Insurance Contracts

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 implications of adopting 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)

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) 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 11).

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5. INCOME DERIVED FROM INVESTMENT OF:

	2017	2016
	RM'000	RM'000
(a) Depositors' funds and others		
(i) Term deposits	433,858	381,981
(ii) Other deposits	213,280	211,569
	<u>647,138</u>	<u>593,550</u>
(i) Income derived from investment of term deposits		
	2017	2016
	RM'000	RM'000
Finance income and hibah		
Profit from financing	289,362	249,488
Profits from investment securities:		
Deposits with banks and other financial institutions	14,351	17,875
Financial investments - AFS	89,204	70,717
Financial investments - HTM	-	1,205
Accretion of discount less amortisation of premium	4,801	5,244
Gain on disposal of investment securities:		
Net gain on disposal of AFS	-	6,063
Dividend income	2	18
Fee Income		
Financing processing fees	1,423	1,366
Banking service fees	16,500	16,334
Ar-Rahnu fees	18,215	13,671
Total income derived from investment of term deposits	<u>433,858</u>	<u>381,981</u>
Of which:		
Profit income earned on impaired financing and advances	<u>10,135</u>	<u>10,201</u>

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

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

	2017	2016
	RM'000	RM'000
(ii) Income derived from investment of other deposits		
Finance income and hibah		
Profit from financing	142,247	138,185
Profits from investment securities:		
Deposits with banks and other financial institutions	7,055	9,901
Financial investments - AFS	43,852	39,169
Financial investments - HTM	-	667
Accretion of discount less amortisation of premium	2,360	2,904
Gain on disposal of investment securities:		
Net gain on disposal of AFS	-	3,358
Dividend income	1	10
Fee Income		
Financing processing fees	700	756
Banking service fees	8,111	9,047
Ar-Rahnu fees	8,954	7,572
Total income derived from investment of term deposits	213,280	211,569
Of which:		
Profit income earned on impaired financing	4,982	5,649

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

	2017	2016
	RM'000	RM'000
(b) Shareholder's funds		
Finance income and hibah		
Profit from financing	123,567	117,466
Profits from investment securities:		
Deposits with banks and other financial institutions	6,128	8,416
Financial investments - AFS	38,093	33,296
Financial investments - HTM	-	567
Accretion of discount less amortisation of premium	2,050	2,469
Gain on disposal of investment securities:		
Net gain on disposal of AFS	-	2,854
Dividend income	1	9
Fee Income		
Financing processing fees	607	643
Government Link Companies ("GLC") service fees	10,812	10,870
Banking service fees	7,046	7,690
Reimbursement of gapping cost	30,099	29,042
Ar-Rahnu fees	7,778	6,437
Other Operating Income		
Reimbursement of Special Relief Grant for Flood ("SRGF")	14	-
Staff financing	1,780	1,388
Ladang Sg Tasan	1,360	883
Amortisation and utilisation of launching grant	1,902	2,425
Amortisation of operating grant	1,539	1,540
Collective impairment allowance for government grant:		
Entrepreneur Scheme for Graduates (Note 27(a))	19	16
Special Fund for Terengganu Fishery (Note 27(b))	-	(12)
Development Programme for Hard-core Poor (Note 27(c))	63	-
Fund for Ministry of Youth and Sports (Note 27(d))	(436)	(518)
Bumiputera Commercial and Industrial Community Scheme HUB (Note 27(e))	459	1,718
National Key Economic Area (Note 27(f))	60	868
Micro Economic Stimulation Package (Note 27(g))	(2,714)	(3,128)
Micro ESP Flood Relief (Note 27(h))	109	-
Gain on disposal of property, plant and equipment	1,466	-
Other income	7,244	3,626
	239,046	228,565

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

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

	2017	2016
	RM'000	RM'000
Of which:		
Profit income earned on impaired financing and advances	<u>4,325</u>	<u>4,796</u>

6. ALLOWANCE FOR IMPAIRMENT

		2017	2016
		RM'000	RM'000
Allowance for impaired financing and advances	(a)	(20,218)	(58,816)
Writeback of other advances	(b)	<u>15,920</u>	<u>40,019</u>
		<u>(4,298)</u>	<u>(18,797)</u>

(a) Allowance for impaired financing and advances

	2017	2016
	RM'000	RM'000
Allowance for the year	(36,688)	(48,083)
Amount written back upon recoveries and reversal of allowance	44,030	18,692
Individual impairment allowance - net	7,342	(29,391)
Allowance for the year	(180,551)	(213,818)
Amount written back	140,657	173,488
Collective impairment allowance - net	(39,894)	(40,330)
Bad debts and financing recovered	<u>12,334</u>	<u>10,905</u>
	<u>(20,218)</u>	<u>(58,816)</u>

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6. ALLOWANCE FOR IMPAIRMENT (cont'd)

(b) Writeback of other advances

	2017 RM'000	2016 RM'000
Allowance for the year	(2,791)	(3,427)
Amount written back upon recoveries and reversal of allowance	3,998	2,531
Individual impairment allowance - net	1,207	(896)
Allowance for the year	(2,552)	(7,524)
Amount written back	3,604	9,822
Collective impairment allowance - net	1,052	2,298
Bad debts and financing recovered	13,661	38,617
	15,920	40,019

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7. INCOME ATTRIBUTABLE TO DEPOSITORS

	2017	2016
	RM'000	RM'000
Deposits from customers:		
Mudharabah Funds		
Reversal of provision of undistributed profit	(5,073)	(54,952)
	<u>(5,073)</u>	<u>(54,952)</u>
Non-Mudharabah Funds		
FRIA	131,762	113,360
FRIA 45 Plus	13,233	12,583
Agro Perdana-i	10,319	10,132
Agro-i Deposits	12,092	12,673
Al-Wadiah	8,076	7,760
Agro Muda-i	2,577	3,055
Agro Tetangga-i	254	233
Agro Prima	32	15
	<u>178,345</u>	<u>159,811</u>
Deposits and placement of banks and other financial institutions:		
Non-Mudharabah Funds		
Pelaburan Khas-i	67,076	53,673
	<u>240,348</u>	<u>158,532</u>

8. PERSONNEL EXPENSES

	2017	2016
	RM'000	RM'000
Salaries, allowances and bonuses	230,058	194,835
EPF contributions	26,569	26,360
SOCSSO contributions	2,360	1,976
Medical insurances	8,772	7,941
Staff welfare	7,030	6,062
Directors allowances	1,895	1,271
Staff training	2,690	3,063
Recruitment fees	1,370	2,425
Retirement benefits scheme	(244)	332
Others	1,454	1,021
	<u>281,954</u>	<u>245,286</u>

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9. OTHER OVERHEADS AND EXPENDITURES

	2017	2016
	RM'000	RM'000
Maintenance cost		
Depreciation of property, plant and equipment	24,867	22,796
Amortisation of computer software	13,516	14,894
Write off of property, plant and equipment	590	664
Write off of intangible assets	316	520
Computer maintenance	18,623	16,875
Rental of premises	9,259	9,175
Water and electricity	9,562	10,266
Printing, stationery and office supplies	8,584	8,481
Office maintenance	4,150	3,268
Takaful on property, plant and equipment	2,192	1,917
Building maintenance	3,968	3,651
Quit rent and assessment	1,116	1,087
Vehicle maintenance	179	424
Amortisation of prepaid lease payments	75	75
Computer supply	492	412
Others	(333)	(596)
	97,156	93,909
Marketing expenses		
Advertising and promotions	4,645	5,150
Others	528	490
	5,173	5,640
General administrative expenses		
Communication expenses	12,618	13,231
Launching grants	106	720
Legal fees	6,778	5,467
Commissions and fees	15,377	13,284
Auditors' remuneration		
- Statutory audit	458	458
- Regulatory related services	13	13
Goods and services tax	4,037	2,089
Security charges	10,592	10,780
Agro Perdana ID card	1,609	-
Others	4,072	2,117
	55,660	48,159
	157,989	147,708

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10. FINANCE COST

	2017	2016
	RM'000	RM'000
Profit paid on financing scheme funds		
Fund For Food ("3F") (Note 24 (a))	476	570
Micro Enterprise Fund (Note 24 (c))	478	556
Commercial Agriculture Fund ("DPK-GLC") (Note 24 (d))	8,298	7,937
Agriculture Entrepreneur Financing Scheme Fund 1 ("DPUP 1") (Note 24 (e))	44,084	42,506
Agriculture Entrepreneur Financing Scheme Fund 2 ("DPUP 2") (Note 24 (f))	4,965	4,819
Agriculture Entrepreneur Financing Scheme Fund 3 ("DPUP 3") (Note 24 (g))	5,161	4,499
Agriculture Entrepreneur Financing Scheme Fund 4 ("DPUP 4") (Note 24 (h))	901	-
Agriculture Entrepreneur Financing Scheme Fund 5 ("DPUP 5") (Note 24 (i))	170	-
Special Relief Facility (Note 24 (j))	309	403
	<u>64,842</u>	<u>61,290</u>
Less : Income from fair value amortisation		
Amortisation of DPK-GLC Grant (Note 27 (j))	7,548	7,187
Amortisation of DPUP 1 Grant (Note 27 (k))	37,668	36,089
Amortisation of DPUP 2 Grant (Note 27 (l))	4,215	4,015
Amortisation of DPUP 3 Grant (Note 27 (m))	4,411	3,748
Amortisation of DPUP 4 Grant (Note 27 (n))	728	-
Amortisation of DPUP 5 Grant (Note 27 (o))	138	-
Amortisation of Special Relief Facility (Note 27 (p))	309	403
	<u>9,825</u>	<u>9,848</u>

11. COMPENSATION CLAIM

	2017	2016
	RM'000	RM'000
Compensation claim	<u>(38,832)</u>	<u>44,053</u>

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11. COMPENSATION CLAIM (cont'd)

- (i) 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. The Bank had later on December 2014 made a provision of RM1.0 million.

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 had made a provision amounting to RM60.8 million in 2016.

On 16 December 2016, the Bank had paid RM2.0 million as a consideration to stay of execution of judgment. The appeals by both the Bank and the borrower had been fixed for hearing on 4 August 2017 and continued hearing on 29 August 2017. The Court of Appeal later on had fixed 14 September 2017 for decision of the appeals. However, the date had been vacated and postponed. On 23 October 2017, both parties had agreed to settle the matter out of court with the amount of RM23.0 million (including the RM2.0 million already paid earlier) being a full and final settlement of the case.

On 26 October 2017, the Bank had made a payment of RM21.0 million and reversed the provision amounting to RM38.8 million in current financial year after which the case was subsequently closed.

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

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

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

The Bank had made payment of RM15.9 million and accordingly, reversed the provision amounting to RM16.8 million in prior year. The case was closed in 2016.

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12. TAX EXPENSE

	2017	2016
	RM'000	RM'000
Income tax:		
Malaysian income tax	38,579	43,612
(Over)/under provision in prior years	<u>(3,527)</u>	<u>860</u>
	35,052	44,472
Deferred tax:		
Relating to origination and reversal of temporary differences	19,336	12,363
Under provision in prior years	<u>929</u>	<u>2,798</u>
Tax expense for the year	<u>55,317</u>	<u>59,633</u>

Income tax is calculated at the Malaysian statutory tax rate of 24% (2016: 24%) 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:

	2017	2016
	RM'000	RM'000
Profit before tax and zakat	<u>230,602</u>	<u>197,891</u>
Tax at the applicable statutory tax rate of 24% (2016: 24%)	55,344	47,494
Tax effects of:		
Income not subject to tax	(825)	(797)
Expenses not deductible for tax purposes	3,396	9,278
(Over)/under provision in prior years:		
Income tax	(3,527)	860
Deferred tax	<u>929</u>	<u>2,798</u>
Tax expense	<u>55,317</u>	<u>59,633</u>

(a) Income Tax Expense

Current tax is the expected amount of income tax payable in respect of the taxable profit for the year and is measured using the tax rate that has been enacted at the reporting date. The Bank has provided RM35,051,988 (2016: RM44,472,562) and instalments made to Inland Revenue Board of Malaysia amounting to RM36,907,057 (2016: RM32,274,812) by year end.

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13. ZAKAT

	2017	2016
	RM'000	RM'000
Zakat for the year	<u>2,631</u>	<u>2,223</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 subject to certain allowable adjustments.

The Bank has distributed to eligible beneficiaries (asnaf) among needy individuals, mosque, non-governmental organisations, higher learning institutions (needy student welfare funds) and schools as guided and approved by Shariah Committee.

14. CASH AND SHORT TERM FUNDS

	2017	2016
	RM'000	RM'000
Cash in hand	117,570	107,441
Cash at banks	198,048	113,048
Short term deposits maturing within three months:		
Licensed banks	507,875	409,812
Other financial institutions	<u>485,190</u>	<u>557,326</u>
	<u>1,308,683</u>	<u>1,187,627</u>

The details on the short term deposits as below:

Average maturities	20 days	42 days
Weighted average effective profit rates (per annum)	<u>3.63%</u>	<u>3.87%</u>

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15. INVESTMENT SECURITIES

	2017	2016
	RM'000	RM'000
<u>Debt securities</u>		
AFS - at fair value		
Corporate bonds	2,874,551	2,926,901
Government Investment Issues ("GII")	1,529,241	1,168,234
Commercial papers	-	19,884
	<u>4,403,792</u>	<u>4,115,019</u>
<u>Equity securities</u>		
AFS - at fair value		
Quoted shares in Malaysia	<u>168</u>	<u>172</u>
	<u>4,403,960</u>	<u>4,115,191</u>

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16. FINANCING AND ADVANCES

	2017	2016
	RM'000	RM'000
By Product (at amortised cost)		
Agrocash	6,158,268	5,912,523
Project Financing	4,109,956	3,906,775
Fund For Food ("3F")	830,255	955,726
Ar-Rahnu	261,761	222,827
Fishery Boat Financing Scheme ("SPBP")	120,557	78,021
MUST-i	237,498	220,492
Oil Palm Replanting Scheme ("TASKS")	5,841	7,687
MAP and MPPB Financing	91,225	100,020
Financing for Small and Medium Size Industries ("PKS")	111,727	66,826
Non-Food Production Credit Scheme ("SKPBM")	28,965	40,313
Food Production Credit Scheme ("SKPM")	110,023	72,038
Belia Tani Scheme	5,921	6,439
Fund For Small and Medium Size Industries ("TIKS")	2,344	2,391
Working Capital-i	226,874	128,695
Paddy Credit Scheme	82,433	73,266
Micro Economic Stimulus Package ("Micro-ESP-I")	225	614
National Key Economic Area ("NKEA")	18,112	26,859
Murabahah Working Capital Financing	821,931	526,380
Insani	4,179	7,240
Bai Al-Dayn Working Capital Financing	38,327	27,468
MPPB Hub	826	1,076
Agro Cash Line-i	329,569	297,402
Hartani-i	1,012,631	795,677
Agro Flood Relief	942	1,165
Special Relief Facility	10,767	13,523
DPK3	69,277	45,601
Others	8,971	9,874
	14,699,405	13,546,918

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16. FINANCING AND ADVANCES (cont'd)

	2017	2016
	RM'000	RM'000
Brought forward from previous page	14,699,405	13,546,918
Add : Staff financing and advances	105,787	76,625
	14,805,192	13,623,543
Less : Unearned profit	(5,195,289)	(4,892,602)
Gross financing and advances	9,609,903	8,730,941
Less : Individual impairment allowance	(139,167)	(155,055)
Collective impairment allowance	(296,845)	(305,023)
Net financing and advances at amortised cost	9,173,891	8,270,863

(i) By Maturity

	2017	2016
	RM'000	RM'000
Maturity within six months	1,406,150	1,043,293
Between six months to one year	159,844	69,649
Between one year to three years	208,124	468,556
Between three years to five years	719,826	990,376
More than five years	7,115,959	6,159,067
	9,609,903	8,730,941

(ii) By Sectors

	2017	2016
	RM'000	RM'000
Construction and Services	51,283	110,720
Fishery	407,615	434,659
Crops	3,781,451	3,442,570
Livestock	790,549	741,349
Manufacturing	1,057,338	706,675
Others-Primary Agriculture	31,896	53,365
Retail and Wholesale Trade	883,108	881,863
Household	2,401,052	2,150,127
Others	205,611	209,613
	9,609,903	8,730,941

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16. FINANCING AND ADVANCES (cont'd)

(iii) By States

	2017	2016
	RM'000	RM'000
Kuala Lumpur	1,059,290	858,871
Selangor	1,181,432	994,686
Pahang	741,050	729,747
Perak	1,007,312	956,084
Negeri Sembilan	301,177	303,384
Melaka	381,883	340,071
Johor	862,258	801,067
Kelantan	532,426	478,712
Kedah	632,444	599,080
Perlis	153,628	154,962
Sarawak	1,127,687	1,021,559
Sabah	823,130	779,026
Pulau Pinang	399,251	319,399
Terengganu	406,935	394,293
	9,609,903	8,730,941

(iv) By profit rate sensitivity

	2017	2016
	RM'000	RM'000
Fixed rate :		
Fund For Food ("3F")	599,254	713,035
Project Financing	195,900	247,115
MUST-i	192,377	184,891
Agrocash	47,935	87,432
Others	446,202	367,767
Variable rate :		
Agrocash	3,636,340	3,390,781
Project Financing	2,319,782	2,171,279
Murabahah Working Capital Financing	820,251	526,426
Hartani-i	499,002	390,592
Others	852,860	651,623
	9,609,903	8,730,941

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16. FINANCING AND ADVANCES (cont'd)

(v) Financing by type and Shariah Contract

	Term Financing RM'000	Revolving Financing RM'000	Total RM'000
2017			
Qard	261,761	-	261,761
Bai-Al Inah	2,031,825	4,012	2,035,837
Tawarruq	3,391,673	1,323,827	4,715,500
Bai-Bithaman Ajil	2,558,478	-	2,558,478
Murabahah	38,327	-	38,327
	8,282,064	1,327,839	9,609,903
2016			
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
	7,848,452	882,489	8,730,941

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16. FINANCING AND ADVANCES (cont'd)

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

	2017	2016
	RM'000	RM'000
At beginning of the year	457,422	493,085
Additions during the year	204,722	256,192
Reclassified as non impaired during the year	(81,559)	(92,292)
Recoveries during the year	(70,862)	(89,970)
Amount written off	(74,666)	(109,593)
	<u>435,057</u>	<u>457,422</u>
<u>Excluding Non-Shariah Assets</u>		
Gross impaired	435,057	457,422
Gross impaired ratio	<u>4.53%</u>	<u>5.24%</u>
<u>Including Non-Shariah Assets</u>		
Gross impaired	478,666	508,058
Gross impaired ratio	<u>4.95%</u>	<u>5.76%</u>

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16. FINANCING AND ADVANCES (cont'd)

(vii) Impaired financing by sectors

	2017	2016
	RM'000	RM'000
Sectors:		
Construction and Services	6,153	5,759
Fishery	42,020	44,832
Crops	164,516	187,748
Livestock	90,642	87,388
Manufacturing	42,190	44,034
Others-Primary Agriculture	1,127	1,067
Retail and Wholesale Trade	51,904	53,156
Others	36,505	33,438
	435,057	457,422

(viii) Impaired financing by states

	2017	2016
	RM'000	RM'000
States:		
Kuala Lumpur	62,893	70,219
Selangor	31,936	45,830
Pahang	59,273	49,799
Perak	60,032	48,335
Negeri Sembilan	13,488	16,232
Melaka	10,964	9,914
Johor	21,600	32,813
Kelantan	31,287	33,900
Kedah	52,449	51,152
Perlis	8,484	8,274
Sarawak	13,772	19,547
Sabah	40,313	42,465
Pulau Pinang	13,833	13,394
Terengganu	14,733	15,548
	435,057	457,422

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16. FINANCING AND ADVANCES (cont'd)

(ix) Individual and collective impairment allowance

Movement in impairment allowance are as follows:

	2017	2016
	RM'000	RM'000
Individual impairment allowance		
At beginning of the year	155,055	154,118
Allowance for the year	36,688	48,083
Amount written back upon recoveries and reversal of allowance	(44,030)	(18,692)
Net (writeback)/allowance for the year	(7,342)	29,391
Amount written off	(8,546)	(28,454)
At end of the year	139,167	155,055
Collective impairment allowance		
At beginning of the year	305,023	342,950
Allowance for the year	180,551	213,818
Amount written back	(140,657)	(173,488)
Net allowance for the year	39,894	40,330
Amount written off	(48,072)	(78,257)
At end of the year	296,845	305,023
Collective impairment allowance as a percentage of gross financing and advances less individual impairment allowance	3.13%	3.56%

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16. 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	2017 RM'000	2016 RM'000
Entrepreneur Scheme for Graduates	27(a)	19	16
Special Fund for Terengganu Fishery Development Programme for Hard-core Poor	27(b)	-	(12)
Fund for Ministry of Youth and Sports	27(c)	63	-
Bumiputera Commercial and Industrial Community Scheme HUB	27(d)	(436)	(518)
National Key Economic Area	27(e)	459	1,718
Micro Economic Stimulation Package	27(f)	60	868
Micro ESP Flood Relief	27(g)	(2,714)	(3,128)
	27(h)	109	-
		<u>(2,440)</u>	<u>(1,056)</u>

The total amount of collective impairment allowance includes collective allowances for impaired financing of RM134,959,087 (2016: RM127,475,337) for which no individual allowances have been made due to sufficient present value of estimated future cash flow.

17. OTHER ADVANCES

	2017 RM'000	2016 RM'000
(i) Non-Shariah Assets	60,596	84,934
Less Individual impairment allowance	(21,370)	(23,919)
Collective impairment allowance	<u>(5,159)</u>	<u>(8,961)</u>
Non-Shariah Assets at amortised cost	<u>34,067</u>	<u>52,054</u>

Other advances relate to customer loans not in compliance with Shariah principles. All income earned during the year from these loans amounting to RM2,405,119 (2016: RM2,186,177) has not been recognised in the statement of comprehensive income of the Bank and will be channelled to approved charities.

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17. OTHER ADVANCES (cont'd)

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

	2017	2016
	RM'000	RM'000
At beginning of the year	50,636	66,994
Additions during the year	11,583	10,840
Reclassified as non impaired during the year	(1,590)	(4,005)
Recoveries during the year	(12,928)	(14,328)
Amount written off	(4,092)	(8,865)
	<u>43,609</u>	<u>50,636</u>
At end of the year	<u>43,609</u>	<u>50,636</u>
Gross impaired Non-Shariah Assets as a percentage of gross Non-Shariah Assets	<u>71.97%</u>	<u>59.62%</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:

	2017	2016
	RM'000	RM'000
Individual impairment allowance		
At beginning of the year	23,919	23,023
Allowance for the year	2,791	3,427
Amount written back upon recoveries and reversal of allowance	(3,998)	(2,531)
Net (writeback)/allowance for the year	(1,207)	896
Amount written off	(1,342)	-
At end of the year	<u>21,370</u>	<u>23,919</u>

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17. OTHER ADVANCES (cont'd)

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

Movement in collective impairment allowance are as follows:

	2017	2016
	RM'000	RM'000
Collective impairment allowance		
At beginning of the year	8,961	18,781
Allowance for the year	2,552	7,524
Amount written back	(3,604)	(9,822)
Net writeback for the year	(1,052)	(2,298)
Amount written off	(2,750)	(7,522)
At end of the year	5,159	8,961
Collective impairment allowance as a percentage of gross Non-Shariah Assets less individual impairment allowance	13.15%	14.69%

18. OTHER ASSETS

	2017	2016
	RM'000	RM'000
Other receivables	30,346	28,648
Profit and income receivable	72,398	57,795
Foreclosed properties	2,718	2,720
Tax recoverable	12,182	10,624
Project Ladang BPM - Sg Tasan	3,377	3,377
	121,021	103,164
Less: Impairment allowance	(5,725)	(5,725)
Other assets, net of impairment	115,296	97,439
Movement in impairment allowance		
At beginning of the year	(5,725)	(5,772)
Reversal during the year	-	47
At end of the year	(5,725)	(5,725)

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19. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RM'000	Freehold building RM'000	Leasehold land RM'000	Leasehold buildings RM'000	Motor vehicles RM'000	Furniture and fixtures RM'000	Equipment and office machines RM'000	Computer hardware RM'000	Total RM'000
Cost									
At 1 January 2017	3,539	11,732	8,034	87,830	10,820	154,264	63,750	79,998	419,967
Additions	-	-	-	-	1,464	3,573	1,974	5,697	12,708
Disposal	(52)	(128)	-	(687)	(1,585)	-	-	-	(2,452)
Write off	-	-	-	-	-	(8,851)	(756)	(2,946)	(12,553)
At 31 December 2017	3,487	11,604	8,034	87,143	10,699	148,986	64,968	82,749	417,670
Accumulated depreciation									
At 1 January 2017	-	4,605	2,013	27,755	6,733	114,163	41,328	70,774	267,371
Charge for the year	-	304	75	2,145	2,998	10,781	4,987	3,652	24,942
Disposal	-	(57)	-	(190)	(1,585)	-	-	-	(1,832)
Write off	-	-	-	-	-	(8,344)	(677)	(2,942)	(11,963)
At 31 December 2017	-	4,852	2,088	29,710	8,146	116,600	45,638	71,484	278,518
Net book value									
At 31 December 2017	3,487	6,752	5,946	57,433	2,553	32,386	19,330	11,265	139,152

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

	Freehold land RM'000	Freehold building RM'000	Leasehold land RM'000	Leasehold buildings RM'000	Motor vehicles RM'000	Furniture and fixtures RM'000	Equipment and office machines RM'000	Computer hardware RM'000	Total RM'000
Cost									
At 1 January 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	3,539	11,732	8,034	87,830	10,820	154,264	63,750	79,998	419,967
Accumulated depreciation									
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	-	4,605	2,013	27,755	6,733	114,163	41,328	70,774	267,371
Net book value									
At 31 December 2016	3,539	7,127	6,021	60,075	4,087	40,101	22,422	9,224	152,596

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

Included in leasehold land are as below :

	2017			2016		
	<99 years	>99 years	Total	<99 years	>99 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At beginning of the year	5,327	694	6,021	5,402	694	6,096
Amortisation during the year	(75)	-	(75)	(75)	-	(75)
At end of the year	5,252	694	5,946	5,327	694	6,021

- (i) The property, plant and equipment acquired from government grants- operating under the 9th Malaysian Plan (“RMK 9”) with net book value amounting to RM15,302,217 (2016: RM16,841,215) are as follows:

	Buildings	Motor	Furniture	Equipment	Computer	Total
	RM'000	vehicles	and	and office	hardware	RM'000
	RM'000	RM'000	fixtures	machines	RM'000	RM'000
At 31 December 2017						
Cost	19,100	1,709	28,188	4,000	23,975	76,972
Accumulated depreciation	(4,768)	(1,709)	(27,579)	(3,639)	(23,975)	(61,670)
Net book value	14,332	-	609	361	-	15,302
At 31 December 2016						
Cost	19,100	1,709	28,188	4,000	23,975	76,972
Accumulated depreciation	(4,517)	(1,709)	(26,692)	(3,238)	(23,975)	(60,131)
Net book value	14,583	-	1,496	762	-	16,841

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

- (ii) The property, plant and equipment acquired from government grants- launching with net book value amounting to RM2,418,327 (2016: RM3,618,851) are as follows:

	Motor vehicles RM'000	Furniture and fixtures RM'000	Equipment and office machines RM'000	Computer hardware RM'000	Total RM'000
At 31 December 2017					
Cost	1,165	14,891	1,858	1,548	19,462
Accumulated depreciation	(797)	(13,056)	(1,643)	(1,548)	(17,044)
Net book value	368	1,835	215	-	2,418
At 31 December 2016					
Cost	696	14,891	1,858	1,547	18,992
Accumulated depreciation	(696)	(11,658)	(1,472)	(1,547)	(15,373)
Net book value	-	3,233	386	-	3,619

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20. INTANGIBLE ASSETS

	Computer software RM'000
Cost	
At 1 January 2017	123,429
Additions	12,563
Write off	(340)
	<u>135,652</u>
At 31 December 2017	<u>135,652</u>
Accumulated amortisation	
At 1 January 2017	102,812
Charge for the year	13,516
Write off	(24)
	<u>116,304</u>
At 31 December 2017	<u>116,304</u>
Net book value	
At 31 December 2017	<u><u>19,348</u></u>
Cost	
At 1 January 2016	109,299
Additions	14,666
Write off	(536)
	<u>123,429</u>
At 31 December 2016	<u>123,429</u>
Accumulated amortisation	
At 1 January 2016	87,934
Charge for the year	14,894
Write off	(16)
	<u>102,812</u>
At 31 December 2016	<u>102,812</u>
Net book value	
At 31 December 2016	<u><u>20,617</u></u>

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20. INTANGIBLE ASSETS (cont'd)

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

(a) Government Grant- Launching

	Cost RM'000	Accumulated amortisation RM'000	Net book value RM'000
2017	6,304	6,304	-
2016	6,304	6,304	-

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

	Cost RM'000	Accumulated amortisation RM'000	Net book value RM'000
2017	24,079	24,079	-
2016	24,079	24,079	-

21. DEFERRED TAX ASSETS

	2017 RM'000	2016 RM'000
At 1 January	41,187	60,602
Recognised in profit or loss	(20,267)	(15,160)
Recognised in equity	(6,926)	(4,255)
At 31 December	13,994	41,187
Presented after appropriate offsetting as follows:		
Deferred tax assets	13,994	41,187
Deferred tax liabilities	-	-
	13,994	41,187

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

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21. DEFERRED TAX ASSETS (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:

	Property, plant, equipment and intangible assets RM'000
At 1 January 2017	(8,637)
Recognised in profit or loss	<u>923</u>
At 31 December 2017	<u>(7,714)</u>
At 1 January 2016	(5,695)
Recognised in profit or loss	<u>(2,942)</u>
At 31 December 2016	<u>(8,637)</u>

Deferred tax assets:

	Provision for undistributed profit RM'000	Investment revaluation deficit RM'000	Other temporary differences RM'000	Total RM'000
At 1 January 2017	10,028	15,659	24,137	49,824
Recognised in:				
- Profit or loss	(7,470)	-	(13,720)	(21,190)
- Other comprehensive income	<u>-</u>	<u>(6,926)</u>	<u>-</u>	<u>(6,926)</u>
At 31 December 2017	<u>2,558</u>	<u>8,733</u>	<u>10,417</u>	<u>21,708</u>
At 1 January 2016	23,186	19,914	23,197	66,297
Recognised in:				
- Profit or loss	(13,158)	-	940	(12,218)
- Other comprehensive income	<u>-</u>	<u>(4,255)</u>	<u>-</u>	<u>(4,255)</u>
At 31 December 2016	<u>10,028</u>	<u>15,659</u>	<u>24,137</u>	<u>49,824</u>

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22. (a) DEPOSITS FROM CUSTOMERS

	2017	2016
	RM'000	RM'000
<u>Tawarruq</u>		
Fixed Return Investment Account- i (FRIA-i)	4,358,306	3,948,260
AgroPrima	11,313	6,900
	<u>4,369,619</u>	<u>3,955,160</u>
<u>Wadiah Yad Dhamanah</u>		
Al-Wadiah savings	1,618,073	1,578,234
Agro Perdana-i	1,423,099	1,347,685
Deposit Securities	174,849	161,878
Basic Savings Accounts	3,737	1,949
	<u>3,219,758</u>	<u>3,089,746</u>
	<u>7,589,377</u>	<u>7,044,906</u>

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

	2017	2016
	RM'000	RM'000
Within six months	3,351,703	2,822,874
Between six months to one year	859,639	1,032,084
Between one year to three years	97,955	83,578
Between three years to five years	60,322	16,624
	<u>4,369,619</u>	<u>3,955,160</u>

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22. (a) DEPOSITS FROM CUSTOMERS (cont'd)

The deposits are sourced from the following types of customers:

	2017	2016
	RM'000	RM'000
Government	1,761,755	2,274,378
Individuals	2,937,702	2,792,154
Domestic business enterprises	1,820,446	1,477,876
Domestic other entities	1,043,581	471,100
Domestic non-banking institutions	25,893	29,398
	7,589,377	7,044,906

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

	2017	2016
	RM'000	RM'000
<u>Tawarruq</u>		
Pelaburan Khas-i	2,180,070	1,623,265

Maturity structure for Pelaburan Khas-i is as follows:

	2017	2016
	RM'000	RM'000
Within six months	2,180,070	1,623,265

The deposits are sourced from the following types of customers:

	2017	2016
	RM'000	RM'000
Government	1,522,312	801,498
Domestic business enterprises	637,742	500,432
Domestic non-banking institutions	20,016	321,335
	2,180,070	1,623,265

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23. OTHER LIABILITIES

		2017	2016
		RM'000	RM'000
(a) Other payables and accruals			
	Note		
Accrued expenses		75,972	61,859
Sundry creditors		44,400	29,292
Donation/charity		5,028	2,624
Zakat payable		4,450	4,275
Provision for undistributed profit	(i)	10,663	41,787
Retirement benefits scheme	(ii)	1,178	2,087
Voluntary separation scheme	(iii)	-	671
Compensation claim	(iv)	982	60,814
		142,673	203,409

(i) Provision for undistributed profit

	2017	2016
	RM'000	RM'000
At 1 January	41,787	96,610
Distribution	(26,052)	(12,528)
Transfer from/(to) trustee account	-	12,657
Writeback to profit or loss	(5,072)	(54,952)
At 31 December	10,663	41,787

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

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23. OTHER LIABILITIES (cont'd)

(ii) Retirement benefits scheme

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

	2017	2016
	RM'000	RM'000
At 1 January	2,087	1,831
Current service cost ¹	(909)	256
	<hr/>	<hr/>
At 31 December	1,178	2,087
	<hr/>	<hr/>

¹ Current service cost in 2017 represents a decrease in the retirement benefit resulting from retirement and resignation of eligible employees. While in 2016, the increase in the retirement benefit resulting from an additional year of service rendered by the employees.

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

	2017	2016
Turnover and early retirement rate		
Age brackets:		
45 - 49 years	0.00%	0.10%
50 years and over	0.03%	0.02%
Salaries increase rate (per annum)	1.50%	5.00%
Average remaining years of service of employees	0.4 year	6.0 years
Discount rate	3.82%	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 RM3,590 (2016: RM7,880) or decrease by RM3,346 (2016: RM7,313) respectively.
- (ii) Provision for a retirement benefit scheme to increase to RM1,206,192 (2016: RM2,208,761) or decrease to RM1,095,294 (2016: RM1,974,315) respectively.

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23. OTHER LIABILITIES (cont'd)

(iii) Voluntary separation scheme

	2017	2016
	RM'000	RM'000
At 1 January	671	23,275
Payment made during the year	-	(22,604)
Writeback	(671)	-
At 31 December	-	671

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

(iv) Compensation claim

	2017	2016
	RM'000	RM'000
At 1 January	60,814	35,140
(Writeback)/Addition- net	(38,832)	44,053
Payment made during the year	(21,000)	(18,379)
At 31 December	982	60,814

The writeback and payment made during the year relates to legal suits disclosed in Note 11(i).

(b) Paddy credit gratuity scheme

	2017	2016
	RM'000	RM'000
At beginning of the year	2,275	2,330
Additions	71	92
Payment	(81)	(147)
At the end of year	2,265	2,275

The Bank has set 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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24. FINANCING SCHEME FUNDS

Summary of financing scheme funds is as follows:

	Note	2017 RM'000	2016 RM'000
Fund for Food ("3F")	(a)	174,770	209,065
Oil Palm Replanting Scheme ("TASKS")	(b)	9,000	10,000
Micro Enterprise Fund	(c)	38,721	30,098
Commercial Agriculture Fund ("DPK-GLC")	(d)	186,525	178,227
Agriculture Entrepreneur Financing Fund 1 ("DPUP 1")	(e)	999,277	961,609
Agriculture Entrepreneur Financing Fund 2 ("DPUP 2")	(f)	115,891	111,676
Agriculture Entrepreneur Financing Fund 3 ("DPUP 3")	(g)	109,742	105,331
Agriculture Entrepreneur Financing Fund 4 ("DPUP 4")	(h)	19,993	-
Agriculture Entrepreneur Financing Fund 5 ("DPUP 5")	(i)	27,617	-
Special Relief Facility	(j)	8,073	10,595
Fund for Small and Medium Size Industries ("TIKS")	(k)	154	-
		1,689,763	1,616,601

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

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2017	208,786	279	209,065
Additions	15,544	-	15,544
Profit charged	-	476	476
Payments	(49,837)	(478)	(50,315)
At 31 December 2017	174,493	277	174,770
As at 1 January 2016	232,275	5	232,280
Additions	25,578	-	25,578
Profit charged	-	570	570
Payments	(49,067)	(296)	(49,363)
At 31 December 2016	208,786	279	209,065

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24. 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 7,247 customers (2016: 7,221 customers) with accumulated disbursement amounting to RM1.35 billion (2016: RM1.34 billion).

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

	Principal RM'000
As at 1 January 2017	10,000
Payments	<u>(1,000)</u>
At 31 December 2017	<u>9,000</u>
As at 1 January 2016	11,000
Payments	<u>(1,000)</u>
At 31 December 2016	<u>10,000</u>

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 (2016: 199 customers) with accumulated disbursement amounting to RM14.90 million (2016: RM14.90 million).

(c) Micro Enterprise Fund

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2017	29,847	251	30,098
Additions	23,577	-	23,577
Profit charged	-	478	478
Payments	<u>(14,923)</u>	<u>(509)</u>	<u>(15,432)</u>
At 31 December 2017	<u>38,501</u>	<u>220</u>	<u>38,721</u>

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24. FINANCING SCHEME FUNDS (cont'd)

(c) Micro Enterprise Fund (cont'd)

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2016	51,144	34	51,178
Additions	6,521	-	6,521
Profit charged	-	556	556
Payments	(27,818)	(339)	(28,157)
At 31 December 2016	29,847	251	30,098

The fund amounting to RM200.0 million was launched by BNM to increase access for micro financing on 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 7,545 customers (2016: 6,156 customers) with accumulated disbursement amounting to RM168.71 million (2016: RM145.13 million).

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

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2017	173,846	4,381	178,227
Profit charged	7,548	750	8,298
At 31 December 2017	181,394	5,131	186,525
As at 1 January 2016	166,659	3,631	170,290
Profit charged	7,187	750	7,937
At 31 December 2016	173,846	4,381	178,227

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 27(j). The purpose of this fund is to finance commercial agro-based industry. This fund has benefited 9 customers (2016: 5 customers) with accumulated disbursement amounting to RM64.2 million (2016: RM30.3 million).

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24. FINANCING SCHEME FUNDS (cont'd)

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

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2017	945,032	16,577	961,609
Profit charged	37,668	6,416	44,084
Payments	-	(6,416)	(6,416)
At 31 December 2017	982,700	16,577	999,277
As at 1 January 2016	908,942	16,577	925,519
Profit charged	36,090	6,416	42,506
Payments	-	(6,416)	(6,416)
At 31 December 2016	945,032	16,577	961,609

The financing scheme funds 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 disclosed in Note 27(k). This fund has benefited 84,611 customers (2016: 83,438 customers) with accumulated disbursement amounting to RM3.17 billion (2016: RM2.93 billion).

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

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2017	111,592	84	111,676
Profit charged	4,215	750	4,965
Payments	-	(750)	(750)
At 31 December 2017	115,807	84	115,891
As at 1 January 2016	107,577	30	107,607
Profit charged	4,015	804	4,819
Payments	-	(750)	(750)
At 31 December 2016	111,592	84	111,676

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24. 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 27(l). The purpose of this fund is to stimulate growth of farming activities involving upstream and downstream activities. This fund has benefited 4,848 customers (2016: 4,623 customers) with accumulated disbursement amounting to RM119.28 million (2016: RM88.56 million).

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

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2017	105,331	-	105,331
Profit charged	4,411	750	5,161
Payments	-	(750)	(750)
At 31 December 2017	109,742	-	109,742
As at 1 January 2016	101,582	131	101,713
Profit charged	3,749	750	4,499
Payments	-	(881)	(881)
At 31 December 2016	105,331	-	105,331

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 27(m). The purpose of this fund is to stimulate growth of farming activities involving upstream and downstream activities. This fund has benefited 4,062 customers (2016: 3,131) with accumulated disbursement amounting to RM126.94 million (2016: RM70.5 million).

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24. FINANCING SCHEME FUNDS (cont'd)

(h) Agriculture Entrepreneur Financing Fund 4 ("DPUP 4")

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2017	-	-	-
Fund received	19,265	-	19,265
Profit charged	728	173	901
Payments	-	(173)	(173)
At 31 December 2017	19,993	-	19,993

The fund amounting RM35.0 million was received from the Government on 5 January 2017. The tenure of this financing is 20 years (10 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 27(n). The purpose of this fund is to stimulate growth of farming activities involving upstream and downstream activities. This fund has benefited 28 customers with accumulated disbursement amounting to RM17.07 million.

(i) Agriculture Entrepreneur Financing Fund 5 ("DPUP 5")

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2017	-	-	-
Fund received	27,479	-	27,479
Profit charged	138	32	170
Payments	-	(32)	(32)
At 31 December 2017	27,617	-	27,617

The fund amounting RM50.0 million was received from the Government on 14 November 2017. The tenure of this financing is 20 years (10 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 27(o). The purpose of this fund is to stimulate growth of farming activities involving upstream and downstream activities. This fund has benefited 5 customers with accumulated disbursement amounting to RM3.63 million.

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24. FINANCING SCHEME FUNDS (cont'd)

(j) Special Relief Facility

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2017	10,192	403	10,595
Profit charged	-	309	309
Payments	(2,831)	-	(2,831)
At 31 December 2017	7,361	712	8,073
As at 1 January 2016	11,820	-	11,820
Fund received	520	-	520
Profit charged	-	403	403
Payments	(2,148)	-	(2,148)
At 31 December 2016	10,192	403	10,595

The fund is channelled from BNM without profit to minimise losses borne by farmers affected by the flood catastrophe in December 2014. Financing is offered to farmers up to 5 years with 6 months moratorium at a profit rate of 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 disclosed in Note 27(p). This fund has benefited 288 customers (2016: 287 customers) with accumulated disbursement amounting to RM13.39 million (2016: RM12.87 million).

(k) Fund for Small and Medium Size Industries ("TIKS")

	Principal RM'000	Profit RM'000	Total RM'000
As at 1 January 2017	-	-	-
Fund received	154	-	154
Profit charged	-	-	-
Payments	-	-	-
At 31 December 2017	154	-	154

The fund is channelled by BNM to increase the access to micro financing to selected eligible small and medium agro-based entrepreneurs. Financing is offered to eligible entrepreneurs up to 5 years at a profit rate 1.5% per annum. This fund has benefited 2 customers with accumulated disbursement amounting to RM0.15 million.

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25. GOVERNMENT GRANT - OPERATING

	Capital Expenditure RM'000	Development Expenditure RM'000	Total RM'000
As at 1 January 2017	25,967	77	26,044
Amortisation during the year	(1,539)	-	(1,539)
At 31 December 2017	24,428	77	24,505
As at 1 January 2016	27,507	77	27,584
Amortisation during the year	(1,540)	-	(1,540)
At 31 December 2016	25,967	77	26,044

In 2006, the Bank 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. The property, plant and equipment acquired under this grant is disclosed in Note 19(i).

26. GOVERNMENT GRANT - LAUNCHING

	Capital Expenditure RM'000	Development Expenditure RM'000	Total RM'000
As at 1 January 2017	3,642	2,404	6,046
Utilisation during the year	-	(1,280)	(1,280)
Transfer (to)/from	(587)	587	-
Amortisation during the year	(622)	-	(622)
At 31 December 2017	2,433	1,711	4,144
As at 1 January 2016	5,347	3,124	11,967
Utilisation during the year	-	(720)	(1,760)
Amortisation during the year	(1,705)	-	(1,736)
At 31 December 2016	3,642	2,404	6,046

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. The property, plant and equipment acquired under this grant is disclosed in Note 19(ii).

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27. GOVERNMENT GRANTS - FUNDS

Summary of government grant funds is as follows:

		2017	2016
	Note	RM'000	RM'000
Entrepreneur Scheme for Graduates	(a)	1,135	1,154
Special Fund For Terengganu Fishery	(b)	33	33
Development Programme for Hard-core Poor	(c)	2,497	2,560
Fund for Ministry of Youth and Sports	(d)	8,579	8,143
Bumiputera Commercial and Industrial Community Scheme HUB	(e)	35,673	36,132
National Key Economic Area	(f)	54,244	54,304
Micro Economic Stimulation Package	(g)	156,482	153,768
Micro ESP Flood Relief	(h)	2,891	3,000
Agriculture Mechanism and Automation Scheme	(i)	5,792	5,792
Commercial Agriculture Fund	(j)	115,425	122,973
Agriculture Entrepreneur Financing Fund 1	(k)	283,831	321,499
Agriculture Entrepreneur Financing Fund 2	(l)	34,109	38,324
Agriculture Entrepreneur Financing Fund 3	(m)	40,259	44,670
Agriculture Entrepreneur Financing Fund 4	(n)	15,007	-
Agriculture Entrepreneur Financing Fund 5	(o)	22,383	-
Special Relief Facility	(p)	336	645
		778,676	792,997

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

	2017	2016
	RM'000	RM'000
At beginning of the year	1,154	1,170
Transfer to collective impairment allowance (Note 16 (ix))	(19)	(16)
At end of the year	1,135	1,154

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 graduates (2016: 203 graduates) with accumulated disbursement amounting to RM8.35 million (2016: RM8.35 million).

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27. GOVERNMENT GRANTS - FUNDS (cont'd)

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

	2017 RM'000	2016 RM'000
At beginning of the year	33	21
Transfer from collective impairment allowance (Note 16 (ix))	-	12
At end of the year	33	33

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 payment terms not exceeding 10 years. The grant has benefited 877 customers (2016: 877 customers) with accumulated disbursement amounting to RM29.90 million (2016: RM29.90 million).

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

	2017 RM'000	2016 RM'000
At beginning of the year	2,560	2,560
Transfer to collective impairment allowance (Note 16 (ix))	(63)	-
At end of the year	2,497	2,560

This program represents profit-free financing from the Government to the hard-core poor. The grant has benefited 90 customers (2016: 86 customers) with accumulated disbursement amounting to RM0.64 million (2016: RM0.56 million).

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27. GOVERNMENT GRANTS - FUNDS (cont'd)

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

	2017	2016
	RM'000	RM'000
At beginning of the year	8,143	7,625
Transfer from collective impairment allowance (Note 16 (ix))	436	518
At end of the year	8,579	8,143

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 (2016: 524 customers) with accumulated disbursement amounting to RM15.73 million (2016: RM15.73 million).

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

	2017	2016
	RM'000	RM'000
At beginning of the year	36,132	37,850
Transfer to collective impairment allowance (Note 16 (ix))	(459)	(1,718)
At end of the year	35,673	36,132

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 (2016: 510 customers) with accumulated disbursement amounting to RM41.48 million (2016: RM41.48 million).

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27. GOVERNMENT GRANTS - FUNDS (cont'd)

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

	2017	2016
	RM'000	RM'000
At beginning of the year	54,304	55,172
Transfer to collective impairment allowance (Note 16 (ix))	<u>(60)</u>	<u>(868)</u>
At end of the year	<u>54,244</u>	<u>54,304</u>

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 997 customers (2016: 978 customers) with accumulated disbursement amounting to RM124.18 million (2016: RM121.71 million).

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

	2017	2016
	RM'000	RM'000
At beginning of the year	153,768	150,640
Transfer from collective impairment allowance (Note 16 (ix))	<u>2,714</u>	<u>3,128</u>
At end of the year	<u>156,482</u>	<u>153,768</u>

The purpose of this fund is to encourage entrepreneurs to participate in agricultural production activities by providing a maximum of RM20,000 per financing. The grant has benefited 17,286 customers (2016: 17,286 customers) with accumulated disbursement amounting to RM334.73 million (2016: RM334.73 million).

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27. GOVERNMENT GRANTS - FUNDS (cont'd)

(h) Micro ESP Flood Relief

	2017	2016
	RM'000	RM'000
At beginning of the year	3,000	3,000
Transfer to collective impairment allowance (Note 16 (ix))	(109)	-
At end of the year	<u>2,891</u>	<u>3,000</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 moratorium at a profit rate 3.75% per annum.

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

	2017	2016
	RM'000	RM'000
At beginning of the year	5,792	-
Funds received	-	5,792
At end of the year	<u>5,792</u>	<u>5,792</u>

The objective of this program is to encourage automation and usage of high technology in agriculture sector. Financing is offered up to 9 years at a profit rate 3.75% per year.

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

	2017	2016
	RM'000	RM'000
At beginning of the year	122,973	130,160
Amortisation (Note 10)	(7,548)	(7,187)
At end of the year	<u>115,425</u>	<u>122,973</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 as disclosed in Note 24 (d).

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27. GOVERNMENT GRANTS - FUNDS (cont'd)

(k) Agriculture Entrepreneur Financing Fund 1 ("DPUP 1")

	2017	2016
	RM'000	RM'000
At beginning of the year	321,499	357,588
Amortisation (Note 10)	<u>(37,668)</u>	<u>(36,089)</u>
At end of the year	<u>283,831</u>	<u>321,499</u>

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 at a profit rate of 0.5% per annum, is recognised as a Government Grant as disclosed in Note 24 (e).

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

	2017	2016
	RM'000	RM'000
At beginning of the year	38,324	42,339
Amortisation (Note 10)	<u>(4,215)</u>	<u>(4,015)</u>
At end of the year	<u>34,109</u>	<u>38,324</u>

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 as disclosed in Note 24 (f).

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

	2017	2016
	RM'000	RM'000
At beginning of the year	44,670	48,418
Amortisation (Note 10)	<u>(4,411)</u>	<u>(3,748)</u>
At end of the year	<u>40,259</u>	<u>44,670</u>

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27. 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 as disclosed in Note 24 (g).

(n) Agriculture Entrepreneur Financing Fund 4 ("DPUP 4")

	2017	2016
	RM'000	RM'000
Funds received	15,735	-
Amortisation (Note 10)	(728)	-
At end of the year	<u>15,007</u>	<u>-</u>

The benefit of this below market rate financing scheme fund amounting to RM35.0 million, received from the Government on 5 January 2017 at a profit rate of 0.5% per annum, is recognised as a Government Grant as disclosed in Note 24 (h).

(o) Agriculture Entrepreneur Financing Fund 5 ("DPUP 5")

	2017	2016
	RM'000	RM'000
Funds received	22,521	-
Amortisation (Note 10)	(138)	-
At end of the year	<u>22,383</u>	<u>-</u>

The benefit of this below market rate financing scheme fund amounting to RM50.0 million, received from the Government on 14 November 2017 at a profit rate of 0.5% per annum, is recognised as a Government Grant as disclosed in Note 24 (i).

(p) Special Relief Facility

	2017	2016
	RM'000	RM'000
At beginning of the year	645	1,048
Amortisation (Note 10)	(309)	(403)
At end of the year	<u>336</u>	<u>645</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 as disclosed in Note 24 (j).

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28. SHARE CAPITAL

	2017 RM'000	2016 RM'000
Authorised:		
Ordinary shares of RM1 each	<u>2,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
Ordinary shares of RM1 each	<u>1,000,000</u>	<u>1,000,000</u>

29. RESERVES

	Note	2017 RM'000	2016 RM'000
Non-distributable reserve:			
Statutory reserves	(a)	487,109	487,109
Investment revaluation deficit	(b)	(27,303)	(49,536)
Distributable reserve:			
Retained earnings		<u>1,337,112</u>	<u>1,184,458</u>
		<u>1,796,918</u>	<u>1,622,031</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.

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30. DIVIDENDS

	2017 RM'000	2016 RM'000
Final dividend of 2.00 sen net of tax, on 1,000,000,000 ordinary shares in respect of the financial year ended 31 December 2017	20,000	-
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 2016	-	11,900
	<u>20,000</u>	<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 2017 of 2.55 sen on 1,000,000,000 ordinary shares of RM1.00 each, amounting to dividend payable of RM25,500,000 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 2018.

31. COMMITMENTS AND CONTINGENCIES

	2017 RM'000	2016 RM'000
Guarantee:		
Guarantee letters issued to the customers of the Bank	<u>38,462</u>	<u>33,589</u>
Capital commitment		
Approved and contracted for:		
Capital expenditure	1,741	648
Commitment on financing and advances	401,615	382,392
	<u>403,356</u>	<u>383,040</u>
Approved but not contracted for:		
Commitment on financing and advances	535,523	528,217
	<u>535,523</u>	<u>528,217</u>
Contingent liabilities		
Certain legal actions taken against the Bank with compensation claims	<u>5,679,131</u>	<u>5,787,635</u>
Total Commitments and Contingencies	<u>6,656,472</u>	<u>6,732,481</u>

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31. 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 was fixed for full trial on several dates i.e. 22 and 23 November 2017, 23 until 26 January 2018, 21 until 23 February 2018, 13, 16 until 18 and 23 April 2018.

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 a 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 had dismissed the customer's claim with cost and entered judgement for the sum of RM4.1 million with ta'widh. The customer and its guarantors had filed their appeals at the Court of Appeal for which 7 February 2018 was fixed as a hearing date of the appeals. The Court of Appeal had on the same date upheld the High Court's decision and dismissed the appeals with costs of RM15,000.00 in favour of the Bank. The customer and its guarantors did not file for further appeal within the stipulated time period, and thus, this case is considered closed.

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. The Bank had on 4 April 2016 obtained a Summary Judgement against the customer and its guarantors with costs of RM5,000.00. On 29 March 2017, the Court had dismissed the customer's claim upon a full trial. The customer and its guarantors had filed an appeal at the Court of Appeal on 19 April 2017. The Court had fixed 2 May 2018 as a hearing date to hear the appeal. However, on 25 September 2017 the customer had been made wound up by the Court and the Bank had also initiated bankruptcy proceedings against the guarantors. The customer and its guarantors may proceed with the hearing of the appeal on 2 May 2018 if they obtain approval and/or sanction from the Deputy General of Insolvency.

The Bank's solicitors are of the view that the Bank has a fair chance in successfully defending the appeal.

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31. 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 had 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 had also fixed for case management on 6 April 2017. The Bank had filed its application to strike out the customer's Writ of Summons. The Court on 29 May 2017 had allowed it with cost of RM11,000. This case is considered closed since there was no appeal filed by the customer within the stipulated time period.

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.

32. 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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32. RELATED PARTY DISCLOSURES (cont'd)

Remuneration of directors and other members of key management are as follows:

	Salaries and Bonuses RM'000	Allowances RM'000	Other Emoluments RM'000	Total RM'000
2017				
YH. Dato' Wan Mohd Fadzmi bin Che Wan Othman Fadzilah	727	-	251	978
	<u>727</u>	<u>-</u>	<u>251</u>	<u>978</u>
Non Executive Director				
Y. Bhg Tan Sri Mohamad Zabidi bin Zainal	-	330	-	330
Y. Bhg Dato' Dr. Mohamad Hashim bin Ahmad Tajudin	-	309	-	309
Y. Bhg Datin Setia Shahariah binti Hashim	-	281	-	281
Y. Bhg Datuk Seri Dr. Ismail bin Haji Bakar	-	83	-	83
Y. Bhg Dato' Dr. Yusof bin Ismail	-	104	-	104
Puan Azizah binti Abdul Rahman	-	300	-	300
Tuan Haji Ibrahim Hassan	-	200	-	200
Puan Faizah Abdullah	-	156	-	156
Encik Ng Chih Kaye	-	132	-	132
	<u>-</u>	<u>1,895</u>	<u>-</u>	<u>1,895</u>
Senior Management	3,427	-	1,385	4,812
	<u>4,154</u>	<u>1,895</u>	<u>1,636</u>	<u>7,685</u>

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

	Salaries and Bonuses RM'000	Allowances RM'000	Other Emoluments RM'000	Total RM'000
2016				
Executive Director				
YH. Dato' Wan Mohd Fadzmi bin Che Wan	917	-	157	1,074
Othman Fadzilah	917	-	157	1,074
Non Executive Director				
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	-	108	-	108
Puan Azizah binti Abdul Rahman	-	110	-	110
Y. Bhg Datuk Seri Dr. Ismail bin Haji Bakar	-	40	-	40
Y. Bhg Dato' Dr. Yusof bin Ismail	-	6	-	6
	-	1,271	-	1,271
Senior Management	2,972	-	996	3,968
	3,889	1,271	1,153	6,313

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32. RELATED PARTY DISCLOSURES (cont'd)

(c) Transactions with key management personnel

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

	2017	2016
	RM'000	RM'000
Deposits	156	70
	<u>156</u>	<u>70</u>

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

(d) Transactions with related parties

	Note	2017	2016
		RM'000	RM'000
Income			
Reimbursement of gapping cost	(i)	30,099	29,042
GLC service fees	(ii)	10,812	10,870
Commission	(iii)	3,731	3,801
Profit income on deposits placed with government linked companies		15,133	12,974
Expense			
Profit expense on deposits placed by government linked entities		5,510	5,504
Profit expense on financing scheme funds paid and payable to the Ministry of Finance and BNM		10,134	8,618
Contributions to:			
Employee Provident Fund ("EPF")		26,569	26,360
Social Security Organisation ("SOCSO")		<u>2,360</u>	<u>1,936</u>

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32. RELATED PARTY DISCLOSURES (cont'd)

(d) Transactions with related parties (cont'd)

Description for income with related parties are as follows:

- (i) Income from Ministry of Finance for the profit differential between market rate and subsidised rate on financing disbursed by the Bank at subsidised rate, as disclosed in Note 5(b).
- (ii) Fees earned for managing the government funds for financing disbursement paid by Ministry of Finance, as disclosed in Note 5(b).
- (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

	2017	2016
	RM'000	RM'000
Financing to related parties	10,761	11,949
Short term deposits/placements with related parties	485,190	557,326

(ii) Included in Liabilities

	2017	2016
	RM'000	RM'000
Government Grant - Operating	24,505	26,044
Government Grant - Launching	4,144	6,046
Government Grant - Funds	778,676	792,997
Financing scheme funds	1,689,763	1,616,601
Deposits from related entities	3,284,067	3,075,876

(f) Terms and conditions

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

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33. FINANCING FACILITIES WITH CONNECTED PARTIES

	2017
	RM'000
Outstanding exposures with connected parties	1,059,203
% of outstanding exposures to connected parties as a proportion of total exposure	7.13%
% of outstanding financing exposures with connected parties which is non-performing or in default	0.02%

The above disclosure on Financing Facilities with Connected Parties is presented in accordance with para 14.1 as per BNM's policy on Financing Facilities with Connected Parties.

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34. 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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34. 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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34. 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 payment 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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34. 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.

	Secured RM'000	Unsecured RM'000	Total RM'000	Financial effect of collateral* %
2017				
Neither past due nor impaired	4,220,918	4,721,297	8,942,215	47.2
Past due but not impaired	163,848	68,783	232,631	70.4
Impaired	277,783	157,274	435,057	63.8
	4,662,549	4,947,354	9,609,903	48.5
2016				
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
	4,288,220	4,442,721	8,730,941	49.1

* 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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34. 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.

	Maximum Exposure	
	2017	2016
Credit exposure for on-balance sheet assets		
Cash and short term funds	1,308,683	1,187,627
Investment securities	4,403,960	4,115,191
Financing and advances	9,173,891	8,270,863
	<u>14,886,534</u>	<u>13,573,681</u>
Credit exposure for off-balance sheet assets items		
Financial Guarantee	38,462	33,589
	<u>38,462</u>	<u>33,589</u>
Total maximum credit risk exposure	<u><u>14,924,996</u></u>	<u><u>13,607,270</u></u>

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34. 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:

	Gross individually impaired financing RM'000	Individual impairment allowance RM'000	Fair Value of Collaterals RM'000
Sectors:			
2017			
Construction and Services	6,153	126	6,027
Fishery	42,020	11,383	30,637
Crops	164,516	31,177	133,339
Livestock	90,642	54,197	36,445
Manufacturing	42,190	21,617	20,573
Retail and Wholesale Trade	51,904	6,659	45,245
Others	37,632	14,008	23,624
	435,057	139,167	295,890
2016			
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
	457,422	155,055	302,367

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34. 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:

	2017	2016
	RM'000	RM'000
Sectors:		
Construction and Service Sectors	4,764	6,136
Fishery	24,029	27,709
Crops	102,016	91,955
Livestock	18,771	22,550
Manufacturing	31,164	36,212
Retail and Wholesale Trade	58,230	63,091
Others	57,871	57,370
	<u>296,845</u>	<u>305,023</u>
Collective impairment allowance	<u>296,845</u>	<u>305,023</u>

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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34. 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:

	RM'000	Composition (%)
Corporate bonds	2,874,551	65
Government Investment Issues ("GII")	1,529,241	35
Equity securities	168	-
Carrying amount at 31 December 2017	4,403,960	100
Corporate bonds	2,926,901	71
Government Investment Issues ("GII")	1,168,234	28
Commercial papers	19,884	1
Equity securities	172	-
Carrying amount at 31 December 2016	4,115,191	100

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34. 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

	2017	2016
	RM'000	RM'000
<u>Corporate bonds</u>		
<u>AFS securities</u>		
Government-Guaranteed ("GG")	1,388,704	1,283,580
Quasi-Govt/AAAbg	90,191	170,176
AAA/AAbg	746,452	742,793
AA/Abg	614,920	696,871
A	20,231	20,072
BBB	14,053	13,409
	<u>2,874,551</u>	<u>2,926,901</u>
<u>Commercial papers</u>		
P1/M1	-	19,884
TOTAL	<u>2,874,551</u>	<u>2,946,785</u>

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34. 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.

	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Total RM'000
2017				
Cash and short term funds	1,308,683	-	-	1,308,683
Investment securities	4,403,960	-	-	4,403,960
Financing and advances	8,942,215	232,631	435,057	9,609,903
	14,654,858	232,631	435,057	15,322,546
As a percentage of gross balance	95.64%	1.52%	2.84%	100%
2016				
Cash and short term funds	1,187,627	-	-	1,187,627
Investment securities	4,115,191	-	-	4,115,191
Financing and advances	8,029,511	244,008	457,422	8,730,941
	13,332,329	244,008	457,422	14,033,759
As a percentage of gross balance	95.00%	1.74%	3.26%	100%

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34. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

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

	Due within 30 days RM'000	Past due but not impaired Due within 31 to 60 days RM'000	Due within 61 to 90 days RM'000	Total RM'000
2017				
Term Financing	104,878	69,580	46,229	220,687
Revolving Financing	8,288	2,998	658	11,944
	113,166	72,578	46,887	232,631
2016				
Term Financing	106,503	78,821	44,963	230,287
Revolving Financing	6,305	3,008	4,408	13,721
	112,808	81,829	49,371	244,008

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34. 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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34. 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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34. 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.

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34. 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
2017							
Financial assets							
Cash and short term funds	1,308,683	-	-	-	-	-	1,308,683
Investment securities *	14,999	265,495	649,750	1,116,665	2,356,883	461	4,404,253
Financing and advances *	1,406,150	159,844	208,124	719,826	7,115,959	-	9,609,903
Other advances *	-	-	-	-	60,596	-	60,596
Non-Financial assets							
Other assets	-	-	-	-	-	115,296	115,296
Total assets	2,729,832	425,339	857,874	1,836,491	9,533,438	115,757	15,498,731

* Gross before allowance for impairment

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34. 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
2017							
Financial liabilities							
Deposit from customers							
Savings deposits	3,219,758	-	-	-	-	-	3,219,758
Term deposits	3,351,703	859,639	97,955	60,322	-	-	4,369,619
Deposit and placement of banks and other financial institutions	2,180,070	-	-	-	-	-	2,180,070
Financing scheme funds							
Government	4,795	4,045	222,134	328,651	908,420	-	1,468,045
BNM	43,789	42,484	-	-	135,445	-	221,718
Other liabilities							
Government grants	-	-	-	-	-	807,325	807,325
Paddy credit gratuity scheme	-	-	-	-	-	2,265	2,265
	8,800,115	906,168	320,089	388,973	1,043,865	809,590	12,268,800

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34. 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
2017							
Non-Financial liabilities							
Other payables	-	141,680	993	-	-	-	142,673
Total Liabilities	8,800,115	1,047,848	321,082	388,973	1,043,865	809,590	12,411,473
Net maturity mismatch	(6,070,283)	(622,509)	536,792	1,447,518	8,489,573	(693,833)	3,087,258

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34. 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
2016							
Financial assets							
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
Non-Financial assets							
Other assets	-	-	-	-	-	97,439	97,439
Total assets	2,253,385	337,985	1,029,533	1,668,215	8,829,403	97,904	14,216,425

* Gross before allowance for impairment

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34. 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
2016							
Financial liabilities							
Deposit from customers							
Savings deposits	3,089,746	-	-	-	-	-	3,089,746
Term deposits	2,822,874	1,032,084	83,578	16,624	-	-	3,955,160
Deposit and placement of banks and other financial institutions	1,623,265	-	-	-	-	-	1,623,265
Financing scheme funds							
Government	4,708	4,045	82,286	314,013	961,791	-	1,366,843
BNM	18,000	18,000	-	-	213,758	-	249,758
Other liabilities							
Government grants	-	-	-	-	-	825,087	825,087
Paddy credit gratuity scheme	-	-	-	-	-	2,275	2,275
	7,558,593	1,054,129	165,864	330,637	1,175,549	827,362	11,112,134

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34. 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
2016							
Non-Financial liabilities							
Other payables	671	188,994	13,744	-	-	-	203,409
Total Liabilities	7,558,593	1,054,129	165,864	330,637	1,175,549	827,362	11,315,543
Net maturity mismatch	(4,057,106)	(1,159,224)	1,053,790	2,053,158	5,945,603	(729,458)	2,900,882

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34. 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:

	<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
2017							
Financial liabilities							
Deposit from customers							
Savings deposits	3,219,758	-	-	-	-	-	3,219,758
Term deposits	3,439,853	882,248	105,889	68,683	-	-	4,496,673
Deposit and placement of banks and other financial institutions	2,265,093	-	-	-	-	-	2,265,093
Financing scheme funds							
Government	4,806	4,065	225,441	336,880	1,516,039	-	2,087,231
BNM	43,861	42,621	-	-	138,020	-	224,502
Other liabilities							
Government grants	-	-	-	-	-	807,325	807,325
Paddy credit gratuity scheme	-	-	-	-	-	2,265	2,265
	8,973,371	928,934	331,330	405,563	1,654,059	809,590	13,102,847

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34. 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)

	<6 months	6 - 12 months	1 - 3 years	3 - 5 years	>5 years	Non-specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017							
Financial liabilities							
Other payables	-	141,680	993	-	-	-	142,673
Total Liabilities	8,973,371	1,070,614	332,323	405,563	1,654,059	809,590	13,245,520

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34. 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)

	<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
2016							
Financial liabilities							
Deposit from customers							
Savings deposits	3,089,746	-	-	-	-	-	3,089,746
Term deposits	2,897,116	1,059,228	90,347	18,928	-	-	4,065,619
Deposit and placement of banks and other financial institutions	1,686,572	-	-	-	-	-	1,686,572
Financing scheme funds							
Government	4,719	3,978	83,130	321,514	1,595,397	-	2,008,738
BNM	18,022	18,045	-	-	216,442	-	252,509
Other liabilities							
Government grants	-	-	-	-	-	825,087	825,087
Paddy credit gratuity scheme	-	-	-	-	-	2,275	2,275
	7,696,175	1,081,251	173,477	340,442	1,811,839	827,362	11,930,546

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34. 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)

	<6 months	6 - 12 months	1 - 3 years	3 - 5 years	>5 years	Non-specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2016							
Financial liabilities							
Other payables	671	188,994	13,744	-	-	-	203,409
Total Liabilities	7,696,846	1,270,245	187,221	340,442	1,811,839	827,362	12,133,955

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34. 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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34. 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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34. 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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34. 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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34. 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
2017								
Financial assets								
Cash and short term funds	-	-	-	-	-	1,308,683	1,308,683	3.63%
Investment securities	-	-	-	-	-	4,404,253	4,404,253	4.11%
Financing and advances	7,846,833	45,812	92,410	90,246	52,934	1,481,668	9,609,903	6.48%
Other advances	-	-	-	-	-	60,596	60,596	
Other assets	-	-	-	-	-	72,398	72,398	
Total assets	7,846,833	45,812	92,410	90,246	52,934	7,327,598	15,455,833	

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34. 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
2017 (cont'd)								
Financial liabilities								
Deposits from customers	7,431,100	69,388	28,567	60,322	-	-	7,589,377	2.65%
Deposit and placement of banks and other financial institutions	2,180,070	-	-	-	-	-	2,180,070	3.65%
Financing scheme funds	-	-	-	-	-	1,043,865	1,043,865	0.45%
Other liabilities	-	-	-	-	-	809,590	809,590	
Total financial liabilities	9,611,170	69,388	28,567	60,322	-	1,853,455	11,622,902	

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34. 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
2016								
Financial assets								
Cash and short term funds	-	-	-	-	-	1,187,627	1,187,627	3.44%
Investment securities	-	-	-	-	-	4,115,484	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	
Total assets	6,770,351	58,358	74,545	173,513	53,934	7,046,080	14,176,781	

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34. 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
2016 (cont'd)								
Financial liabilities								
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	
Total financial liabilities	8,567,969	15,738	67,840	16,624	-	2,443,963	11,112,134	

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34. 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:

	2017		2016	
	+100bp	-100bp	+100bp	-100bp
	RM '000	RM '000	RM '000	RM '000
Impact on profit before tax	81,282	(81,282)	71,307	(71,307)
Impact on equity	222	(222)	135	(135)
	81,504	(81,504)	71,442	(71,442)

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34. 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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34. 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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34. 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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34. 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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34. 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

	2017	2016
	%	%
Before deducting proposed dividend:		
Core capital ratio	24.94	24.88
Risk-weighted capital ratio	28.98	29.37
After deducting proposed dividend:		
Core capital ratio	24.71	24.69
Risk-weighted capital ratio	28.75	29.18

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34. 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 2017 has incorporated the market risk pursuant to the BNM Market Risk Capital Adequacy Framework which became effective on 1 April 2005.

	2017	2016
	RM'000	RM'000
Components of Tier I and Tier II capital		
Tier I capital		
Share capital	1,000,000	1,000,000
Statutory reserves	487,109	487,109
Retained earnings	1,337,112	1,184,458
Less: Deferred tax assets	<u>(13,994)</u>	<u>(41,187)</u>
Total Tier I capital	<u>2,810,227</u>	<u>2,630,380</u>
Tier II capital		
Collective impairment allowance ¹	159,622	177,322
Government Grants - Operating	24,505	26,044
Government Grants - Launching	4,144	6,046
Government Grants - Funds ²	<u>267,326</u>	<u>264,886</u>
Total Tier II capital	<u>455,597</u>	<u>474,298</u>
Total capital base	<u>3,265,824</u>	<u>3,104,678</u>

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

² The Government Grants - Funds exclude those grants relating to the fair valuation of financing scheme funds at below market rate amounting to RM511.35 million (2016: RM528.11 million).

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34. FINANCIAL INSTRUMENTS (cont'd)

A. FINANCIAL RISK MANAGEMENT (cont'd)

(f) Capital management (cont'd)

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

	Notional RM'000	Risk- weighted RM'000
0%	3,233,564	-
20%	1,448,059	289,612
50%	33,492	16,746
100%	10,474,692	10,474,692
Off balance sheet risk-weighted assets	-	488,158
Total risk-weighted assets at 31 December 2017	<u>15,189,807</u>	<u>11,269,208</u>
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
Total risk-weighted assets at 31 December 2016	<u>13,938,104</u>	<u>10,570,779</u>

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34. 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.

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.

(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	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
2017				
Financial assets				
Investment securities-AFS	168	4,403,792	-	4,403,960
2016				
Financial assets				
Investment securities-AFS	172	4,115,019	-	4,115,191

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

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34. FINANCIAL INSTRUMENTS (cont'd)

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

(ii) Financial assets and financial liabilities at carrying amount

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financing and advances	9,173,891	5,916,406	8,270,863	5,369,742
	9,173,891	5,916,406	8,270,863	5,369,742
Financial liabilities				
Deposits from customers	7,589,377	7,379,580	7,044,906	6,858,655
Deposit and placement of banks and other financial institutions	2,180,070	2,103,300	1,623,265	1,562,334
	9,769,447	9,482,880	8,668,171	8,420,989

The fair value of financing and advances, deposits from customers and deposit and placement of banks and other financial institutions are at Level 2 (2016: Level 2).

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

(i) Investment securities - AFS

The fair values of private debt securities and Malaysian government investment issues are determined by reference to the market value of these instruments published by Bond Pricing Agency Malaysia (BPAM).

The fair values of equities securities are determined based on quoted price from Bursa Malaysia Securities Berhad.

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34. FINANCIAL INSTRUMENTS (cont'd)

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

(ii) 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.

(iii) 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.

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34. 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
2017			
Financial assets			
Cash and short term funds	-	1,308,683	1,308,683
Deposits with financial institutions	-	-	-
Investment securities	4,403,960	-	4,403,960
Financing and advances	-	9,173,891	9,173,891
	4,403,960	10,482,574	14,886,534
Financial liabilities			
Deposits from customers	-	7,589,377	7,589,377
Deposit and placement of banks and other financial institutions	-	2,180,070	2,180,070
Financing scheme funds	-	1,689,763	1,689,763
	-	11,459,210	11,459,210

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34. FINANCIAL INSTRUMENTS (cont'd)

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

	AFS securities RM'000	Financial assets and liabilities at amortised cost RM'000	Total RM'000
2016			
Financial assets			
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
	4,115,191	9,458,490	13,573,681
Financial liabilities			
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
	-	10,284,772	10,284,772

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35. 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 2017, the nature of Shariah non-compliance deliberated by SC were as follows:

Financing products

- (i) Cost of issuance of reminder letter previously charged to customer.

Deposit products

- (i) Customers are promised promotional items (gift) for Wadiah deposit account opening.
- (ii) Displaying indicative Hibah rates for Wadiah deposit products.

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

Throughout the year of 2017, there were 3 accounts (2016 : 21 accounts) as SNC events were reported to BNM. All of SNC events had been rectified and resolved within the year 2017.